

Democratic Services

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Date: 18 November 2013

E-mail: Democratic_Services@bathnes.gov.uk

To: All Members of the Corporate Audit Committee

Councillors: Will Sandry (Chair), Andrew Furse, Gerry Curran, Dave Laming, Barry Macrae and Brian Simmons

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Dear Member

Corporate Audit Committee: Tuesday, 3rd December, 2013

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Tuesday, 3rd December, 2013** at **5.30 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.

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.

This Agenda and all accompanying reports are printed on recycled paper

Corporate Audit Committee - Tuesday, 3rd December, 2013

at 5.30 pm in the Kaposvar Room - Guildhall, Bath

AGENDA

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

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** *or* an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

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: 23RD SEPTEMBER 2013 (Pages 7 - 12)

9. TREASURY MANAGEMENT SIX MONTH UPDATE REPORT (Pages 13 - 24)

10. INTERNAL AUDIT SIX MONTH UPDATE REPORT (Pages 25 - 32)

11. FRAUD AND CORRUPTION REVIEW (Pages 33 - 88)
12. EXTERNAL AUDIT FEES AND UPDATE REPORT (Pages 89 - 108)

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

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

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CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Monday, 23rd September, 2013, 5.30 pm

Councillors: Will Sandry (Chair), Andrew Furse, Gerry Curran, Dave Laming, Barry Macrae and Brian Simmons

Independent Member: John Barker

Officers in attendance: Andrew Pate (Strategic Director, Resources), Tim Richens (Divisional Director- Business Support) and Jeff Wring (Divisional Director, Risk and Assurance)

Guests in attendance: Barrie Morris (Grant Thornton), Chris Hackett (Grant Thornton) and Councillor David Bellotti (Bath & North East Somerset Council)

28 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

29 ELECTION OF VICE-CHAIR

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

30 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

31 DECLARATIONS OF INTEREST

There were none.

32 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

34 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

35 MINUTES: 25 JUNE 2013

These were approved as a correct record, subject to the insertion, in the twelfth paragraph of Item 23 (Internal Audit: Future Delivery Options) after "He suggested that arrangements needed to", of the following:

“to be put in place to prepare an inventory of existing skills and needs of current B&NES staff and of each potential partner so far identified - so as to identify any critical skill shortfalls that a preferred partnership may not be able to deliver.”

36 ANNUAL STATEMENT OF ACCOUNTS 2012/2013

The Divisional Director – Business Support presented the report. He expressed his thanks to the Finance team for their work in preparing the appended documents. He drew attention to the statement in the foreword to the accounts (agenda page 86) that the required £12m savings in 2012/13 had been achieved together with a £168k underspend. This had been achieved with no impact on Council Tax or the Council's revenue. A further £11m had to be saved in 2013/14, and the Council had a resource plan in place that would take total savings to just under £30m over the three years up to 2014/15. The auditors had identified a number of issues in relation to the Council's Accounts (listed in paragraphs 4.1-4.3 of the covering report), including an issue relating to reconciliations between the Council's property and accounts registers. The Chair commented that this was a recurrent issue and wondered whether the resources were available to fix it. The Divisional Director – Business Support said that the issue was that the existing software packages could not communicate with each other effectively, so that reconciliation between these registers had on occasion to be done manually, and misstatements could possibly occur if data was not entered in the correct order. He was therefore reviewing the situation with a view to potentially replacing the existing system as part of an improvement plan. He concluded by saying that a number of minor issues had been identified in relation to the accounts of the Avon Pension Fund (listed in paragraph 4.7); a management response and action plan relating to these was circulated to members. The auditors were proposing to issue an unqualified opinion on both sets of accounts. He invited the Committee to agree to the signing of the Letter of Representation.

Mr Morris commented on the audit findings. He referred to the list of outstanding issues listed on page 27 and said that work on capital accounting and housing benefit had now been completed. The adjusted misstatements tabulated on pages 35 and 36 had had no effect on the bottom line. Unadjusted misstatements needed to be referred to in the Letter of Representation. One of these was a balancing figure in the reserves statement of £835,000 for which the necessary correcting amendment had not been identified. It was his duty to bring this to the Committee's attention, but it was for the Committee to decide what action should be taken about it. The Divisional Director – Business Support said that after further work that figure had been reduced; more work would be done to discover greater detail about it but that it was not recommended to make an adjustment.

A Member asked about the figure of £1.686m for debtors (agenda page 36) and whether the underspend of £168,000 would recur in future years. Mr Morris said that debtor comprised charges place on a number of individual properties, which should be placed in the long term debtors balance and not in short term debtors as at present. Replying to the question about the underspend, the Divisional Director – Business Support said that every year the Council followed a zero-base budget process; if the underspend represented a long-term saving, it could possibly count towards next year's savings target.

A Member said that he accepted that the errors in the accounts were not significant, though there was a risk that the press might focus on them. He was happy that the problems identified were being addressed. He was pleased that there had been such good co-operation between the finance team and the auditors.

Mr Hackett commented on the Avon Pension Fund audit. He said that a separate Letter of Representation would have to be signed in respect of the Fund's accounts. He drew attention to the two unadjusted disclosure items listed on page 68 of the agenda. The second issue concerned the requirement under IFRS7 for every holding of over 5% of each asset class to be listed separately, which officers considered would produce a long list of relatively small investments.

A Member asked about the sum of £4.374m for Additional Voluntary Contributions. Mr Hackett that this sum was not actually invested in the Avon Pension Fund, but in other investment funds and that the note in the accounts did not make this clear.

A Member asked why it was not possible to estimate the value of the refunds of contributions due to the pension fund members referred to in misstatement 2 on page 67 of the agenda. Mr Hackett explained that these were people who had joined the Fund and then left and for whom no contact details were held. It was explained that the liability could not be calculated until the ex-members were contacted. The auditors did not believe that this uncalculated liability was significant or serious

Members congratulated the Finance team for producing an excellent set of accounts.

The Chair invited Members to email him any comments on the Action plans for both the Council and Pension Fund.

Following the discussion, it was **RESOLVED**:

1. To note the issues contained within the Annual Governance Reports for the Council and Avon Pension Fund.
2. To approve the audited Statement of Accounts for Bath and North East Somerset Council for 2012/13.
3. To agree that the Letter of Representation from Bath and North East Somerset Council should be signed.

37 FINANCIAL RESILIENCE REPORT

Mr Morris presented the report. He said that this report provided more detail on the value-for-money opinion. A red/amber/green system was used for scoring. A group of local authorities (listed on agenda page 208) had been used to provide benchmarking data. The auditors considered that Bath and North East Somerset had performed strongly, and most aspects of the Council's performance had been assessed as green with a small number of areas flagged up for further consideration.

A Member asked two questions. One concerned the collection of Non-Domestic Rates, where the Council had collected 97.49% of the debit against a target of 97.8% and a national average of 97.7%. He wondered whether the Council should be able to achieve the target, or whether perhaps the target should be reduced. The

other was whether Internal Audit, which was now 2.5 FTE posts below establishment, had the resources to give the Council a satisfactory level of assurance. Another Member responded that he did not agree that the target for NNDR collection should be reduced; he thought targets should stretch an organisation, and that a performance that was only just short of the target was still very good. As far as Internal Audit was concerned, the Council had an able and committed team, and a project was under way to review delivery of the Internal Audit function in the future.

A Member asked about the slippage in the capital programme (agenda page 210) and wondered what had caused this and whether the slippage had contributed to the £168,000 underspend.

David Bellotti, Cabinet Member for Resources, said that the main reason for the slippage in the capital programme was the re-prioritisation of projects that had taken place following the change of administration after the elections in 2011.

The Divisional Director – Business Support thanked the external auditors for their work. This was the best report the Council had yet received from its auditors, though there were still a few areas that need improvement.

A Member asked whether Keynsham regeneration would impact on Non-Domestic Rates and funding available from the Local Enterprise Partnership and the City Deal. The Divisional Director – Business Support explained that these were separate issues. A local authority was responsible for collecting all business rates in its area, retained an agreed amount and passed the rest to central government. The government made funding available to LEPs and through the City Deal, which local authorities could apply for.

The Chair expressed his satisfaction on behalf of the committee at a very reassuring report.

RESOLVED to note the report and its findings and to keep under review any management actions.

38 GRANT CERTIFICATION AUDIT PLAN

Mr Hackett presented the report. He said that after the completion of the work a short report would be brought to a future meeting of the Committee.

RESOLVED to note the report.

39 TREASURY MANAGEMENT OUTTURN 2012/2013

The Divisional Director – Business Support presented the report and summarised the key facts. Gross Interest earned from investments was £821k. Investment rates had continued to fall and the average rate of interest earned on investments in 2012/13 was 0.83%. The Council had continued to avoid investment in the Eurozone. He drew attention to the Council's £15.4m share of debt inherited from the former Avon County Council, which was administered by Bristol City Council. The Council's debt would be restructured to take advantage of low interest rates, as agreed at the last meeting of the Committee.

RESOLVED:

1. To note the Treasury Management Annual Report to 31st March 2013.
2. To note the 2012/13 actual Treasury Management Indicators.
3. To note the debt rescheduling actions highlighted at paragraph 4.13-4.15 of the covering report.

The meeting ended at 6.58 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Bath & North East Somerset Council	
MEETING:	Corporate Audit Committee
MEETING DATE:	3rd December 2013
TITLE:	Treasury Management Monitoring Report to 30th September 2013
WARD:	All
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Performance Against Prudential Indicators Appendix 2 – The Council’s Investment Position at 30th September 2013 Appendix 3 – Average monthly rate of return for 1st 6 months of 2013/14 Appendix 4 – The Council’s External Borrowing Position at 30th September 2013 Appendix 5 – Arlingclose’s Economic & Market Review Q2 of 2013/14 Appendix 6 – Interest & Capital Financing Budget Monitoring 2013/14 Appendix 7 – Summary Guide to Credit Ratings</p>	

1 THE ISSUE

1.1 In February 2012 the Council adopted the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year.

1.2 This report gives details of performance against the Council’s Treasury Management Strategy and Annual Investment Plan 2013/14 for the first six months of 2013/14.

2 RECOMMENDATION

The Corporate Audit Committee agrees that:

2.1 the Treasury Management Report to 30th September 2013, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 30th September 2013 are noted.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

3.1 The financial implications are contained within the body of the report.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 This report is for information only.

5 THE REPORT

Summary

- 5.1 The average rate of investment return for the first six months of 2013/14 is 0.49%, which is 0.08% above the benchmark rate.
- 5.2 The Council's Prudential Indicators for 2013/14 were agreed by Council in February 2013 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Summary of Returns

- 5.3 The Council's investment position as at 30th September 2013 is given in **Appendix 2**. The balance of deposits as at 30th June 2013 & 30th September 2013 are also set out in the pie charts in this appendix.
- 5.4 The Council is the accountable body for the West of England Revolving Investment Fund (RIF) and received grant funding of £57 million at the end of the 2011/12 financial year. The Council acts as an agent and holds these funds on behalf of the West of England Local Enterprise Partnership until they are allocated in the form of repayable grants to the constituent Local Authorities to meet approved infrastructure costs. Since these funds are invested separately from the Council's cash balances and have been placed short term with the Debt Management Office and other Local Authorities, they are excluded from all figures given in this report.
- 5.5 Gross interest earned on investments for the first six months totalled £228k. Net interest, after deduction of amounts due to West of England Growth Points, B&NES PCT Pooled Budgets and schools, is £183k. **Appendix 3** details the investment performance, the average rate of interest earned over this period was 0.49%, which is 0.08% above the benchmark rate of average 7 day LIBID +0.05% (0.41%).

Summary of Borrowings

- 5.6 The Council has now implemented the restructuring of its Public Works Loan Board debt portfolio by utilising Council's cash flow, which, as can be seen above, is currently earning very low rates of interest. The rescheduling of £50 million of borrowing was completed during the second quarter of 2013/14.
- 5.7 Current forecasts project that the savings in the current year will meet the additional £500K savings target in the Council's 2013/14 approved budget, as well as generating an additional £600k saving. This is achieved by netting off the loss of interest earned on the cash balance against the reduced interest payments made to the Public Works Loan Board.
- 5.8 The Council's reduced total borrowing was £70 million as at the 30th September 2013. The Council's Capital Financing Requirement (CFR) as at 31st March 2013

was £141.8 million with a projected total of £201 million by the end of 2013/14 based on the capital programme approved at February 2013 Council. This represents the Council's need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.

5.9 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as at 31st March 2013 apportioned to Bath & North East Somerset Council is £15.14m. Since this borrowing is managed by Bristol City Council and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 5.8.

5.10 The borrowing portfolio as at 30th September 2013 is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.11 As shown in the charts at Appendix 2, investments continue to be focussed on UK banks that have either already or are likely to receive support from the UK Government should they experience financial difficulties. As at 30th September 2013, £3.0m was invested with other Local Authorities to increase diversification whilst maintaining strong counterparty rating. To increase diversification further, the Council invests in AAA rated Money Market funds, with a balance of £6.5m invested in these as at 30th September 2013.

5.12 The overall decrease in the Council's cash balance between 30th June 2013 and 30th September 2013, as detailed in **Appendix 2**, is a reflection of the debt repayments that have been made during that period, as detailed in paragraph 5.6 above.

5.13 The Council continues to not invest with banks in countries within the Eurozone. The Council's investment counterparty list does not include any banks from the countries most affected by the Eurozone debt situation (Portugal, Ireland, Greece, Spain and Italy).

5.14 The Council's average investment return is running below the budgeted level of 0.75% due to the continued reduction in current market rates. Also, in line with the debt restructuring strategy, the majority of the remaining cash balance is required for short term cashflow, so cannot be locked into the slightly higher longer term rates. The reduced return is more than offset by the reduced interest payments, as set out in **Appendix 6**.

Future Strategic & Tactical Issues

5.15 Our treasury management advisors economic and market review for the second quarter 2013/14 is included in **Appendix 5**.

5.16 The Bank of England base rate has remained constant at 0.50% since March 2009.

Budget Implications

- 5.17 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to September is included in **Appendix 6**. This is currently forecast to be £600k underspend for 2013/14, resulting from the recent debt rescheduling.

6 RATIONALE

- 6.1 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

7 OTHER OPTIONS CONSIDERED

- 7.1 None.

8 CONSULTATION

- 8.1 Consultation has been carried out with the Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

- 8.2 Consultation was carried out via e-mail.

- 8.3 This report was also presented to November Cabinet and November Council.

9 RISK MANAGEMENT

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

- 9.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Arlingclose.

- 9.3 The 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. In February 2012, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.

- 9.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

Contact person	<i>Tim Richens - 01225 477468 ; Jamie Whittard - 01225 477213</i> Tim.Richens@bathnes.gov.uk Jamie.Whittard@bathnes.gov.uk
Background papers	<i>2013/14 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Authorised limit for external debt

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	2013/14 Prudential Indicator	2013/14 Actual as at 30th Sep. 2013
	£'000	£'000
Borrowing	201,000	70,000
Other long term liabilities	2,000	0
Cumulative Total	203,000	70,000

2. Operational limit for external debt

The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	2013/14 Prudential Indicator	2013/14 Actual as at 30th Sep. 2013
	£'000	£'000
Borrowing	167,000	70,000
Other long term liabilities	2,000	0
Cumulative Total	169,000	70,000

3. Upper limit for fixed interest rate exposure

This is the maximum amount of total borrowing which can be at fixed interest rate, less any investments for a period greater than 12 months which has a fixed interest rate.

	2013/14 Prudential Indicator	2013/14 Actual as at 30th Sep. 2013
	£'000	£'000
Fixed interest rate exposure	201,000	50,000*

* The £20m of LOBO's are quoted as variable rate in this analysis as the Lender has the option to change the rate at 6 monthly intervals (the Council has the option to repay the loan should the rate increase)

4. Upper limit for variable interest rate exposure

While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping flexibility through the use of variable interest rates. This is the maximum amount of total borrowing which can be at variable interest rates.

	2013/14 Prudential Indicator	2013/14 Actual as at 30th Sep. 2013
	£'000	£'000
Variable interest rate exposure	60,000	20,000

5. Upper limit for total principal sums invested for over 364 days

This is the maximum amount of total investments which can be over 364 days. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

	2013/14 Prudential Indicator	2013/14 Actual as at 30th Sep. 2013
	£'000	£'000
Investments over 364 days	50,000	0

6. Maturity Structure of new fixed rate borrowing during 2013/14

This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	2013/14 Actual as at 30th Sep. 2013
	%	%	%
Under 12 months	50	Nil	0
12 months and within 24 months	50	Nil	0
24 months and within 5 years	50	Nil	0
5 years and within 10 years	50	Nil	0
10 years and above	100	Nil	100

7. Average Credit Rating

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	2013/14 Prudential Indicator	2013/14 Actual as at 30th Sep. 2013
	Rating	Rating
Minimum Portfolio Average Credit Rating	A	AA-

APPENDIX 2

The Council's Investment position at 30th September 2013

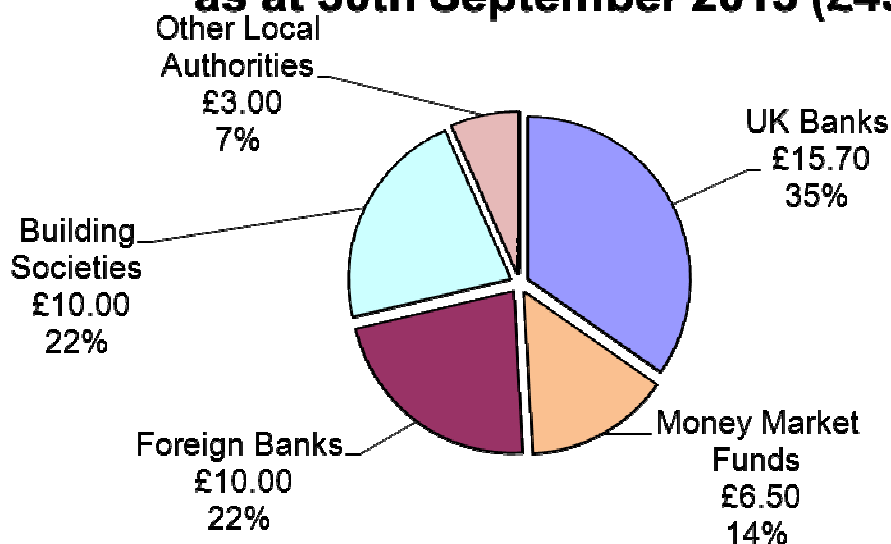
	Balance at 30th September 2013
	£'000's
Notice (instant access funds)	12,200
Up to 1 month	20,000
1 month to 3 months	13,000
Over 3 months	0
Total	45,200

The investment figure of £45.2 million is made up as follows:

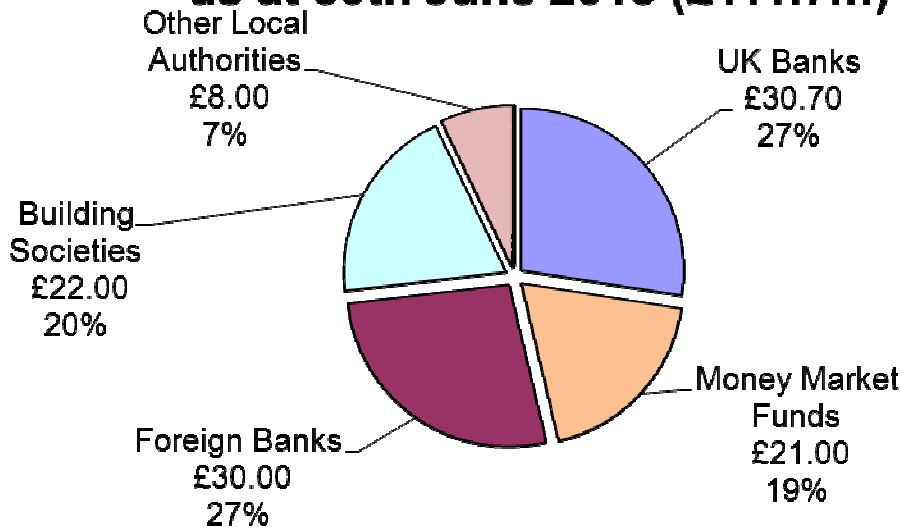
	Balance at 30th September 2013
	£'000's
B&NES Council	24,510
B&NES PCT	11,472
West Of England Growth Points	685
Schools	8,533
Total	45,200

The Council had an average net positive balance of £93.7m (including Growth Points & B&NES PCT Funding) during the period April 2013 to September 2013.

**Chart 1: Council Investments
as at 30th September 2013 (£45.2m)**



**Chart 2: Council Investments
as at 30th June 2013 (£111.7m)**



**Chart 3: Council Investments per Lowest Equivalent
Long-Term Credit Ratings (£45.2m) -
30th September 2013**

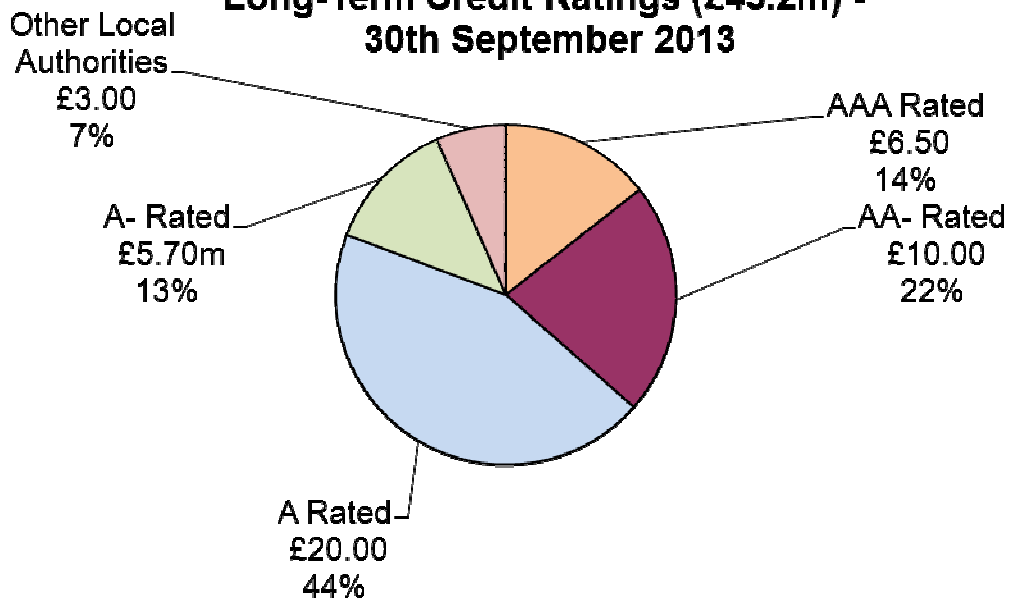
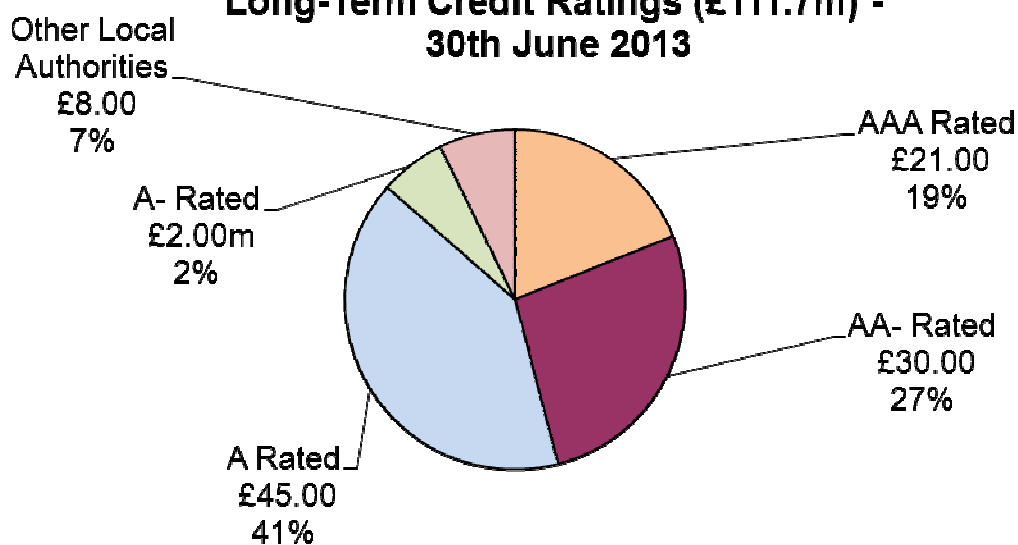


Chart 4: Council Investments per Lowest Equivalent Long-Term Credit Ratings (£111.7m) - 30th June 2013



APPENDIX 3

Average rate of return on investments for 2013/14

	Apr. %	May %	Jun. %	Jul. %	Aug. %	Sep. %	Average for Period
Average rate of interest earned	0.49	0.48	0.47	0.50	0.49	0.49	0.49%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.42	0.41	0.41	0.41	0.41	0.40	0.41%
Performance against Benchmark %	+0.07	+0.07	+0.06	+0.09	+0.08	+0.09	+0.08%

APPENDIX 4

Councils External Borrowing at 30th September 2013

LONG TERM	Amount	Fixed Term	Interest Rate	Variable Term	Interest Rate
PWLB	10,000,000	30 yrs	4.75%	n/a	n/a
PWLB	5,000,000	25 yrs	4.55%	n/a	n/a
PWLB	5,000,000	50 yrs	4.53%	n/a	n/a
PWLB	5,000,000	20 yrs	4.86%	n/a	n/a
PWLB	10,000,000	18 yrs	4.80%	n/a	n/a
PWLB	15,000,000	50 yrs	4.96%	n/a	n/a
KBC Bank N.V*	5,000,000	2 yrs	3.15%	48 yrs	4.50%
KBC Bank N.V*	5,000,000	3 yrs	3.72%	47 yrs	4.50%
Eurohypo Bank*	10,000,000	3 yrs	3.49%	47 yrs	4.50%
TOTAL	70,000,000				

*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower also has the option to repay the loan without penalty.

APPENDIX 5

Economic and market review for July 2013 to September 2013 (Arlingclose)

Growth: The UK economy showed some improvement, with consumer spending boosting growth. GDP for the first quarter of 2013 was revised up to +0.4% and for the second quarter was +0.7%. Recent data suggests a stronger rate in quarter three. Revisions by the Office of National Statistics to GDP back-data showed the UK avoided a double-dip recession in 2012, but that the downturn in 2008-09 was deeper than previously estimated. Growth is now still over 3% below its peak back in 2007.

Some positive signs for household spending emerged. The deterioration in real earnings growth (i.e. earnings less inflation) slowed, which implied a slower erosion of purchasing power. Consumer confidence improved. Household savings rates remained high, which is unsurprising given the uncertain economic outlook, but appear to be on a downward track, suggesting spending was being driven by borrowing or lower savings. This raises questions about the sustainability of the recovery at these rates of growth.

Inflation: Annual CPI for August (published September) was 2.7%. Inflation fell in line with expectations and is expected to remain close to this level throughout the autumn. Further out, inflation should fall back towards the 2% target as external price pressures fade and a revival in productivity growth curbs domestic cost pressures. The oil price (Brent Crude) climbed above \$100/barrel on the back of political unrest in Egypt and the unresolved crisis in Syria.

Monetary Policy: There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The main development for UK monetary policy was the start of Mark Carney's tenure as Governor and the implementation of forward guidance. Within the August Inflation Report, the Bank stated its forward guidance, the main element of which is to defer monetary tightening at least until

the ILO Unemployment Rate falls to a threshold of 7% (among a raft of caveats). The Bank projected that the probability of this happening would remain below 50% until 2016. The Governor has had to defend the Bank's guidance in the face of rising financial market expectations of an earlier rate rise on the back of the encouraging economic data.

In his testimony to Congress on 22nd May the US Federal Reserve Chairman Ben Bernanke stated that, if the nascent recovery in the US economy became established, the Fed would reduce its \$85bn monthly asset purchase programme (QE). The apparent movement by the Fed towards tapering its open-ended QE programme prompted extreme asset price volatility in bonds and equities, as investors sought to crystallise gains driven by excessive liquidity. As a consequence, government bond yields spiked. There had been a growing expectation that the Federal Reserve would seek to commence 'tapering' in September but they took markets by surprise and maintained asset purchases at the existing level.

Global: Whilst the outlook for the global economy appeared to have improved over the first half of calendar 2013/14, significant economic risks remain, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth, and, despite the time gained by the ECB to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away. The region appears to be dragging itself out of recession and September's German general election passed with little incident but political uncertainties, particularly in Italy, could derail any progress towards a more balanced and stable regional economy. The US recovery appeared to be in train, but a lack of agreement on the federal budget by the end of September caused a partial government shutdown at the start of October, which could have an effect on GDP growth. Political risks also remain regarding the debt ceiling.

Outlook: At the time of writing this activity report in September 2013, the UK economic outlook appears to have improved. The projected path for growth has risen, but remains relatively subdued, with a distinct reliance on household consumption, which itself remains under pressure given the deterioration in real earnings growth, high unemployment and general low confidence. A variety of other factors will continue to weigh on a domestic recovery, including on-going fiscal consolidation, muted business confidence and subdued foreign demand. While the economic recovery may pick up steam, forward guidance from the Bank of England suggests that monetary policy is unlikely to be tightened until the ILO Unemployment Rate falls below 7%. The Bank projected this level would be reached in 2016.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2013/14 (April to September)

April to September 2013	YEAR END FORECAST			ADV/FAV
	Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	4,947	4,097	(850)	FAV
- Internal Repayment of Loan Charges	(6,584)	(6,584)		
- Ex Avon Debt Costs	1,388	1,388		
- Minimum Revenue Provision (MRP)	4,782	4,782		
- Interest on Balances	(455)	(205)	250	ADV
Sub Total - Capital Financing	4,078	3,478	(600)	FAV

APPENDIX 7

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	3 rd December 2013	AGENDA ITEM NUMBER
TITLE:	Internal Audit 2013/14 Plan – Six Month Performance Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendices 1 & 2 - Audit & Risk Dashboard Quarters 1 & 2 2013/14		

1 THE ISSUE

1.1 The Annual Internal Audit Plan for 2013/14 was presented to the Corporate Audit Committee on the 20th May 2013. This report has been compiled to provide an update to the Committee on progress against the Plan and the results of Internal Audit work completed.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note progress made against the Internal Audit Plan for 2013/14.

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

Current Performance

4.1 Robust performance measurement and reporting is vital to ensure that timely and effective decisions can be made. To aid and inform the Committee Appendices 1 & 2 provides detail on current key performance information related to the Audit and Risk function.

4.2 As at the end of Quarter 2, the Audit & Risk Team had completed or had work in progress amounting to 40% of the planned work. Therefore, at the half way stage through the financial year the Audit & Risk Team are behind on completing the 'planned' work for 2013/14 (target 50%). This is not wholly unexpected and can be explained as follows.

4.3 - Level of unplanned work – To the end of quarter 2 a total of 101 days or 7.7% of annual productive days had been spent on unplanned work. This is primarily on investigation work which will be referred to on the Fraud Report which is on the Committee's agenda.

- Resources – A member of staff left the team in July, replacing resources are picked up later in this report in section 4.7.

- Completion of 2012/13 reviews – A number of audit reviews from 2012/13 which were still work in progress at the end of March 2013 required additional work to be carried out increasing the audit days allocated.

4.4 The second part of the Dashboard records the 2013/14 Audit Plan and those reviews finalised, drafted or 'Work-In-Progress' as at the end of September 2013. This records that 18 Audit Reports had been finalised and another 5 were in 'draft' form. It is pleasing to note that all of the 'finalised' Audit Reviews were assessed at an Assurance Level of 3 or above (Adequate to Good Framework of Internal Control).

4.5 Only two of the 'finalised' audits were assessed at Level 3 'Adequate Control Framework'. These were:

1) School Theme – Personnel & Payroll. This is one of the twelve School Theme reviews which replaced the establishment audits at schools. For each of these reviews at least six schools are visited to test the framework of internal controls. The selection of schools is carried out in liaison with colleagues in the People Directorate (Children Services). An individual report is sent to each school included in the review recording any specific findings / recommendations. In addition, an overall 'Theme' report is produced and its recipients include all schools who are advised to consider the action plan and 'best practice' guidance. This review was assessed as 'adequate' and high risk weaknesses reported included:

- a). One School had not completed the Verification Form to confirm identity and right to work in the UK until after the commencement of employment.
- b) 4 out of the 6 Schools visited did not evidence adequate procedures in respect of collecting references.
- c) One School had copy DBS certificates held on file which were in excess of 6 months old.
- d) Two Schools visited did not retain evidence to support action taken to clear all un-reconciled items following the monthly payroll reconciliation process.

2) Planning Enforcement. There were only 'Medium' and 'Low' risk weaknesses reported in this audit. All of the recommendations were agreed by management. It was acknowledged that the management team had undertaken a considerable amount of work in order to try to establish consistent working practices and ensure a good quality enforcement service. Areas for improvement included:

- a) Complete information to be recorded on the Uniform computer system.
- b) Procedural manuals need to be updated to reflect current processes.

- c) Production of regular management information to effectively review outstanding case progress and performance.
- 4.6 It has been reported to Committee previously that the Audit & Risk Team have been successful in being appointed to provide the necessary support to the School's assigned "Responsible Officer" (School Governor) for a number of Academy Schools. At the beginning of the year we had annual renewable agreements with 9 Schools requiring an annual allocation of 36 audit days. For the 2013/14 Academic Year we will have 11 Schools. Three Ways converted to Academy in September 2013 and Fosseway Trust was formed in October requiring our support role for Hayesdown School in Frome.

Resources & Partnership Development

- 4.7 As was previously reported to the Committee over the past two years the service has been assessing its future and looking at alternative service delivery options. In June of this year the committee again reviewed and re-confirmed in principle that a Local Authority form of Partnership is recommended.
- 4.8 Additionally it has also been reported to the Committee that the team had a number of vacancies which it was finding difficulty in replacing.
- 4.9 Since the summer a number of positive developments can now be reported which it is hoped will put the service on a sound footing for the medium to long term.
- 4.10 Firstly we have agreed a joint working arrangement with North Somerset where Bath and North East Somerset will provide a lead in managing their Audit & Assurance functions in combination with those in this Council. The scope of the activities includes, Audit, Risk, Information Governance and Business Continuity. The plan would be to integrate the two teams into a full partnership at some point over the next 12 to 18 months.
- 4.11 Secondly we have also agreed a contractual arrangement with the South West Audit Partnership to replace the audit posts which currently cannot be recruited. Whilst the arrangement is initially short-term it is hoped again to look at the potential to blend this into the new arrangement with North Somerset in the future. This arrangement does provide significant flexibility in future working by allowing us to source specialist skills at a reasonable cost, i.e. IT Auditors, where it is difficult to recruit and retain.
- 4.12 It is further hoped that the potential for a full partnership will also encompass growth both in terms of additional services and partners over the medium term and the opportunities and benefits should be substantial.
- 4.13 Integrating resources from different organisations is not without its challenges and therefore it is important that all partners and staff are fully engaged.
- 4.14 This will mean additional time needing to be set aside over the next six to nine months to allow this activity to be completed and there is likely to be a small impact on the plan. It is however felt that the long-term benefits significantly outweigh the short-term impacts on audit coverage.
- 4.15 A work plan has been developed to help create a single way of working over the activities of both Councils. This covers four key work streams and activity and joint sessions have commenced to start work in these areas, which are as follows –

- a) Methodology & Systems
- b) Innovation & Culture
- c) Resources & Partnership Development
- d) Stakeholders & Relationships

4.15 Regular updates will of course continue to be given to the Committee as these positive developments hopefully move the service on to a more sound long term footing.

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 for Consultation.

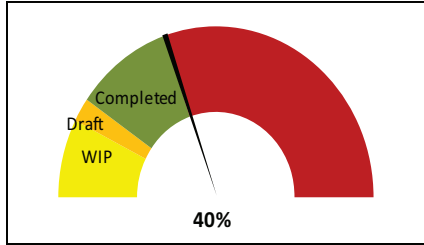
Contact person	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
Background papers	<i>Report to Corporate Audit Committee – 20th May 2013 – Internal Audit - Annual Report</i>
Please contact the report author if you need to access this report in an alternative format	

Audit & Risk Dashboard Quarters 1 & 2 2013/14

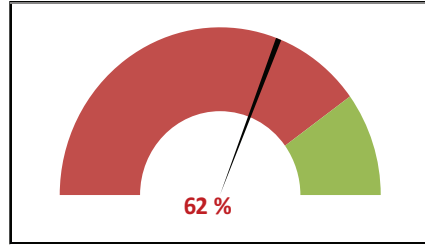
Appendix 1

Internal Audit

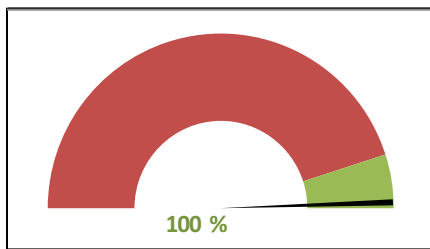
Annual Audit Plan Completed



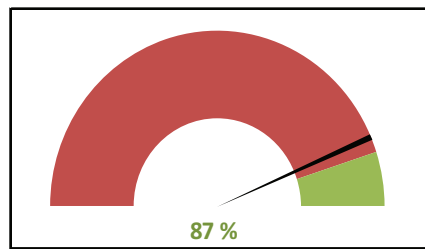
Audit Reviews Completed in Assigned Days



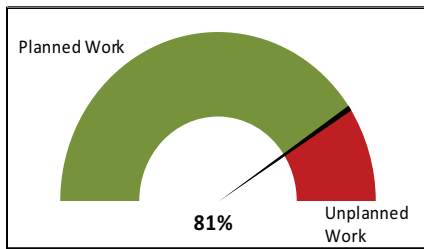
Customer Satisfaction - Good or Excellent



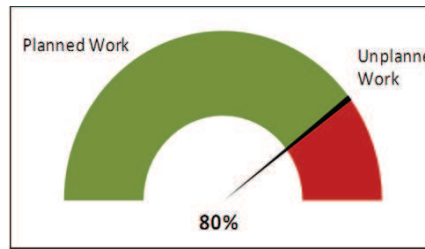
Recommendations (Critical / High) Implemented by Follow Up



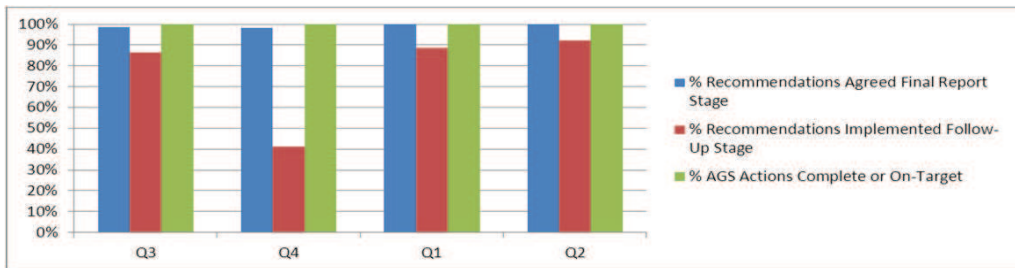
Planned V Unplanned Work 2013/14 (6 months)



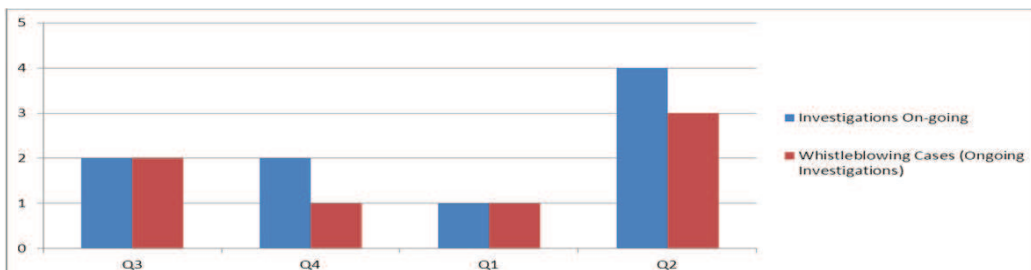
Planned V Unplanned Work 2012/13



Overall Audit Recommendations



Investigations/Whistleblowing



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Audit Reviews (Position As At End of Q2 2013/14)					Appendix 2	
Audit Plan Year	Final Report Date (Month)	Audit Review Title	Status	Assurance Level	Recommendations	
					Made	Agreed
2012/13		Bath Transport Package	Draft			
2012/13		Design & Structures	Draft			
2012/13	May-13	Revenues Estate Management	Finalised	4	5	5
2012/13	May-13	Safeguarding Adults	Finalised	5	3	3
2012/13	May-13	School Theme - Personnel & Payroll	Finalised	3	6	6
2012/13	May-13	Planning Enforcement	Finalised	3	8	8
2012/13	Jun-13	Waste Collections Final Report	Finalised	4	7	7
	Jul-13	Budgeting - Control of Virements	Finalised	4	3	3
2012/13		2012/13 Carry Forward - Anti Fraud & Corruption - Expenditure	WIP			
2012/13		2012/13 Carry Forward - Anti Fraud & Corruption - Income	WIP			
2012/13	Jul-13	2012/13 Carry Forward - Heritage Review	Finalised	5	1	1
2012/13		2012/13 Carry Forward - Parking Review	WIP			
2012/13	Jul-13	2012/13 Carry Forward - Pensions Investments	Finalised	5	3	3
2012/13	Jul-13	2012/13 Carry Forward - Public Transport	Finalised	4	4	4
2012/13	Jun-13	2012/13 Carry Forward - SIMS Application	Finalised	4	3	3
2013/14		Anti Fraud & Corruption - Bribery & Corruption	WIP			
2013/14		Anti Fraud & Corruption - Expenditure	WIP			
2013/14		Anti Fraud & Corruption - Income	WIP			
2013/14		Parking IT System (Contract Management)				
2013/14		Parking Permits				
2013/14		Personalised Budgets (incl monitoring of expenditure & co-ordination between Finance Team / Non Acute & Social Care)				
2013/14		Accounts Payable	WIP			
2013/14		Development Control	WIP			
2013/14		Cash Receipting System / Civica Icon Application (incl e-pay)	WIP			
2013/14		Northgate Revenues & Benefits Application				
2013/14		I.T. Business Continuity and Disaster Recovery				
2013/14	Jul-13	Park & Ride	Finalised	4	2	2
2013/14		Public Health & Clinical Commissioning Group - Statutory Responsibilities and Financial Governance				
2013/14		Pensions Payroll				
2013/14		Accounts Receivable				
2013/14	Sep-13	Themed School Review - Risk Management	Finalised	4	2	2
2013/14		Capital Expenditure	WIP			
2013/14		Community Care Grants / Crisis Loans				
2013/14		Themed School Review - Procurement				
2013/14		Sirona Contract Management - Community Care Budget Management, Client Assessment & Contributions, Statutory responsibilities (monitoring & delegation)				
2013/14		Electronic Commerce (including PGIDSS)				
2013/14		PAYE & NICS (Incl new HMRC Monthly Info provision & ResourceLink Application)				
2013/14		Early Years Entitlement	WIP			
2013/14		Fostering & Adoption				
2013/14	Jul-13	Housing Improvement/Adaptions	Finalised	4	6	6
2013/14		IT (Software Licensing)				
2013/14		IT System Management and Control				
2013/14		Cash Collection & Banking (scope to include a general review of Council Cash Collection - Bristol CC)	WIP			
2013/14		Themed School Review - Unofficial Funds				
2013/14		Parking Income Collection	WIP			
2013/14	Aug-13	Insurance	Finalised	4	1	1
2013/14		Passenger Support (incl Home to School Transport, Dial a Ride & Grants)				
2013/14	Sep-13	Licensing	Finalised	4	3	3
2013/14		Council Tax - Collections, recovery, enforcements & write-offs (incl Bristow & Sutor portal)	Draft			
2013/14		IT Physical & Environmental Controls				
2013/14		Energy Management (requires input from Sustainability Team)				
2013/14	Jul-13	Residential & Nursing Care Payments	Finalised	4	5	5
2013/14		Highway Electrical & Intelligent Transport Systems, UTMC - Traffic Signal System, Mayrise Buchanan Traffic Accident Street Lighting Software				
2013/14	Aug-13	Connecting Families	Finalised	4	9	9
2013/14		Payroll - Additions & Deductions (Focus on Pensions Auto Enrolment)				
2013/14		Purchasing Card System				
2013/14		Flood Alleviation				
2013/14	Sep-13	Heritage - Collections	Finalised	4	5	5
2013/14		Legal Services	Draft			
2013/14		Building Control				
2013/14		Safer Recruitment				
2013/14		Fleet Management - Vehicle Management & Maintenance (including Vehicle Procurement & leasing, MOT Trading Activity)				
2013/14		Parks & Green Spaces				
2013/14		VAT				
2013/14		Leased Assets				
2013/14		Community Rights (Statutory Obligations)				
2013/14		Info Gov - Transparency (access to information and management of FOI / EIR / DP Requests)				
2013/14		IT Procurement & Disposals (Hardware / Software)				
2013/14		Payroll - Processing, Payruns & Reconciliations				
2013/14						
Unplanned		Electoral Services Bank Accounts	Draft			

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	3 rd December 2013	AGENDA ITEM NUMBER
TITLE:	Fraud & Corruption Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Audit & Risk Team Action Plan		
Appendix 2 – Council’s Anti-Fraud & Corruption Policy & Whistleblowing Policy		
Appendix 3 – Council’s Anti-Money Laundering Policy		

1 THE ISSUE

- 1.1 This report presents the findings of the Audit Commission’s latest ‘Protecting the Public Purse’ report, the need for the Council to be proactive in preventing / detecting fraudulent activity and 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 Council’s 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 In June 2013 the Council's S151 Officer submitted this Council's 2012/13 return to participate in the national Audit Commission's 'Protecting the Public Purse Fraud & Corruption Survey'.
- 4.2 The form recorded a number of reportable items including:
- 201 Housing Benefit (HB) & Council Tax Benefit (CTB) Fraud Cases (£97,686)
 - 128 Council Tax (CT) Fraud cases (£49,660) – Single Person discounts.
 - 7 Housing Benefit Prosecutions
 - All relevant anti-fraud & corruption policies in place
- 4.3 On 14th November 2013 the Audit Commission published its 2013 report "Protecting the Public Purse – Fighting Fraud against Local Government". The key headlines from the report were:
- Local Government bodies detected 107,000 cases, valued at £178m, down by 14% and 1% compared with 2011/12.
 - HB and CTB fraud accounted for 66% of the total fraud loss (£120m) up 3%.
 - Council Tax discount fraud reduced by 7% to £19.6m.
 - Housing Tenancy Fraud – properties recovered increased by 51% (2,642 homes in 2012/13).
 - London Boroughs reported detected fraud increased by 36% in numbers and value.
 - Most non London regions showed a decline in detected fraud (between 6 & 46%). For the South West it reduced by 19%.
 - 76% of all non-benefit fraud is detected by 25% of Councils.
 - Council's should maintain their capacity to investigate non-benefit fraud and focus more effort on detecting non-benefit fraud.
 - Councillors should encourage their Council to focus more on deterrence, by widely publicising action against fraudsters and increase confidence in whistleblowing arrangements by providing corporate leadership of and support for whistle-blowers.

- 4.4 Outside of CT, CTB, HB and Housing Tenancy fraud the other significant areas of reported fraud were:

Fraud Type	Value	% increase / decrease
Business Rates	£7.2m	+177%
Right to Buy	£5.9m	+392%
Abuse of Position	£4.5m	-20%
Social Care	£4.0m	+82%
Payroll, Pension, Expenses	£3.0m	-14%
False Insurance Claims	£3.0m	+43%
Procurement	£1.9m	-77%
Disabled Parking	£1.5m	-38%

- 4.5 There were a number of areas where there were significant increases in reported fraud. For these areas the type of fraud included:

- 1) Business Rates - falsely claiming rate relief or empty home exemption.
- failure to declare occupancy of a property.
- falsely claiming insolvency status.
- not disclosing relevant info, e.g. size of company, to gain rate Relief
- 2) Right to Buy - occupier unlawfully applies for a discount.
- legitimate tenant provides false information on application.
Note: the number of actual cases is low at 102 for 2012/13 but compared to 38 in 2011/12 it's a large percentage increase.
- 3) Social Care - diverting direct payments for fraudsters use.
- continuing to claim direct payments after death of client.
- 4) Insurance Claims - submission of fraudulent claims. The number of cases detected has continued to drop but the value of each case has increased. The position in 2012/13 roughly equals the position reported by Council's in 2009/10.

4.6 Abuse of Position detected / reported fraud has reduced by 20% over a year. This 'internal fraud' only accounts for 1% of the total cases reported but it's 9% of the value (£16.5m). This fraud type will be a subject of a presentation to Committee members.

4.7 Historically within local government internal fraud / corruption has resulted in a break down in the framework of internal control, for example:

- Inadequate record keeping (both incomplete & non-existing)
- Inadequate Management Supervision
- Conflicts of interest
- Management competency
- Non-compliance with Council Policies & agreed procedures
- Collusion between officers
- Inadequate segregation of duties – income and expenditure

4.8 The latest Audit Commission Protecting the Public Purse report reiterates the need for Council's to review their counter-fraud arrangements. The Audit & Risk team complete a desk top review of the Council's counter-fraud arrangements. **Appendix 1** records the current Fraud Action Plan. This has been compiled taking into account the current and previous Counter Fraud reviews.

4.9 Our review considered the following:

- (a) **Policies:** Consider the adequacy of the existing policies and update as necessary:
 - 1) Anti-Fraud & Corruption Policy
 - 2) Whistleblowing Policy
 - 3) Anti-Money Laundering Policy
- (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:** Actual work carried out as per the adopted Audit Plan and 'unplanned' work responding to reports of financial irregularities / poor practice.
- (d) **National Fraud Initiative:** Review results of the National Fraud Initiative exercise run nationally by the Audit Commission.
- (f) **Compliance with new legislation and / or national best practice.**

Policies:

4.10 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:

- 1) Anti-Fraud & Corruption Policy (including the Fraud Response Plan) (**Appendix 2**) – this sets out roles and responsibilities and how the Council will respond to any suspected Fraud.
- 2) Whistleblowing Policy (**Appendix 2**) – this was put in place in response to the Public Interest Disclosure Act 1998 and details how the Council will support and respond to 'Whistle-blowers'.
- 3) Anti-Money Laundering Policy (**Appendix 3**) - is to meet the obligations placed on the Council arising from the Money Laundering Regulations 2007, Proceeds of Crime Act 2002 and the Terrorism Act 2000. The Council is not in the "Regulated Sector" but a Council Anti-Money Laundering Policy has been adopted.

4.8 The review found the Policies to be sound in terms of content, and amendments were limited to reference to new organisations, e.g. the National Crime Agency taking over from the Serious and Organised Crime Agency or changes resulting from organisational structure changes.

Culture & Awareness:

4.9 A strong anti-fraud Culture is key to preventing and detecting fraudulent / corrupt activity. Critical to the development / maintenance of this culture is clear / strong leadership, an awareness of policies and procedures and an understanding that robust action will be taken when wrongdoing is identified and proved.

4.10 The first Organisational Values Survey was completed in 2009. All 1st, 2nd & 3rd tier officers were asked for their feedback about the leadership values (enshrined in the Council's Code of Corporate Governance) and whether these were being lived and to obtain opinions on the Council's ethical framework.

4.11 The latest survey results were very positive. A 'green' status was recorded against 'Ethics' (honesty, openness, trust, enjoyment, professionalism, pragmatism, excellence) linked to the 'Integrity' Value. It was interesting to note that 87% of responders 'agreed' to the following statement: "The organisation has made clear its commitment to fight fraud and corruption". The Audit & Risk Team have continued since the last survey was carried out to keep all staff informed of the Council's

adopted zero tolerance to fraud and corruption. We will continue to work closely with other colleagues in the Council to effectively communicate the Council's commitment and this includes when-ever possible publicising cases where action has been taken against individuals.

- 4.12 As part of developing an anti-fraud & corruption culture within the Council and promoting awareness, the Audit & Risk Team liaise with others to prepare and issue a quarterly Fraud Bulletin. Both the Council's Benefits Investigation Team and the Trading Standards Team have provided articles for the Bulletin.
- 4.13 The purpose of the Bulletin is to promote fraud awareness by communicating information on known fraudulent activity. Cases reported may be examples where the Council, Schools and other organisations have been targeted by fraudsters or are frauds / scams.
- 4.14 The latest version of the Fraud Bulletin was issued in September 2013 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 and Academy Schools via e-mail.
- 4.15 Whistleblowing posters are on display in Council buildings. It is clear from recent whistleblowing cases that 'whistle-blowers' have acted based on seeing posters in Council buildings.

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

- 4.16 All planned work by the Audit & Risk Team considers 'safeguarding the council's assets'. Whilst all audit reviews consider the risks of fraud and corruption, specific reviews have been designed to focus solely on these risks.
- 4.17 The 2013/14 annual audit plan includes four reviews amounting to 100 days on NFI, Bribery, Income and Expenditure, to verify that systems of internal control are operating effectively and that any actual or attempted fraudulent activity is either prevented or identified and properly managed.
- 4.17 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.
- 4.18 During 2012/13 and currently in 2013/14 a total of 12 investigations have been carried out over potential irregularities. Whilst not every case can be proven categorically, poor or fraudulent practice has been brought to an end and this has led to potential savings of over £100K over a range of different areas.
- 4.18 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.

4.19 We continue to liaise and network with other Local Authorities through the West of England Chief Internal Auditors' network (covering Local Authority Audit Teams from Swindon down to Cornwall). 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:

4.20 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 4.21 below) are matched every two years.

4.21 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).

4.22 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.

4.23 On a national level the Audit Commission reports the data matching and investigation exercise identifies significant fraud. For the 2010/11 exercise, this was reported as totalling £275 million. Despite, these large national figures being reported, historically this Council has identified very little fraud and overpayments.

NFI Year	Data Matches reported	Value of Fraud & Overpayments identified
2004/05	3,875	£13,642
2006/07	39,344 *(1)	£73,816 *(2)
2008/09	8,668	£11,500 *(3)
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	7,926 *(4)	£4,857.50 *(5)
2011/12 (Council Tax & Electoral Register Data Matching)	1,266	£49,660 *(6)
2012/13	6,626 *(7)	On-going - None identified to date

- *(1) over 30,000 related to Creditor Payment matches

- *(2) approx.. £73,000 was in respect of Pension overpayments (abatements)
- *(3) All in respect of Housing Benefits
- *(4) 324 Cancelled Blue Badges (3.7% of total); 958 Cancelled Concessionary Travel Passes (3% of total). Holders had died (as notified by Department Works & Pensions).
- *(5) Pension overpayments (deceased pensioners).
- *(6) 128 council tax accounts had Single Person Discount (SPD) removed. The review of NFI matches was included in a review of data matches produced by a separate 'Experian' data matching exercise.
- *(7) Processed 2,141 matches to date (a date isn't specified by the Audit Commission for completion of the investigation of reported matches). Officers in Pensions, Transportation (Concessionary Travel), Benefit Investigations, Insurance and Parking have assisted the Audit & Risk Team in the investigation of matches.

Compliance with new legislation and / or national best practice

- 4.24 The last piece of new legislation was the Bribery Act 2010 and a briefing of requirements is recorded as Appendix 3 to the Anti-Fraud & Corruption Policy. It is an offence to offer, promise or give a bribe (Section1) and / or to request, agree to receive, or accept a bribe (Section 2).
- 4.25 During the 2011/12 Annual Governance Review, it was identified that the system for recording interests and the offer or giving of gifts and hospitality and obtaining the necessary approval needed to be improved. This resulted in a new on-line system being developed. This new system was approved by the Council's Monitoring and S151 Officers enabling the system to go live w.e.f. the 1st April 2013. Two separate registers are now maintained and these will be subject to at least annual review.
- 4.26 In April 2012 the National Fraud Authority (NFA) Local Government Fraud Strategy 'Fighting Fraud Locally' was published. The Audit & Risk Team have reviewed our counter-fraud arrangements in the context of this Strategy document and we will continue to monitor initiatives launched by the NFA to maintain our knowledge of different fraud types and ways of managing risks of fraud.

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 – Fraud Action Plan – Dec 2013

Action Reference	Action Required	Responsibility	Action Date	RAG
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)	3/12/13	
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)	On-going - 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)	Sept / Oct 2013	

APPENDIX 1 – Fraud Action Plan – Dec 2013

Action Reference	Action Required	Responsibility	Action Date	RAG
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)	On-going	Green
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	31/03/2014 (Met in April 2013 and based on re-organisation of Health Services agreed to reconsider relationship following planned audit review of Public Health in late 2013)	Yellow
8	The current annual survey of 1 st to 3 rd tier officers on Organisational Values is continued.	Head of Risk & Assurance	30/07/2014	Green

APPENDIX 1 – Fraud Action Plan – Dec 2013

Action Reference	Action Required	Responsibility	Action Date	RAG
9	Review counter fraud arrangements in context of the National Fraud Authority Strategy for Local Government, Fighting Fraud Locally.	Group Manager (Audit & Risk)	31/03/2012	Green
10	Review whistleblowing arrangement for residents and visitors to the area.	Group Manager (Audit & Risk)	31/03/2014	Yellow
11 Page 43	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)	31/03/2014	Yellow

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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.

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 feedback 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 Audit & Risk Team 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 DBS checks for staff (including enhanced DBS 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 DBS 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 Audit & Risk Team
 - 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 Business Support 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 Audit & Risk Team may refer the case to other Agencies, such as the Police. Referral to the Police is a matter for agreement between Audit & Risk Team, the relevant Senior Manager and / or Strategic Director and the Council Solicitor.

5.3 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.

5.4 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.

5.5 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.

5.6 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 Internal Audit webpages on 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.

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 Children 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 Care & Health 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 Care & Health and Children's Services**), 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 Audit & Risk Team, 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 Audit & Risk Team 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 Audit & Risk Team 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.

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 the Internal Audit together with supporting staff if appropriate.

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

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, Audit & Risk, 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.

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

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 National Crime Agency (NCA).
- 7.6 The MLRO or deputy must, if they so determine, promptly report the matter to the NCA in the prescribed manner by submitting a Suspicious Activity Report (SAR) via the NCA SAR [online system](#).
- 7.7 You will be informed if the MLRO makes a SAR report to the NCA. Officers should not complete any transactions **until clearance has been given by the NCA, or seven working days have elapsed since the disclosure was made to NCA.**
- 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 the NCA.

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 NCA (National 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 NCA?

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 NCA?

(Please tick relevant box)

YES

NO

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

Details of liaison with the NCA regarding the report:

Notice Period: from : _____ to: _____

Moratorium Period: from : _____ to : _____

Is consent required from the NCA to any on-going 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 NCA: _____

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 NCA, 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 Adult Care & Health

- 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.

8.2 People & Communities Directorate

8.2.1 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.

8.3 Benefits

8.3.1 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.

8.4 Resources Directorate - Property Services

8.4.1 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.

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	3rd December 2013	AGENDA ITEM NUMBER
TITLE:	External Audit Fees Letter & Update Report	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Fees Letter		
Appendix 2 - 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 as well as their fees letter for the Council and Avon Pension Fund. (Appendices 1 & 2).

2 RECOMMENDATION

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

3 FINANCIAL IMPLICATIONS

- 3.1 External Audit fees indicated at Appendix 1 are within budget and controlled corporately by the S151 Officer. There are no other direct financial implications as a result of the update report.

4 THE REPORT

- 4.1 The Audit Commission has set out its proposed work programme and scale of fees for 2013/14. The Councils scale fee has been set at £164,039, the same as last year, fees for Grant Claims have been set at £20,100 a reduction from £24,550 in 2012/13 and a fee total of £28,805 has been set for the Pension Fund which again is the same as last year.
- 4.2 The External Auditor will verbally update on their scope of work and reporting timeframes at the Committee, the detail of which is attached at Appendix 1.

4.3 Also attached at Appendix 2 is an update report to provide the Corporate Audit Committee with a commentary on progress in delivering the external auditors responsibilities. Additional matters include –

- a) Income from Charging;
- b) Preparing for the Health & Social Care Integration Transformation Fund;
- c) Potential for Procurement Fraud;
- d) Local Government Pensions Governance Review;
- e) Property Plan and Equipment Revaluations;
- f) Public Briefing on the Local Audit & Accountability Bill

4.4 The External Auditor will provide a verbal briefing on these areas at the meeting.

5 RISK 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.

7 CONSULTATION

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	



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2 April 2013

Dear Andrew

Planned audit fee for 2013/14

The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council’s scale fee for 2013/14 has been set by the Audit Commission at £164,039, the same level as for 2012/13 and which compares to the audit fee of £273,398 for 2011/12.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission’s website at www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-work-programme.

The audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for Money (VfM) conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Certification of grant claims and returns

The Council's composite indicative grant certification fee has been set by the Audit Commission at £20,100, compared to £24,550 in 2012/13.

Avon Pension Fund audit

The Audit Commission has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The 2013/14 scale fee for the audit of the pension fund is £28,805 the same as for 2012/13. Our work on the pension fund will be undertaken in two stages in 2014:

- the interim work in March and April
- the final audit in August.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2013	41,010
December 2013	41,010
March 2014	41,010
June 2014	41,009
Grant Certification	
June 2014	20,100
Total	184,139
Pension Fund audit	
September 2014	28,805

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2013 to March 2014. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit, work on the VFM conclusion and work on the whole of government accounts return in will be completed in September 2014.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2013 to March 2014	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	June to Sept 2014	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	Jan to Sept 2014	Audit Findings (Report to those charged with governance)	As above
Financial resilience	Jan to Sept 2014	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2014	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2014	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2014	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2013/14 are:

	Name	Phone Number	E-mail
Engagement Lead	Barrie Morris	0117 3057708 07771 976684	barrie.morris@uk.gt.com
Engagement Manager Council audit	Chris Hackett	0117 3057876 07880 456130	chris.hackett@uk.gt.com
Engagement Manager Pensions audit	Chris Hackett	0117 3057876 07880 456130	chris.hackett@uk.gt.com
Audit Executive Council audit	Louise Luke	0117 3057863	louise.m.luke@uk.gt.com
Audit Executive Pensions audit	Roy Edwards	0117 3057880	roy.a.edwards@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact John Golding, our Public Sector Assurance regional lead partner (john.golding@uk.gt.com).

Yours sincerely



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Director
For Grant Thornton UK LLP

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Audit Committee Update for Bath and North East Somerset Council

Year ended 31 March 2014

November 2013

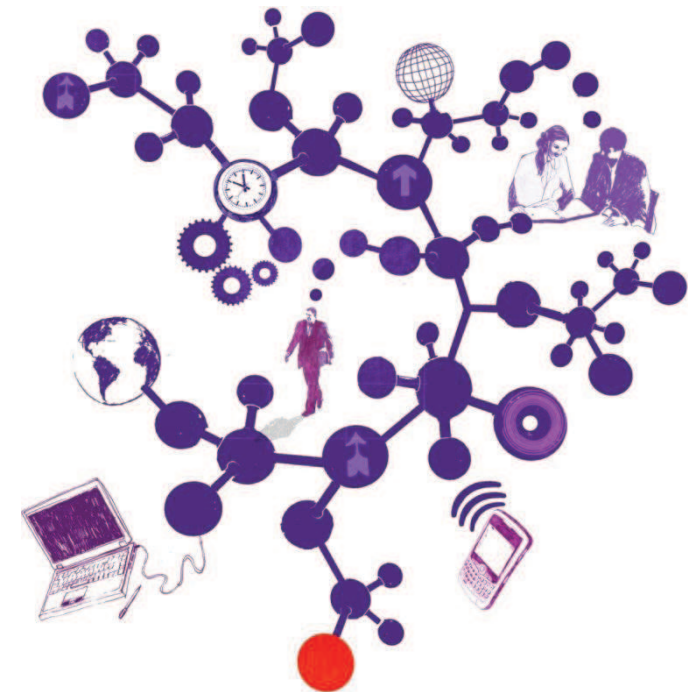
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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Introduction

This paper provides the Corporate Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you as a unitary council.

Members of the Corporate Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The developing internal audit agenda', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Barrie Morris Engagement Lead T 0117 3057708 M 0777 1976684 barrie.morris@uk.gt.com

Kevin Henderson Audit Manager T 0117 3057873 M 07780 456132 kevin.j.henderson@uk.gt.com

Progress at November 2013

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the <i>Council's</i> 2013-14 financial statements.</p>	May 2014	Not yet due	A Plan will be issued on completion of our interim work and risk assessment. There will be a separate Plan for the Council and one for the Avon Pension Fund.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • early work for the Value for Money conclusion. 	December 2013 to April 2014	Not yet due	
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council 's accounts • proposed Value for Money conclusion. 	July to September 2014	Not yet due	

Progress at November 2013

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Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • <i>Continuing review of your processes for developing financial plans and savings plans</i> • <i>Monitoring progress with economic development projects</i> • <i>Monitoring progress with joint working including social care and health care integration.</i> 	July to September 2014	Not yet due	
<p>Other areas of work We will certify your Regional Growth Fund return in accordance with the Government Department timetable.</p>	January 2014	Not yet due	
<p>Other activity undertaken Certification of grants within the audit commission regime Our work on the 2012/13 certification of grant claims is virtually complete ahead of the Government Department deadlines. We will bring a report summarising our work to the next meeting of the Corporate Audit Committee.</p>	February 2014	Not yet due	The claims and returns include: <ul style="list-style-type: none"> • NNDR pool return • Teachers' pensions return • Housing Benefits return • Local Transport Plan major projects, relating to the Bath Package

Emerging issues and developments

Local government guidance

Income from charging

In September 2013, the Audit Commission published '[Income from charging: Using data from the VFM Profiles, September 2013](#)'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Issues for consideration:

- When did the Council last review its local charging policy? Does the Council's policy still support the Council's strategic objectives? What options are available for change?
- Do your officers monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the council's financial objectives and complying with legal requirements?
- Has your Strategic Director Resources reviewed the council's charging policy and levels of income against similar organisations?
- Where issues have been identified, has an action plan been implemented?

Emerging issues and developments

Local government guidance

Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The [Integration Transformation Fund statement](#), signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two ear plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

Issue for consideration:

- How is the Council planning to work with its partners to formulate joint plans and obtain funding?

Emerging issues and developments

Grant Thornton

Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Issues for consideration:

- Does the Council have a properly functioning procurement process, where duties are clearly segregated?
- Does the Council maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Grant Thornton

Local Government Pensions Governance Review

This report presents the findings of our first review of [Local Government pension schemes' governance](#). Based on comprehensive research with pension fund senior officers and supported by insights from pension fund auditors, our report shows that there is a wide variety of practice across the UK:

- 70% of funds operate with a single pension committee, but those that use sub-groups are able to act more quickly, with a greater focus on the strategic management of the fund, while ensuring the important aspects of operation are given proper consideration
- only 25% of funds provide their pension committee with regular (more than once a year) reports on key risks affecting the fund
- only 22% of funds are implementing action plans resulting from the CIPFA knowledge and skills framework
- 60% of pension funds benchmark their costs and have reduced them in recent years, but reporting to pension committees on administration costs and savings is under-developed
- there are lessons to be learnt from funds that have worked collaboratively to reduce costs, share expertise and improve services.

The report also provides an outline of governance and reporting best practice and an update on the significant changes to Local Government pension schemes.

Issues for consideration:

- Have you reviewed the report and used the questions posed in the report to help assess the strength of your current governance arrangements?
- What action do you plan to take to improve governance arrangements?

If you have any queries on governance, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

Issues for consideration

- Are both your Strategic Director Resources and your professional advisors satisfied that your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?
- Has your Strategic Director Resources reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure your authority complies with other aspects of the Code requirements?
- Where the Council is unable to comply fully with the Code in 2013/14, are you satisfied that any non-compliance is immaterial and has an action plan been put in place to address non-compliance issues in future years?

Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

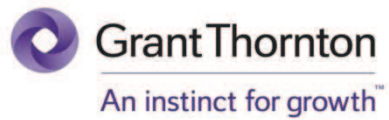
In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Issues for consideration:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?



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