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Email laura.brentnall@lichfielddc.gov.uk



**District Council House, Frog Lane
Lichfield, Staffordshire WS13 6YU**

Customer Services 01543 308000
Direct Line 01543 308074

Wednesday, 3 November 2021

Dear Sir/Madam

AUDIT AND MEMBER STANDARDS COMMITTEE

A meeting of the Audit and Member Standards Committee has been arranged to take place **THURSDAY, 11TH NOVEMBER, 2021 at 6.00 PM IN THE** District Council House, Lichfield to consider the following business.

Access to the is via the Members' Entrance.

In light of the current Covid-19 pandemic and government advice on social distancing, whilst this meeting will be held at the District Council Offices, a limited number of people can attend the meeting therefore it will be live streamed on the Council's [YouTube channel](#) for all members of the public to view. Only pre-agreed participants will be able to attend the meeting in addition to all the Members of the Committee and relevant Officers.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Christie Tims'.

Christie Tims
Head of Governance and Performance

To: Members of Audit and Member Standards Committee

Councillors Spruce (Chair), Ho (Vice-Chair), Grange, Norman, Robertson, Silvester-Hall, White, M Wilcox, Sohal (External Auditor) and Rowley (External Auditor)



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AGENDA

1. **Apologies for Absence**
2. **Declarations of Interest**
3. **Minutes of the Previous Meeting** 3 - 8
4. **Local Audit Update** 9 - 36
(Report of the Head of Finance & Procurement)
5. **Mid-Year Treasury Management Report** 37 - 56
(Report of the Head of Finance & Procurement)
6. **Internal Audit Progress Report** 57 - 82
(Report of the Internal Audit Manager)
7. **Risk Management Update** 83 - 110
(Report of the Internal Audit Manager)
8. **Counter Fraud Update Report** 111 - 190
(Report of the Internal Audit Manager)
9. **Work Programme** 191 - 194



AUDIT AND MEMBER STANDARDS COMMITTEE

22 SEPTEMBER 2021

PRESENT:

Councillors Spruce (Chair), Ho (Vice-Chair), Grange, Norman, Robertson, Silvester-Hall, White and M Wilcox

Observer:

Officers In Attendance:

Also Present:

70 APOLOGIES FOR ABSENCE

There were no apologies for absence.

71 DECLARATIONS OF INTEREST

Councillor Grange declared a personal interest in respect of agenda item no. 6 as she is a fellow of the Institute of Chartered Accountants in England and Wales. Though she stated that she doesn't work as an auditor and has no intention of working as an auditor.

Councillor Grange declared that she may or may not be the member responsible for the grants referenced in Notes to the Accounts note 35.

72 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 22 July 2021 previously circulated, were taken as read and approved as a correct record.

73 STATEMENT OF ACCOUNTS

Members considered the Statement of Accounts Report and Anthony Thomas (Head of Finance and Procurement) delivered a brief overview of the report. He stated that the deadline for publishing auditing statements had moved to the 30th September and hoped they'd be in the position to get the accounts signed off after the meeting subject to a pension fund issue that is still outstanding. He commented that the external auditor is required to obtain written representation from management which should contain all matters that could affect the Council's financial position in the accounts.

Anthony Thomas went through some of the key numbers in the report. Highlighting that they'd received much less Council tax and business rates, but this had been in part offset by grants and contributions which is shown under operating activities in the report.

Before opening the Committee to questions, the Chair commented that as the accounts cover the year of Covid 19 we're looking at unusual figures which hopefully won't appear again.

The Committee suggested that in section 3 part E, the metric be changed to member attendance at events instead of number of member training events. Anthony Thomas responded that there is difficulty in coming up with a measurement that everybody can agree to, but he would take the comments onboard.

There were some concerns on the trend of lack of engagement found in section 3 part B of the report. The Chair was asked whether this should be referred to the Overview and Scrutiny Committee to set up a task group to look at overall engagement and responses.

The Committee questioned page 84 of the report concerning the costs of overheads which had decreased from 19% last year to 15% this year, asking Anthony Thomas how Lichfield District Council compared to other councils. To which, he explained that despite having benchmark data, it is difficult to compare as councils are all varied and very different to each other.

There were concerns on the incurred loss by Lichfield Housing Ltd and the question was asked whether there were plans to build more houses. Councillor Strachan responded that no decision had been made and the future of Lichfield Housing Ltd was up for discussion in Cabinet.

Councillor Strachan responded to an earlier point raised on the lack of engagement stating that they are looking to carry out better engagement events this year with the communications team and seeking better engagement with Cabinet members

There were additional concerns on PSP Lichfield Ltd on whether this too would be up for review in Cabinet since the council had incurred a loss due to its 50% partnership with the company. Councillor Strachan answered saying he would pass the question along to Councillor Eadie as the issue falls into his portfolio.

The pension fund was discussed with a suggestion that the Committee should spend more time focusing on this to understand the potential future risks since it is a significant part of the Council's valuation. The Chair was asked whether it would be worth having another session with a briefing paper to provide more insight on this issue. The Chair said he'd look into establishing a working party.

The balance sheet in the report was queried as there was a surplus in assets of 1.1 million pounds. It was asked what the assets were and what plans the Council have for them. Anthony Thomas responded that he believed it was the former garage site.

Anthony Thomas was asked whether the loans and investments made to other public authorities were perceived as having a higher risk due to Covid or other factors. Anthony Thomas answered that he does not believe this posed any extra risk.

Note 20 on Provisions were discussed with queries on the dispute in relation to Leyfields and Netherstowe as this appears as a provision on the report rather than a creditor suggesting that the number wasn't agreed at that point in time. Anthony Thomas responded that the number had been agreed with a payment being made this financial year. The committee also questioned, in the same note, that there was a provision for Three Spires, related to the potential fall in income as a result of the impact of Covid 19. On that, Anthony Thomas explained that the council receives 11% of the net rental income from the Three Spires shopping centre, the issue being, the accounts provided by Three Spires are about a year behind so an assumption is made that the income that that will be received is lower because of Covid.

There were concerns on note 35, Related Parties, as the disclosure was not clear on which member held a position with the governing body that received a grant from the Council. Thus, it was suggested that the disclosure be strengthened in order to uphold transparency.

Councillor Robertson declared a declaration of interest as a trustee and a member of Curborough Community Association.

There was a discussion on whether the issues of pensions should go to a task group. The decision was made by the Chair to withdraw his comment of a task group and asked the Committee whether they thought it would be beneficial to have a separate meeting on pension fund accounting.

RESOLVED:

1. The Committee noted the External Auditor's Audit Findings Report (Agenda item 9).
2. The Committee approved the Letter of Representation at APPENDIX A
3. The Committee approved the Councils Statement of Accounts for 2020/21 (attached at APPENDIX B)
4. The Committee approved the delegation of authority to the Chairman of Audit and Member Standards Committee to approve any changes and potentially resign the accounts once we have received assurance from Staffordshire County Council's external auditors in relation to the Staffordshire Pension Fund.

74 OVERVIEW OF THE COUNCIL'S CONSTITUTION IN RESPECT OF FINANCIAL PROCEDURE RULES

Members considered the updated Financial Procedure Rules and Anthony Thomas delivered a brief overview of the document and changes to be reviewed. The Financial Procedure Rules set out financial governance arrangements within the council. They are based upon a model set created in 2015 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted by the Council. Anthony Thomas stated that key officers have been consulted regarding updates to the rules, resulting in relatively minor changes. These changes are limited to organisational structure modifications, updates to the governance structure, procedure/legislative updates, and references to the updated Contract Procedure Rules to maintain consistency between the two documents.

Changes for review are coloured in yellow. They will form part of constitution and therefore will be approved by Council, subject to any views made by the Committee. Once approved, training and communication will be undertaken across the council prior to implementation.

The Committee questioned why, on page 23 of the updated rules, a key control of the budget format had been deleted. Anthony Thomas explained that all councils used to report using the CIPFA service reporting code of practice (a standard set of headings), but that reporting responsibility has been removed to allow authors to tailor headings to their council and accountabilities.

The Committee also asked why the 'anti-' prefix had been removed from a reference to anti-corruption on page 35. Anthony Thomas replied that the reason was to use the same headings as other documents, and the prefix had been earlier on in the policy title.

There were concerns regarding Appendix A section 4.31 on page 46 - it was asked why the requirement for two employees to be present when opening post was deleted. Anthony Thomas answered that receiving cash in the post is now uncommon, so the risk which led to that requirement being introduced is considerably reduced.

The Committee questioned whether tripling the trigger for the scheme of virement solved a problem that did not exist, as not many virements in range of 25000-75000 pounds are proposed. Anthony Thomas responded that the reason for increasing the trigger to 75000 pounds was to try to use a consistent key decision level, and stated that it is necessary to empower budget holders to move money around as needed throughout the financial year.

It was also stated that a scheme of virement trigger of 75000 pounds is over 0.5% of revenue budget, which was judged to be high to not be reported. Anthony Thomas noted that virements of less than 75000 pounds are reported in money matters reports by documenting movements between strategic priorities. The Council will approve a revised budget for the year around February which will take into account all the virements within the year.

The Committee suggested that an additional point should be added to Appendix A section 1.11 stating that any virements between 25000-75000 pounds must be included in money matters reports. Anthony Thomas agreed to add this point for clarity.

In support of previous concerns, it was pointed out that if someone is repeatedly doing virements for lower amounts, they might not get picked up and this could lead to a management control issue with auditors.

A question was raised regarding how the Financial Procedure Rules get transferred into day-to-day operations for role-specific requirements for ease of use. Anthony Thomas explained that the document will be uploaded to the intranet and employees will be advised of revisions. Each Head of Service and manager have a dedicated business advisor, whose role it is to assist managers in interpreting financial guidance and update it if necessary.

The Chair stated his appreciation for the high quality of the Financial Procedure Rules document and the clear marking of changes for review.

RESOLVED:

1. The Committee noted the contents of the Financial Procedure Rules report.
2. The Committee provided views on the revised Financial Procedure Rules.
3. The Committee recommended to Council to approve the revised Financial Procedure Rules, subject to the consideration of and views provided by the Committee.

75 LOCAL AUDIT UPDATE

Anthony Thomas provided the Committee with an update on the Local Audit Framework. He highlighted that the item was important due to a lot of information coming out over a short space of time and the fact that there will be an important decision for the Council to take in the immediate future about what it does about external audits.

Anthony Thomas went over the recommendations from the Redmond Review and Ministry of Housing and Local Government (MHCLG). He stated that they'd received an update from MHCLG in spring about any outstanding issues that weren't addressed in their initial response. Redmond for instance recommended a systems leader but now MHCLG are recommending the Audit, Reporting and Governance Authority (ARGA). He noted that MHCLG announced on the 28th July a consultation on its proposals as part of the government's response to the Redmond Review.

Anthony Thomas highlighted an issue to be addressed on the ongoing capacity in the pipeline of local auditors and about Parish Councils. He went on to say that a draft consultation response based upon using the sector from consultation events that the PSAA have undertaken was included in the Local Audit Report which had been run past the Chair and the Vice Chair.

Anthony Thomas stated the current partnership with Grant Thornton ends 31st March 2023 and thus a decision will have to be made on whether the Council wants to opt into the new sector-led approach for an external auditor or whether the Council will find its own auditor. However, there are very few external auditor firms so would be challenging if that decision is made. He concluded that the decision needs to be made around December 2022.

Anthony Thomas commented that the Council also need to procure a housing benefits subsidy auditor. He explained that the Council currently use the same firm which makes sense for two reasons: we don't get differences of opinions and some of the work that us done in the audit of accounts can also be used in the certification process.

Anthony Thomas then took questions from the committee.

RESOLVED:

1. The Committee noted the contents of the report and the requirement to decide whether to opt in to the PSAA sector led procurement by Full Council by January 2022.

76 OVERVIEW OF THE COUNCIL'S CONSTITUTION IN RESPECT OF CONTRACT PROCEDURE RULES

Clair Johnson (Procurement Manager) gave an overview of the Contract Procedure Rules report which sets out the contract and procurement governance arrangements for the Council. Clair Johnson put forward an updated set of contract procedure rules which is based on a best practice set suggested by Chartered Institute of Public Finance and Accountancy.

Clair Johnson explained that the major changes were removals to references to directors and any parts of the Council that no longer are in place. She also highlighted that she'd updated the thresholds and processes done at each threshold of value in line with the £75000 key decision level. Also included in the report was a reference to a piece of forthcoming work that will be carried out by Member Task Group, looking at Social Value, Sustainable Procurement and Think Local policies.

Clair Johnson then took questions from the Committee.

The Committee questioned paragraph 5.6, asking what circumstance would mean that the use of the wrong procurement pathway could continue. Clair Johnson answered that would only be the case when concerning small differences. The committee suggested alterations to paragraph 5.8, stating it might useful to include reference to 'not deliberately underestimate the value of a contract'. Clair Johnson replied that she would add that in.

The committee also queried how this would operate in practice, how would it be controlled and how would it be known that the estimates are proving to be wrong. Clair Johnson replied that the risk can't be eliminated entirely so preparation such as keeping up with market developments, benchmarking, soft-market testing before going to the market will ensure that the estimated contract value is correct.

Clair Johnson was asked to clarify how dynamic purchasing systems worked. She explained that a dynamic purchasing system is similar to a framework agreement but that it remains open for new suppliers to join throughout its term rather than being closed. This can encourage smaller suppliers to get involved as there tends to be minimal 'joining' requirements compared to a framework agreement. They work best in dynamic markets where there are low barriers for entry for new suppliers.

The committee noticed an error on page 39, a missing hyperlink to a document on sustainable procurement policy. Clair Johnson commented that she would update this.

RESOLVED:

1. The Committee noted the contents of this report.
2. The Committee provided views on the revised Contract Procedure Rules.

77 AUDIT FINDINGS REPORT FOR LICHFIELD DISTRICT COUNCIL 20/21

Mr David Rowley (external auditor) presented the Audit Findings for Lichfield District Council year ended 31 March 2021 and detailed the key findings and other matters arising from the audit in preparation of the Council's financial statements. Mr Rowley commented that the Council had prepared a very good set of accounts and had a strong control environment in place.

Mr Rowley stated that there was one investment confirmation that they couldn't get assurance for, but that matter had now been resolved so can come off the report. He further comments

that there were no issues or key concerns, in section two of the report, in the area of material management override of control or bias. He additionally highlighted a risk, detailed on page 8, on improper revenue recognition, however, he continued that this is more relevant in private sectors.

On section 3, Mr Rowley comments that there's not a lot to report at this stage as the regulators recognise the difficulties in the sector in terms of delivering the work at the moment. He stated that the work should be completed over the next two months with aim to report to the committee in full, with their annual report, at the next Audit Committee meeting in November.

The Committee was then given the opportunity to ask questions.

The Committee asked if there were any other transactions, apart from Leyfields and Netherstowe, that the auditor would consider to be outside of normal business. Mr Rowley responded that there wasn't.

The Chairman commented it has been a difficult period through Covid and was amazed that the Council was still able to produce the accounts and publish them by July. Expressed his thanks for the efficient production of the Statement of Accounts.

Resolved – recommendations in conjunction with Item 4, Statement of Accounts.
Voted and agreed on recommendations

78 WORK PROGRAMME

The Chairman commented that the Work Program looked light for November and queried whether it would be possible to get a paper on pensions in by November. Anthony Thomas said he would try to get a briefing paper on pensions in. He also suggested an alternative option of the actuary doing a presentation which would provide an opportunity for questions from the committee. However, this would likely be more expensive and the Committee rejected this option.

(The Meeting closed at Time Not Specified)

CHAIRMAN

Local Audit Update

Cabinet Member for Finance, Procurement, Revenues & Benefits

Date: 11 November 2021

Agenda Item:

Contact Officer: Anthony Thomas

Tel Number: 01543 308012

Email: Anthony.thomas@lichfielddc.gov.uk

Key Decision? **NO**

Local Ward **Full Council**

Members



Audit and Member Standards Committee

1. Executive Summary

- 1.1. To provide the Audit and Member Standards Committee with an update on the Invitation to become an opted-in authority for the five year period 1 April 2023 to 31 March 2028.
- 1.2. To seek a recommendation from the Audit and Member Standards Committee to Council to become an opted in authority in accordance with the regulations by the closing date of 11 March 2022.

2. Recommendations

- 2.1. The Audit and Member Standards Committee recommends to Council that Lichfield District Council becomes an opted in authority in accordance with the regulations for the five year period 1 April 2023 to 31 March 2028.

3. Background

- 3.1. PSAA published its draft prospectus for the award of audits for the five years, from 1 April 2023 in June 2021, using a sector led approach with individual authorities deciding to opt in to the process and this is shown at **APPENDIX A**.
- 3.2. The formal invitation to become an opted-in authority was received on 22 September 2021 and is shown at **APPENDIX B**.
- 3.3. PSAA believe that the national scheme already offers a range of benefits for its members:
 - transparent and independent auditor appointment via a third party;
 - the best opportunity to secure the appointment of a qualified, registered auditor;
 - appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
 - on-going management of any independence issues which may arise;
 - access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
 - a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
 - collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
 - a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;

- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- Concerted efforts to develop a more sustainable local audit market.

3.4. The Local Government Associations (LGA) view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and the LGA think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice. These reasons are identified below:

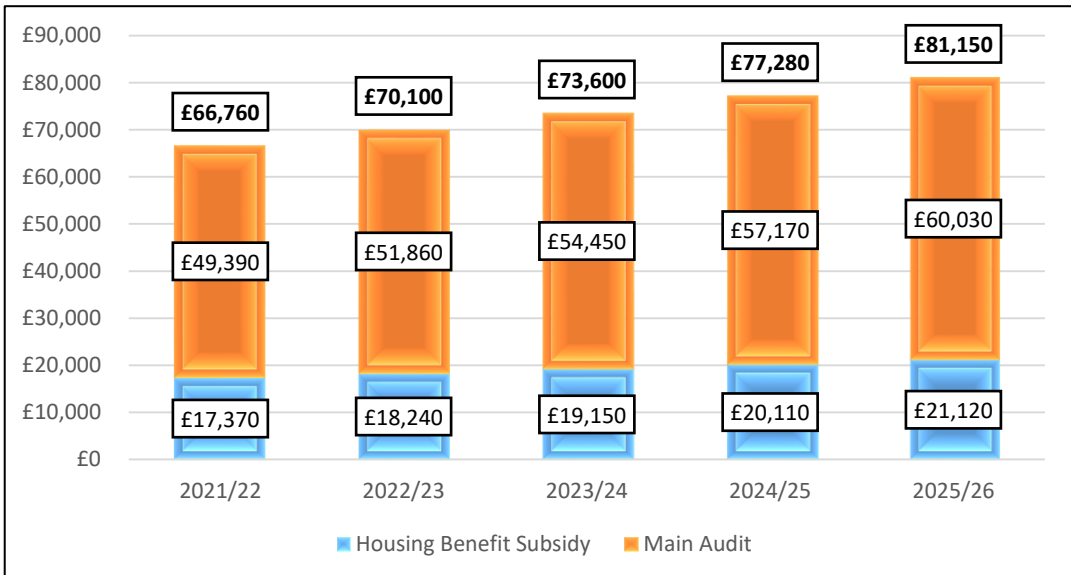
- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- Procuring for yourself provides no obvious benefits:
 - The service being procured is defined by statute and by accounting and auditing codes
 - Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
 - Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
 - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects the Department for Levelling Up, Housing and Communities (LUHC) confidence in them as an organisation.
 - PSAA has commissioned high quality research to understand the nature of the audit market.
 - It has worked very closely with LUHC to enable the government to consult on changes to the fee

3.5. The LGA believe that in a suppliers' market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.

3.6. In addition to the Audit of the Accounts and the Value for Money Assessment External Audit role covered by the PSAA procurement, the Council has a separate and parallel arrangement with Grant Thornton to provide certification of the Housing Benefit Subsidy.

3.7. This role was inadvertently not included in the legislation and therefore the Council had to procure this directly from Grant Thornton for the same period 1 April 2018 to 31 March 2023 because of the synergies with the Statement of Accounts Audit.

3.8. The procurement of this role will also need to be considered in parallel to the PSAA sector led procurement.

Alternative Options	<p>In terms of opting out from the sector led procurement, the biggest risk is whether an authority managing its own procurement will be able to secure competitive bids. Auditors can only be appointed from a short (and currently shrinking list maintained by the ICAEW and there is currently only one Key Audit Partner (KPA) that does not work for one of the big firms).</p> <p>However, there would be some scope to work with firms active in the local area (or who might wish to be) to register new key audit partners (KPAs). PSAA is promising to work to increase the pool of KPAs and Government is considering how barriers to entry could be reduced.</p> <p>In addition to planning the procurement process and drawing up a contract, the substantial additional burden of self-appointment is having to establish an auditor panel.</p> <p>This option is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.</p>																								
Consultation	<p>The Audit and Member Standards Committee were provided with an update on the Redmond Review and the Government’s initial response on 3 February 2021 and a further Local Audit update on 22 September 2021.</p>																								
Financial Implications	<p>The Approved Budgets from 2021/22 to 2024/25 together with a projection for 2025/26 are shown in the chart below:</p>  <table><tr><th>Year</th><th>Housing Benefit Subsidy (£)</th><th>Main Audit (£)</th><th>Total (£)</th></tr><tr><td>2021/22</td><td>£17,370</td><td>£49,390</td><td>£66,760</td></tr><tr><td>2022/23</td><td>£18,240</td><td>£51,860</td><td>£70,100</td></tr><tr><td>2023/24</td><td>£19,150</td><td>£54,450</td><td>£73,600</td></tr><tr><td>2024/25</td><td>£20,110</td><td>£57,170</td><td>£77,280</td></tr><tr><td>2025/26</td><td>£21,120</td><td>£60,030</td><td>£81,150</td></tr></table>	Year	Housing Benefit Subsidy (£)	Main Audit (£)	Total (£)	2021/22	£17,370	£49,390	£66,760	2022/23	£18,240	£51,860	£70,100	2023/24	£19,150	£54,450	£73,600	2024/25	£20,110	£57,170	£77,280	2025/26	£21,120	£60,030	£81,150
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2024/25	£20,110	£57,170	£77,280																						
2025/26	£21,120	£60,030	£81,150																						
Approved by Section 151 Officer	Yes																								
Legal Implications	<p>The Council will need to decide whether it opts in to the PSAA sector led procurement of external auditors by 11 March 2022.</p>																								
Approved by Monitoring Officer	Yes																								
Contribution to the Delivery of the Strategic Plan	<p>The MTFs and sound Governance underpins the delivery of the Strategic Plan.</p>																								

Equality, Diversity and Human Rights Implications	No Equality, Diversity or Human Rights Implications.
Crime & Safety Issues	No Crime and Safety Issues.
Environmental Impact	No specific environmental impact.
GDPR / Privacy Impact Assessment	No GDPR/Privacy Impact Assessment implications.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	The Council does not have an appointed External Auditor for the 2023/24 Accounts	Likelihood: Green Impact: Red Severity: Yellow	To either opt in to the PSAA sector led procurement by January 2022 or to procure an external auditor directly	Likelihood: Green Impact: Yellow Severity: Yellow
B	The Council does not have a Housing benefit Certification Auditor in place from 2023/24	Likelihood: Yellow Impact: Red Severity: Yellow	To procure an external auditor to fulfil this role and consider using the same auditor who fulfils the Audit of Accounts role	Likelihood: Yellow Impact: Yellow Severity: Yellow

Background documents	Redmond Review Report to Audit and Member Standards Committee 3 February 2021 Local Audit Update to Audit and Member Standards Committee 22 September 2021
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Relevant web links	
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PROSPECTUS

The national scheme for local auditor appointments

All eligible bodies

September 2021

www.psaa.co.uk

About PSAA

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

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Introduction

PSAA has issued its formal invitation to all eligible bodies to opt into the national scheme for local auditor appointments for the second appointing period, which will provide external audit arrangements for the period commencing from the financial year 2023/24.

This prospectus is published to provide details of the national scheme and to assist eligible bodies in deciding whether or not to accept PSAA's invitation. The scheme has been shaped by [your feedback to the June 2021 consultation](#) on our draft prospectus. The key areas of our approach that have been refined in response to consultation feedback are set out later in this prospectus.

In relation to appointing auditors, eligible bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, i.e. in Full Council, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision must be taken by the holder of that office.

An eligible body that has decided to join the scheme must inform PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) **no later than midnight on Friday 11 March 2022**.

An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in only after the appointing period has commenced, that is on or after 1 April 2023. In accordance with the regulations, as the appointing person, PSAA must: consider a request to join its scheme; agree to the request unless it has reasonable grounds for refusing it; and notify the eligible body within four weeks of its decision with an explanation if the request is refused. Where the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the opted-in body.

Audit does matter

The purpose of audit is to provide an independent opinion on the truth and fairness of the financial statements, whether they have been properly prepared and to report on certain other requirements. In relation to local audit the auditor has a number of distinctive duties including assessing the arrangements in place to deliver value for money, and dealing with electors' objections and issuing public interest reports.

Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

"The LGA set up PSAA to provide a way for councils to meet the legislative requirements of audit procurement without unnecessary bureaucracy and to provide leverage for councils by collaborating in a difficult market. It is now more important than ever that councils work together to ensure we get what we need from the audit market."

James Jamieson. Chairman of the Local Government Association

Context: changes in the audit market

In 2014 when the Local Audit and Accountability Act received Royal Assent the audit market was relatively stable. In 2017 PSAA benefitted from that continuing stability. Our initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result, we were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies. However, although we did not know it at the time, this was the calm before the storm.

2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession the Government commissioned four independent reviews, all of which have subsequently reported:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

In total the four reviews set out more than 170 recommendations which are now at various stages of consideration by Government with the clear implication that a series of significant reforms could follow. Indeed, in some cases where new legislation is not required, significant change is already underway. A particular case in point concerns the FRC, where the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place were clearly visible in response to a more focused regulator that was determined to achieve change. In order to deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain higher levels of assurance. However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) - a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements, and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.

This risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA's contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions.

2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding. The timeliness problem is extremely troubling. It creates disruption and reputational damage for affected parties. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA is fully committed to do all it can to contribute to achieving that goal.

Delayed opinions are not the only consequence of the regulatory drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years and audit costs have increased.

None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where, for example, increased fees and disappointing responses to tender invitations have been experienced during the past two years.

All of this paints a picture of an audit industry under enormous pressure, and of a local audit system which is experiencing its share of the strain and instability as impacts cascade down to the frontline of individual audits. We highlight some of the initiatives which we have taken to try to manage through this troubled post-2018 audit era in this prospectus.

We look forward to the challenge of getting beyond managing serial problems within a fragile system and working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

Responding to the post-2018 pressures

MHCLG's¹ Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. The significant work to reform audit in the wake of the four independent reviews is underway. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Organisations attempting to procure audit services of an appropriate quality during this period are likely to experience markedly greater challenges than pre-2018.

Local government audit will not be immune from these difficulties. However, we do believe that PSAA's national scheme will be the best option to enable local bodies to secure audit services in a very challenging market. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.

We believe that the national scheme already offers a range of benefits for its members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;

¹ Immediately prior to the publication of this document it was announced that MHCLG has been renamed to Department for Levelling Up, Housing and Communities (DLUHC). The document refers to the department as MHCLG.

- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

The national scheme from 2023/24 will build on the current scheme having listened to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience.

Since 2018 we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties including:

- commissioning an independent review undertaken by Cardiff Business School of the design of the scheme and implementation of our appointing person role to help shape our thinking about future arrangements;
- commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;
- proactively and constructively engaging with the various independent reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;
- working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;
- establishing the Local Audit Quality Forum, which has to date held five well attended events on relevant topics, to strengthen engagement with Audit Committee Chairs and Chief Finance Officers;
- using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;
- maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;
- undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and
- sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.

As a member of the newly formed Local Audit Liaison Committee (established by MHCLG as outlined in its Spring statement), we are working closely with a range of local audit stakeholders including MHCLG, FRC, NAO, ICAEW, CIPFA and the LGA to help identify and develop further initiatives to strengthen local audit. In many cases desirable improvements are not within PSAA's sole gift and, accordingly, it is essential that this work is undertaken collaboratively with a common aim to ensure that local bodies continue to be served by an audit market which is able to meet the sector's needs and which is attractive to a range of well-equipped suppliers.

One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, we have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.

We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the likely success of a further procurement to take effect from 1 April 2025), we believe that it is preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

MHCLG has recently undertaken a consultation proposing amendments to the Appointing Person Regulations. We have set the length of the next compulsory appointing period to cover the audits of the five consecutive financial years commencing 1 April 2023.

PSAA is well placed to lead the national scheme

As outlined earlier, the past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as we have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places us in a strong position to continue to lead the national scheme going forward. MHCLG's Spring statement confirmed Government's confidence in us to continue as appointing person, citing our strong technical expertise and the proactive work we have done to help to identify improvements that can be made to the process.

The company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context and challenges facing

both the sector and a highly regulated service and profession which is subject to dynamic pressures for change. Where appropriate we have worked with MHCLG to change our regulations where they are preventing efficiency.

We believe that the national collective, sector-led scheme stands out as the best option for all eligible bodies - especially in the current challenging market conditions. It offers excellent value for money and assures the independence of the auditor appointment.

Membership of the scheme will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme can make a significant contribution to supporting market sustainability and encouraging realistic prices in a challenging market.

The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the NAO²), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.

The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports.

Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. We will continue to make every effort to ensure that auditors meet the relevant independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. We will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditor to bodies involved in formal collaboration/joint working initiatives, if the parties consider that a common auditor will enhance efficiency and value for money.

² MHCLG's Spring statement proposes that overarching responsibility for the Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

PSAA's commitments

PSAA will contract with appropriately qualified suppliers

In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes - currently the Institute of Chartered Accountants in England and Wales (ICAEW) - acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.

We will take a close interest in the results of RSB and FRC inspections and the subsequent plans that firms develop to address any areas in which inspectors highlight the need for improvement. We will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform our scrutiny of both external inspections and internal quality assurance processes, we will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

PSAA will support market sustainability

We are very conscious that our next procurement will take place at a very difficult time given all of the fragility and uncertainties within the external audit market.

Throughout our work we will be alert to new and relevant developments that may emerge from the Government's response to the Kingman, CMA and Brydon Reviews, as well as its response to the issues relating specifically to local audit highlighted by the Redmond Review. We will adjust or tailor our approach as necessary to maximise the achievement of our procurement objectives.

A top priority must be to encourage market sustainability. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work which suppliers must undertake, firms will be informed as to which developments should be priced into their bids. Other regulatory changes will be addressed through the fee variation process, where appropriate in the form of national variations.

PSAA will offer value for money

Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.

We believe that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent approximately 4% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 we returned a total £3.5million to relevant bodies and, more recently, we announced a further distribution of £5.6m in August 2021.

We will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling is a key tenet of the national collective scheme.

Additional fees (fee variations) are part of the statutory framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.

Audit developments since 2018 have focused considerable attention on audit fees. The drive to improve audit quality has created significant fee pressures as auditors have needed to extend their work to ensure compliance with increased regulatory requirements. Changes in audit scope and technical standards, such as the requirement in the new Code of Audit Practice 2020 for the auditor to provide a VFM arrangements commentary, have also had an impact. Fees are rising in response to the volume of additional audit work now required.

The outcome is awaited of MHCLG's recent consultation on changes to the regulations, designed to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year (rather than before it starts). If implemented, these changes will enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.

It is important to emphasise that by opting into the national scheme you have the reassurance that we review and robustly assess each fee variation proposal in line with statutory requirements. We draw on our technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision.

Procurement Strategy

Our [procurement strategy](#) sets out the detail and scope of the procurement to deliver contracts from which the auditor appointments will be made for eligible bodies that decide to accept the invitation to opt into PSAA's scheme.

Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

We expect to initiate a new procurement for audit services in February 2022 and, subject to a satisfactory outcome, to award contracts in August 2022. Subject to consultations with opted-in bodies and audit firms, we plan to make auditor appointments by 31 December 2022 (as required by the regulations).

Response to consultation feedback

PSAA consulted with eligible bodies and other stakeholders on our draft prospectus for the national scheme for local auditor arrangements from April 2023, and with the audit services market on important features of its procurement strategy. The insight provided from both these important consultations has helped to shape the arrangements that PSAA will implement from 2023/24. Key areas are highlighted below.

Evolution of the Local Audit Framework

The consultation responses highlight the need for system-wide change. In many areas it is not within PSAA's remit to effect the significant change required.

The newly formed Local Audit Liaison Committee (as outlined in MHCLG's Spring statement), has enabled PSAA to highlight the need for a range of actions to tackle the identified issues that are essential to support a more stable, more resilient, and more sustainable local audit system. Sometimes the actions can be taken by individual organisations, but more frequently responsibility lies collectively across the system. The Liaison Committee and its members are now taking actions forward, including:

- All stakeholders to communicate the importance of audit timeliness as a consistent message to audit firms;
- PSAA to work with the FRC to develop the approach to quality evaluation of tenders;
- MHCLG and other stakeholders to understand the extent of potential increased audit costs for all eligible bodies and to consider how these might be met;
- All stakeholders to consider ways in which to attract new entrants (firms and Key Audit Partners) into the market;
- Central government departments to provide clarity on the direction of local audit policy to inform firms' consideration ahead of next procurement;
- The NAO and FRC to work together to consider how they can provide clarity about the future direction of the Code of Audit Practice to firms ahead of the next procurement; and
- MHCLG, CIPFA and the LGA to consider how to support finance departments with accounting and audit requirements.

In the vast majority of the areas consulted on which were within PSAA's remit, responses were supportive of our proposals for the national scheme from 2023/24 which is very encouraging. Areas where we have revisited and evolved our approach are highlighted below.

Minimum Audit Fees

Audit fees are rising in all sectors in response to increased regulatory requirements for audit quality and changes in audit scope and technical standards. Striving to ensure realistic fee levels is a vital prerequisite to achieving a more sustainable and stable local audit market.

Where individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit, we propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts. Our independent research indicates a minimum fee level of £31,000 should apply, based on the 2020/21 scope of audit work, to any opted-in body (a police and crime commissioner and a chief constable constitute one body for this purpose).

We cannot anticipate scale fees for the next appointing period at this stage, because they will depend on the prices achieved in the procurement and any changes in audit requirements. Where any price increase means that the scale fee for a body does not reach the floor set by the minimum fee, the fee for that body would increase to reach the minimum level. It is likely, given current expectations, that the introduction of a minimum fee specifically would lead to an increase in fees for a relatively small number of local bodies. PSAA consults each year on the fee scale and will consult in 2023 on the 2023/24 fee scale.

Introducing a minimum fee is a one-off exercise designed to improve the accuracy of the fee scale for the next appointing period. Fee variations would continue to apply where the local circumstances of an audited body require additional audit work that was not expected at the time the fee scale was set.

Standardised fee variations

Current local audit regulations allow PSAA to approve fee variation requests only at individual bodies, for additional audit requirements that become apparent during the course of an audit year. MHCLG has announced the intention to amend the regulations, following a consultation, to provide more flexibility. This would include the ability for PSAA to approve standardised fee variations to apply to all or groupings of bodies where it may be possible to determine additional fees for some new requirements nationally rather than for each opted-in body individually. Where it is possible to do this, it would have the effect of reducing the need for local fee variations.

Approach to social value in the evaluation of tenders

We plan to retain our original proposal of a 5% weighting but to broaden the criteria by asking bidders to describe the additional social value they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced.

Contract Management

The quality of the audit services received by opted-in bodies is very important to both the bodies themselves and to PSAA. Our intention is therefore to focus a significant majority of the quality assessment of tender submissions on resourcing, capacity and capability (including sector knowledge) and on client relationship management and communication. Correspondingly, we intend to apply a lesser weighting to those criteria that are regularly assessed by the regulator. We will seek the views of the regulator in developing the detail of our approach.

We will also review the contract terms used in 2017 ahead of the next procurement of audit services. In particular we will consider the potential to introduce enhanced performance management arrangements aligned to the greater emphasis on quality within the tender evaluation process. Any such revision must ensure continued compliance with the FRC's Ethical Standard which prevents audit fees from being *"calculated on a predetermined basis relating to the outcome or result of a transaction, or other event, or the result of the work performed"*.

Information and Communication

Following the success of the webinars held to support the recent consultation, PSAA will be running a series of webinars starting in October 2021. The webinars will provide eligible bodies with the opportunity to hear and ask questions about specific areas of scheme arrangements and PSAA's work, and our progress to prepare for the second appointing period. Details of the [webinar series](#) can be found on our website.

Eligible Principal Bodies in England

The following bodies are eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils
- metropolitan borough councils
- London borough councils
- unitary councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area
- chief constables for an area
- national park authorities for a national park
- conservation boards
- fire and rescue authorities
- waste authorities
- the Greater London Authority and its functional bodies
- any smaller bodies whose expenditure in any year exceeds £6.5m (e.g. Internal Drainage Boards) or who have chosen to be a full audit authority (Regulation 8 of Local Audit (Smaller Authorities) Regulations 2015).

Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE

Stephen Sellers

PSAA Board members bring a wealth of executive and non-executive experience to the company. Areas of particularly relevant expertise include public governance, management and leadership; local government and contract law; and public audit and financial management.

Further information about PSAA's Board can be found at
<https://www.psaa.co.uk/about-us/who-we-are/board-members/>

Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

Within the PSAA senior executive team there is extensive and detailed knowledge and experience of public audit, developed through long standing careers either as auditors or in senior finance and business management roles in relevant organisations.

Further information about PSAA's senior team can be found at
<https://www.psaa.co.uk/about-us/who-we-are/executive-team/>

Annex - Procurement Options

Our Preferred Option

A 5 year contract with the fallback of the right to extend one or more of the current contracts if there are insufficient or unaffordable bids.

Other Options Considered and Rejected

Option 1

Extending the existing contracts for 2 years and deferring the procurement. We want to secure 5 year contracts if we can because we believe this option is more attractive to the market.

Option 2

A 5 year contract with a commitment not to extend the existing contracts. We need the back stop of the right to extend the existing contracts if there are insufficient bids to allow us to make auditor appointments to all opted in bodies or if any of the bids received propose unacceptable prices.

Option 3

A 5 year contract with pre-determined prices for years 1 and 2 thereby avoiding the need for firms to price in the value of the right to extend the existing contracts. We believe such an arrangement will be unattractive to the market. Firms should be able to offer their own prices for years 1 and 2.



22 September 2021

To: Mr McGovern, Chief Executive
Lichfield District Council

Copied to: Mr Thomas, S151 Officer
Councillor Greateorex, Chair of Audit Committee or equivalent

Dear Mr McGovern,

Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the [scheme prospectus](#) and our [procurement strategy](#). Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and
3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to [frequently asked questions](#) on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in [the scheme prospectus](#).

Opting in

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on [our website](#) and in [the scheme prospectus](#).

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Mid-Year Treasury Management Report

Cabinet Member for Finance, Procurement and Revenues & Benefits

Date: 11 November 2021
 Agenda Item:
 Contact Officer: Anthony Thomas
 Tel Number: 01543 308012
 Email: Anthony.thomas@lichfielddc.gov.uk
 Key Decision? YES
 Local Ward Members Full Council



Audit and Member Standards Committee

1. Executive Summary

- 1.1 The report covers the projected mid-year (30 September 2021) Treasury Management performance in 2021/22.
- 1.2 Capital expenditure is projected to be **£6,795,000** and this is **(£873,000)** lower than the Approved Revised Budget of **£7,668,000**. This is mainly due to the re-profiling of the coach park and ICT projects.
- 1.3 There is projected to be **(£286,000)** capital receipts received in 2021/22 compared to the Approved Budget of **(£28,000)**. The increase is related to the Council's share of Right to Buy receipts based on the latest projections provided by Bromford Housing Association.
- 1.4 The funding of the Capital Programme in 2021/22 reflects the projected expenditure of **£6,795,000**.
- 1.5 The Capital Financing Requirement (Borrowing Need) and its financing is **£237,000** higher than budgeted mainly because not all of the funding required for the leisure centre early repayment has currently been identified.
- 1.6 Minimum Revenue Provision is projected to be higher than budgeted by **£102,443** due to:
 - The finance lease element being higher than budgeted (although this can be funded by existing budgets) and;
 - An assumption that provision will still be necessary for the Burntwood Leisure Centre project until funding for the early repayment is identified.
- 1.7 The Balance Sheet projections indicate:
 - Total assets less liabilities are projected to be **(£8,127,000)** lower than the budget principally due to the reassessment of the pension long term obligation by the Actuary at 31 March 2021.
 - Usable reserves are projected to be **(£6,572,000)** higher than budget due to higher than projected reserves, unapplied capital grants and capital receipts.
 - Unusable reserves are projected to be **£14,699,000** lower than budget due principally to the projected increase in the statutory Pension Reserve to offset the increase in the pension obligation.
 - Investment balances at the 31 March 2022 will be **£29,899,000** and these are **£5,702,000** higher than the Original Budget of **£24,197,000**¹. This is mainly due to a higher than projected level of unapplied grants and earmarked reserves that is offset by lower than projected working capital.

¹ This figure includes the Financial Instruments Reserve figure of £384,000

- 1.8 The Council was required to approve an Investment Strategy Report for 2021/22 to comply with the requirements of statutory guidance issued by the Government in January 2018. This report focuses on Treasury Management investments as well as how the authority invests its money to support local services and earns investment income from commercial investments. Monitoring information on Service and Commercial investments is provided in this mid-year report.
- 1.9 The Council's treasury investments achieved a risk status of **A+** (excluding the four long-dated pooled funds) that was more secure than the aim of **A-** and yield exceeded all four of the industry standard London Interbank (LIBID) yield benchmarks.
- 1.10 The report confirms the Council is compliant with all Treasury Limits and Prudential Indicators for 2021/22.

2. Recommendations

- 2.1 To review the report and issues raised within.
- 2.2 To review the Prudential Indicators contained within the report.

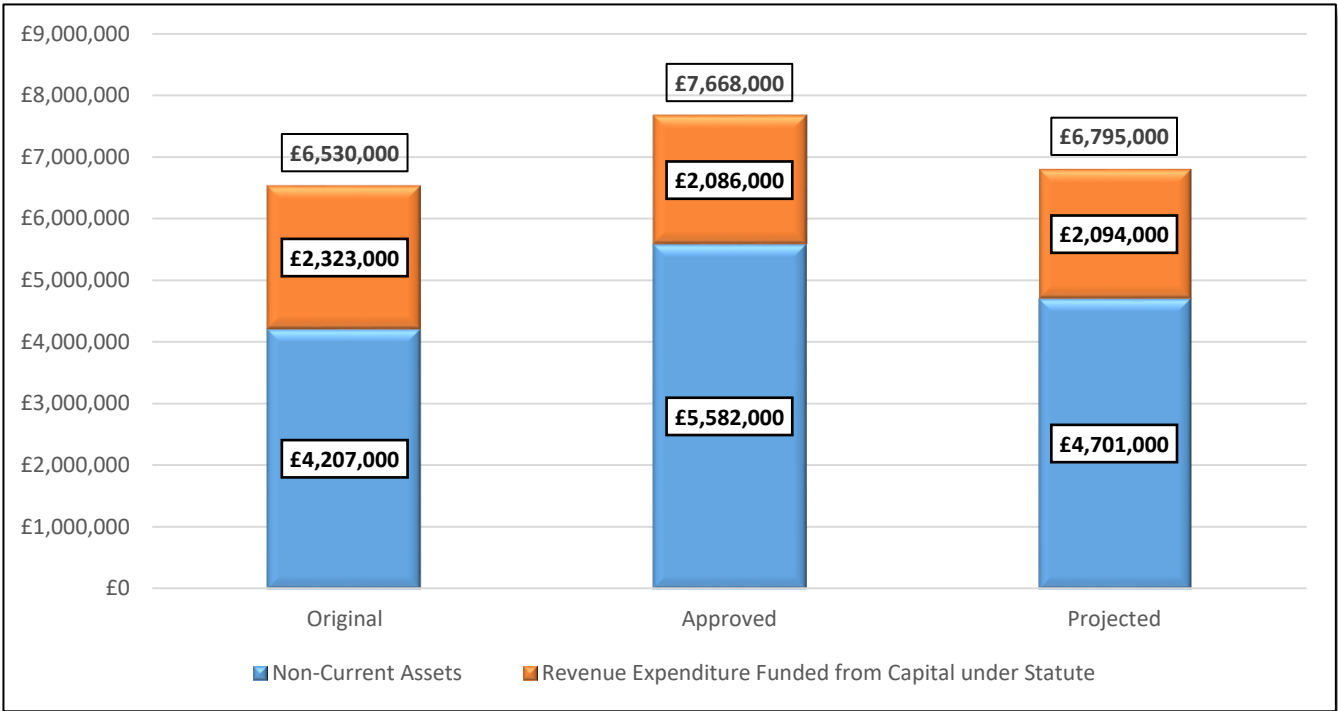
3. Background

The Capital Programme and Treasury Management

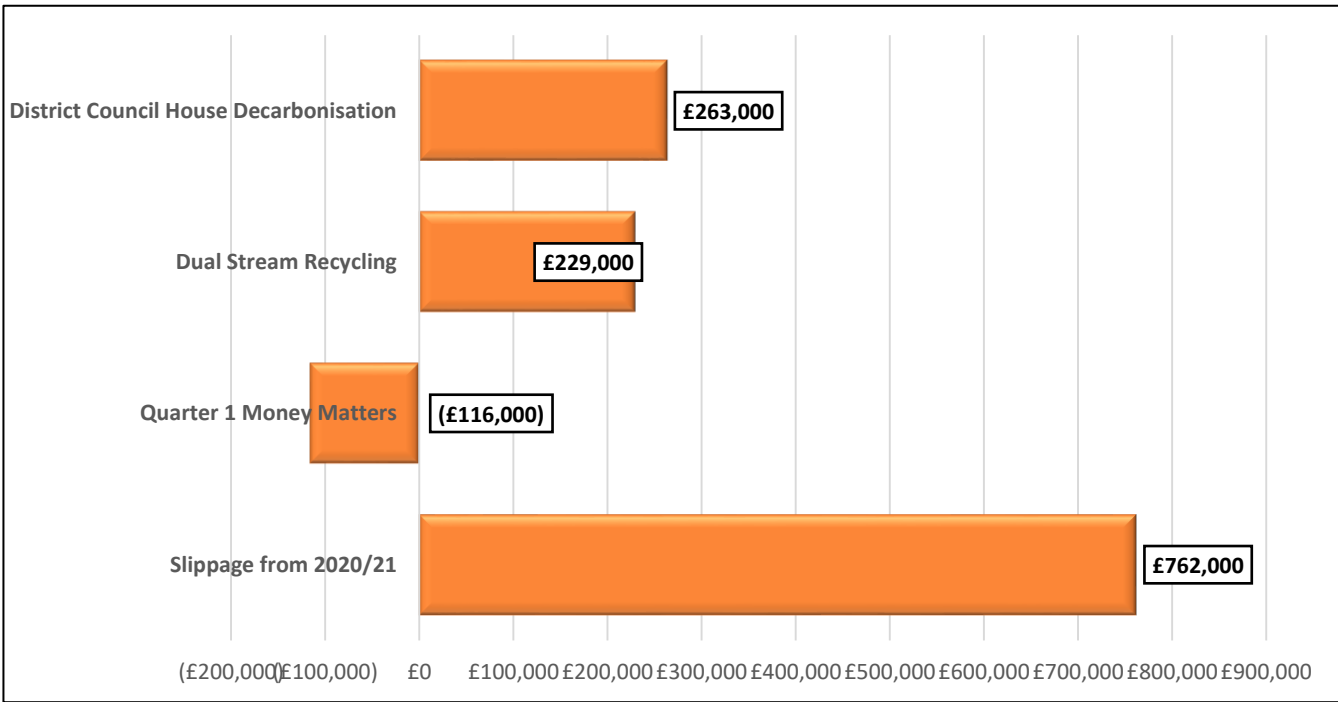
- 3.1. This Mid-Year Treasury Report is a requirement of the Council's reporting procedures. It covers the Treasury activity during 2021/22 and the projected Prudential Indicators for 2021/22.
- 3.2. Treasury Management is defined as: *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*
- 3.3. Overall responsibility for Treasury Management remains with the Council. No Treasury Management activity is without risk; the effective identification and management of risk are integral to our Treasury Management objectives.
- 3.4. Our Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members be informed of treasury management activities at least twice a year.
- 3.5. We report quarterly to the Cabinet on Treasury activity and this report to Audit and Member Standards will provide more information on capital financing, Balance Sheet projections and Prudential Indicators.
- 3.6. This report is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code and
 - a) presents details of capital spend, capital financing, borrowing and investment transactions;
 - b) reports on the risk implications of Treasury decisions and transactions;
 - c) gives details of the mid-year position on Treasury Management transactions in 2021/22;
 - d) confirms compliance with Treasury limits and Prudential Indicators
- 3.7. The performance of the Treasury Management function should be measured against the hierarchy of investment objectives of **Security** (the safe return of our monies), **Liquidity** (making sure we have sufficient money to pay for our services) and **Yield** (the return on our investments).
- 3.8. In addition, external borrowing is considered against the objectives of it being **affordable** (the impact on the budget and Council Tax), **prudent** and **sustainable** (over the whole life).

The Capital Programme

3.9. A summary of the Capital Programme performance showing the Original Budget, Approved Budget and the Projected Actual for 2021/22 is shown in detail at **APPENDIX A** and in the chart below:



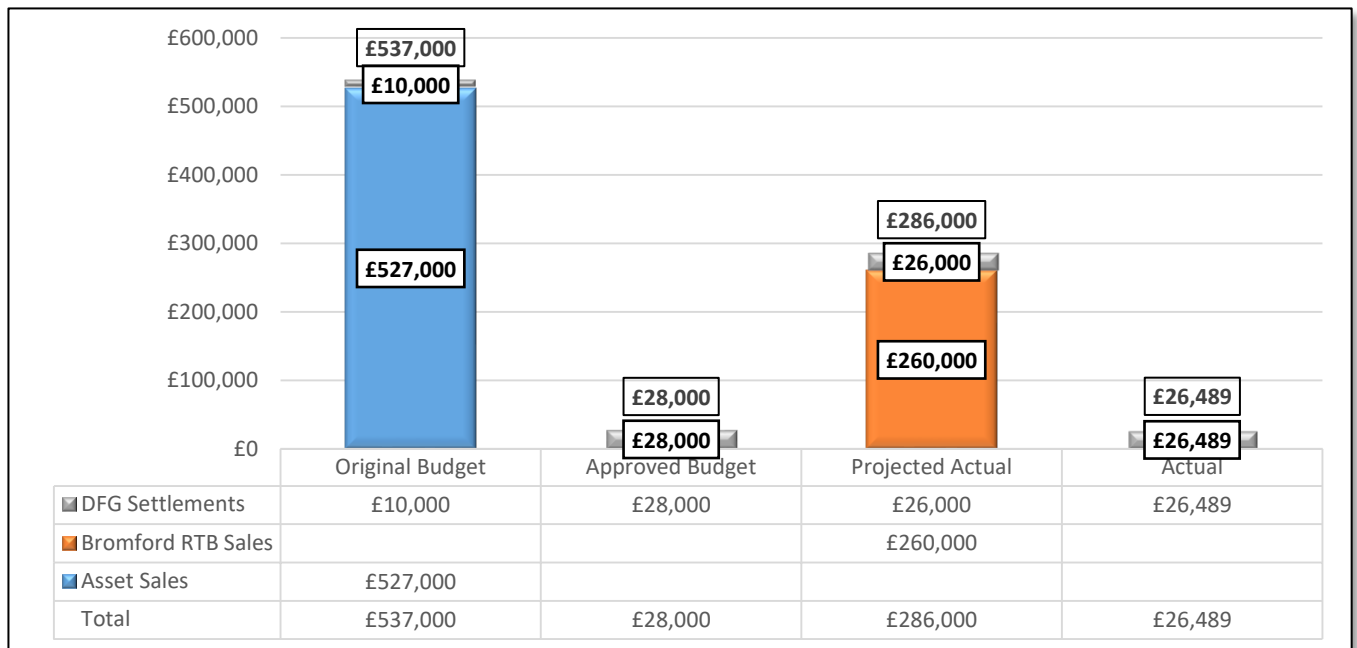
3.10. The reasons for the budgetary increase of **£1,138,000** between the Original budget of **£6,530,000** and the Approved budget of **£7,668,000** are shown below:



3.11. Capital expenditure is projected to be **£6,795,000** which is **(£873,000)** lower than the Approved Revised Budget of **£7,668,000**. This projected variance is mostly related to re-phasing of the budgeted expenditure for the coach park and ICT projects to later years.

Capital Receipts

3.12. The Original Budget (asset sales relate to Land at Netherstowe and Leyfields), Approved Budget, and projected capital receipts received in the first six months are shown below:

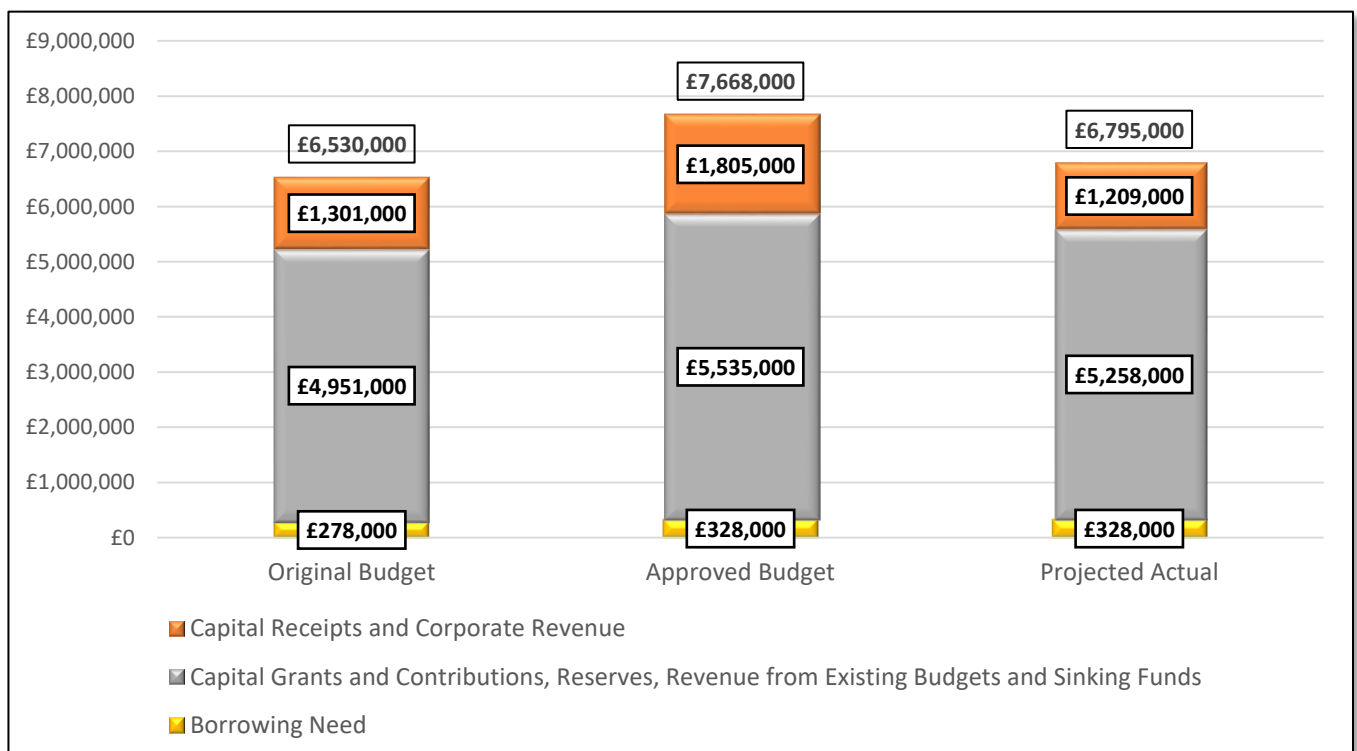


3.13. There is projected to be **(£286,000)** capital receipts received in 2021/22 compared to the Approved Budget of **(£28,000)**.

3.14. The increase is related to the Council's share of Right to Buy receipts based on the latest projections provided by Bromford Housing Association.

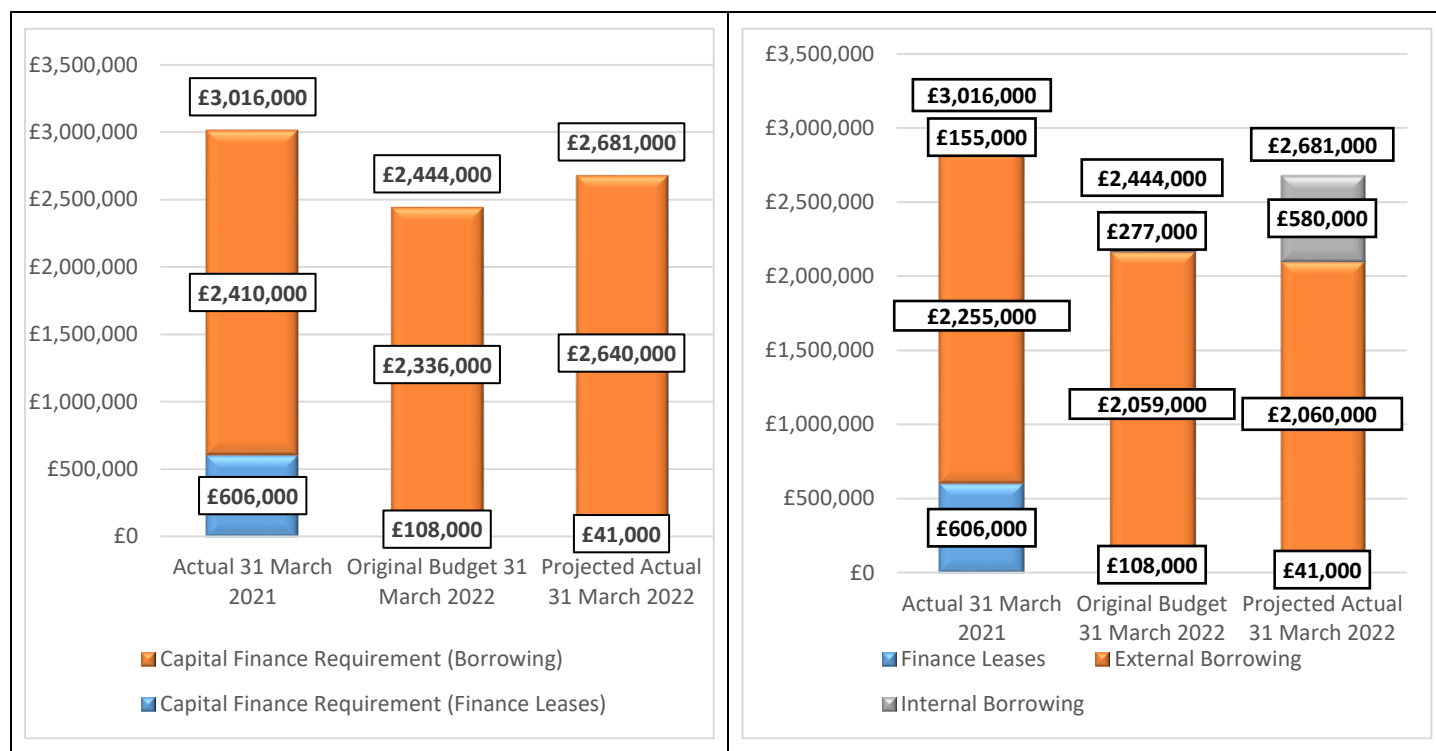
The Funding of the Capital Programme

3.16. The Original Budget, Approved Budgeted and actual sources of funding for the Capital Programme are shown in detail at **APPENDIX A** and below:



The Capital Financing Requirement (Borrowing Need) and its Financing

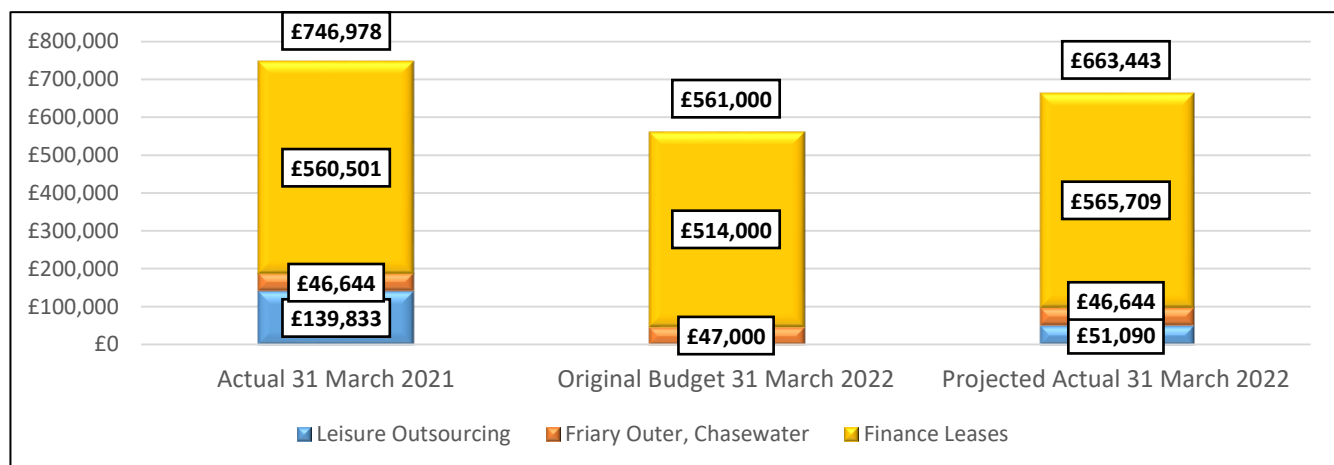
3.17. The actual for 2020/21, Original Budget and Projected Actual for 2021/22 of the Borrowing Need, together with its financing is shown below:



3.18. The borrowing need is higher than budgeted because not all of the funding required for the leisure centre early repayment has currently been identified.

Minimum Revenue Provision in 2021/22

3.19. The Minimum Revenue Provision charged to revenue in 2020/21, the Original Budget for 2021/22 and the projected actual in 2021/22 is shown below:



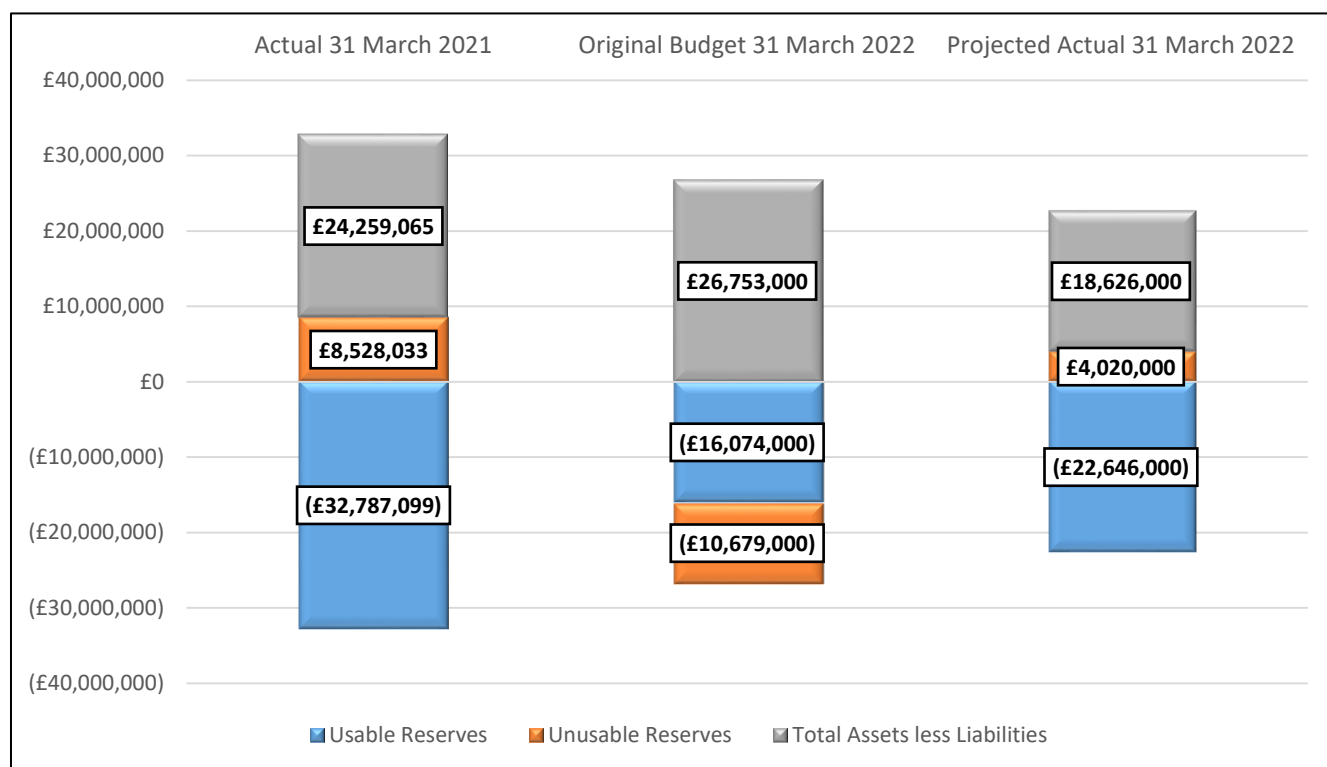
3.20. The Medium Term Financial Strategy included an Invest to Save proposal for the early repayment of capital investment funded by borrowing to generate annual savings in Minimum Revenue Provision.

3.21. The proposal has been impacted by the budgeted capital receipt of **£527,000**, from the disposal of open space at Netherstowe and Leyfields, no longer being receivable.

3.22. At present, alternative funding options for the balance to be identified of **£341,628** are being considered in the Draft MTFs. Therefore, until all of this funding has been identified, a Minimum Revenue Provision amount will continue being included in the Revenue Budget.

The Balance Sheet

3.23. The Balance Sheet Projections for 2021/22 compared to the Original Budget are shown in detail at **APPENDIX B** and in summary below:



3.24. The main reasons for the variances between the budgeted and projected Balance Sheet for 2021/22 are:

Total Assets Less Liabilities – lower than the budget by (£8,127,000) (30%)

- Projected lower spend on non-Current Assets of (£1,824,000).
- Projected higher investments of £6,045,000 due primarily to higher working capital and usable reserves.
- Projected higher working capital of (£2,014,000) that reflects the actual level at 31 March 2021.
- Pensions increased by (£10,425,000) due to a reassessment by the Pension Fund Actuary of the pension long term obligation at 31 March 2021.
- Projected other smaller changes of £91,000.

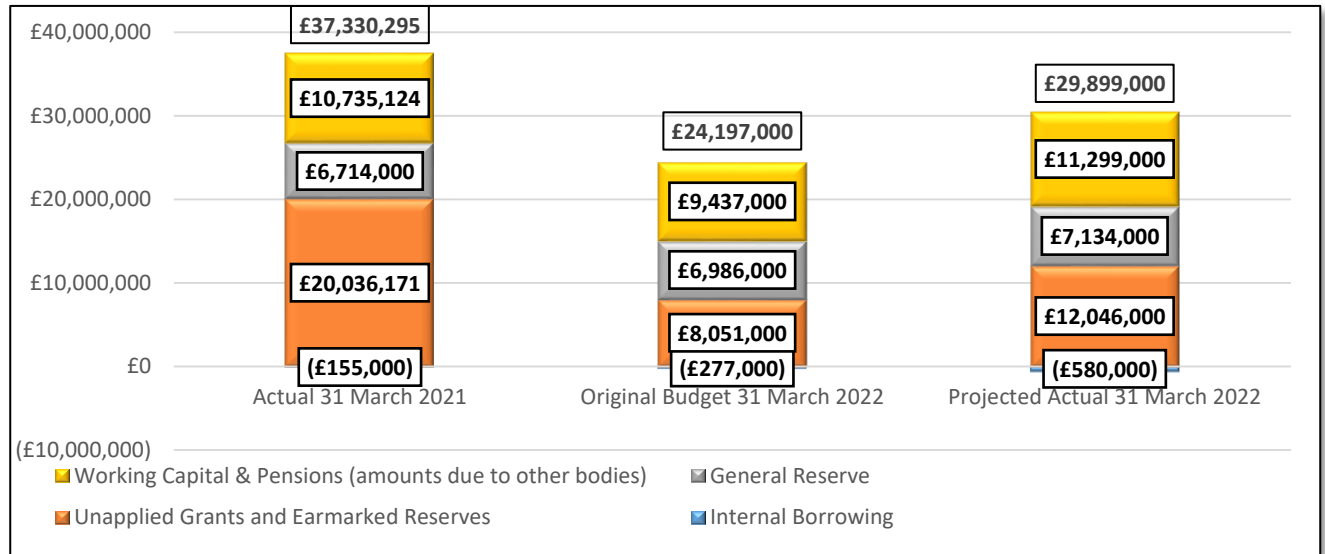
Usable Reserves – higher than budget by (£6,572,000) (41%)

- A higher level of unapplied Capital Grants of (£968,000) due to higher Community Infrastructure Levy and lower capital spend.
- A higher level of capital receipts of (£1,009,000) due to higher Right to Buy sales and lower spend.
- An increase in the level of earmarked and general reserves of (£4,596,000) due to lower than planned expenditure and higher grants and contributions than projected.

Unusable Reserves – lower than budget by £14,699,000 (138%)

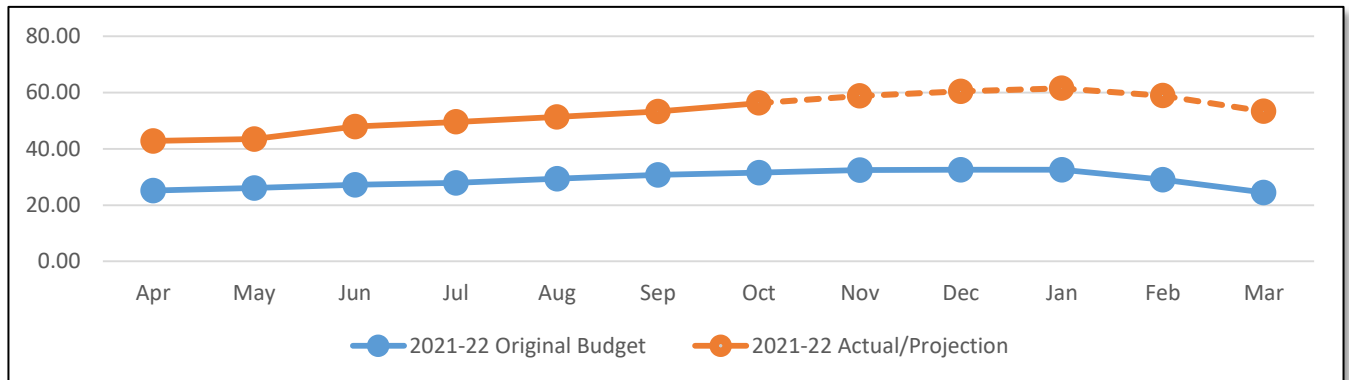
- An increase in the Council's share of the deficit in the Collection Fund reserve of £2,429,000 due to the impact of the additional reliefs for retail, leisure and hospitality in 2021/22.
- The statutory pension reserve increased by £10,425,000 due to a reassessment by the Pension Fund Actuary of the pension long term obligation at 31 March 2021.
- A lower level in the Capital Revaluation and Adjustment accounts of £2,060,000 due to rephrasing of the capital programme.
- Projected other smaller changes of (£215,000).

3.25. The actual, Original Budget and Projected Actual sources of cash that make up investments on the Balance Sheet (including the financial instruments reserve) are shown in detail in **APPENDIX B** and in summary below:



Cash Flow Forecasts

3.26. The graph below compares the Original Budget for average investment levels in 2021/22 with the actual/projected levels. The significantly higher balance in April was due to the receipt of grants from the Government to support Business and local Communities.



3.27. Investment income and borrowing costs are shown below:

Treasury Management	2021/22					
	Original Budget		Approved Budget		Projected	
	Investment Income	Borrowing	Investment Income	Borrowing	Investment Income	Borrowing
Average Balance	£29.09m	£2.13m	£35.83m	£2.13m	£53.08m	£2.13m
Average Rate ²	1.20%	2.17%	0.98%	2.17%	0.73%	2.17%
Gross Investment Income	(£350,000)		(£350,000)		(£401,000)	
Property Fund Transfer to Reserves	£30,000		£30,000		£30,000	
DIF Transfer to Reserves	£40,000		£40,000		£40,000	
External Interest		£48,000		£48,000		£48,000
Internal Interest		£4,000		£4,000		£4,000
Minimum Revenue Provision (less Finance Leases)		£46,000		£46,000		£97,000
Net Treasury Position	(£280,000)	£98,000	(£280,000)	£98,000	(£331,000)	£149,000
	(£182,000)		(£182,000)		(£182,000)	

² Projected average rate for the entire financial year.

Investment Strategy

3.28. The Council undertakes investments for three broad purposes:

- It approves the support of public services by lending or buying shares in other organisations – **Service Investments**.
- To earn investment income – **Commercial Investments**.
- It has surplus cash, as a result of its day to day activities, when income is received in advance of expenditure or where it holds cash on behalf of another body ready for payment in the future – **Treasury Management Investments**.

3.29. The Government has recognised in recent Department for Levelling Up, Housing and Communities (DLUHC) guidance, as a result of increased commercial activity, that the principles included in Statutory Guidance requiring that all investments should prioritise security and liquidity over yield must also be applied to service and commercial investments.

3.30. The DLUHC Guidance requires the approval by Council of an Investment Strategy Report to increase the transparency around service and commercial investment activity. The Council approved its Investment Strategy Report on **16 February 2021**.

Service Investments

3.31. There is one significant approved investment of a service nature and the investment and net return included in the Approved Budget are detailed below:

	Approved Budget				
	2021/22	2022/23	2023/24	2024/25	2025/26
Approved Loan to the Local Authority Company	£675,000	£675,000	£675,000	£675,000	£675,000
Net Income	£0	(£4,000)	(£18,000)	(£22,000)	(£22,000)
Net Return		(0.59%)	(2.67%)	(3.26%)	(3.26%)

3.32. To date, the loan to the Local Authority Company has not taken place and therefore the budgeted interest is not being generated.

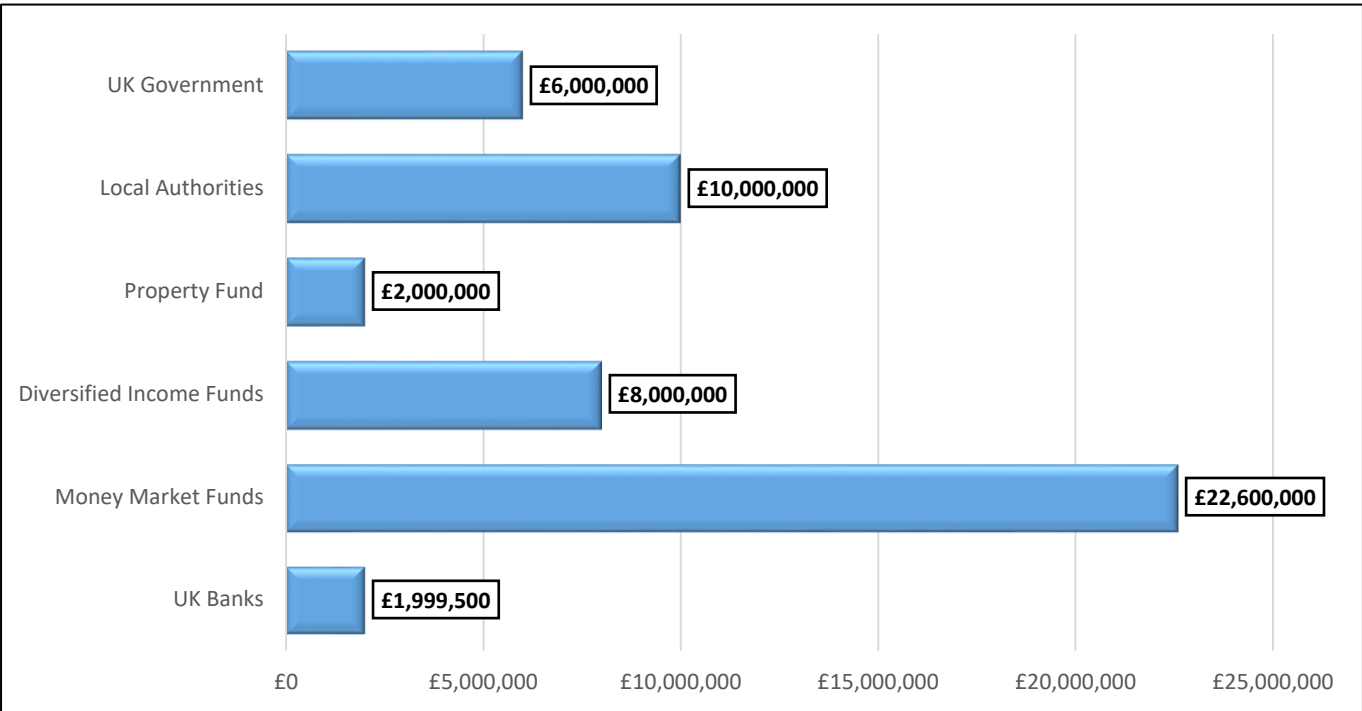
Commercial Investments

3.33. Council on 13 October 2020 approved the removal of all budgets related to Investment in Property and therefore currently there are no commercial investments planned.

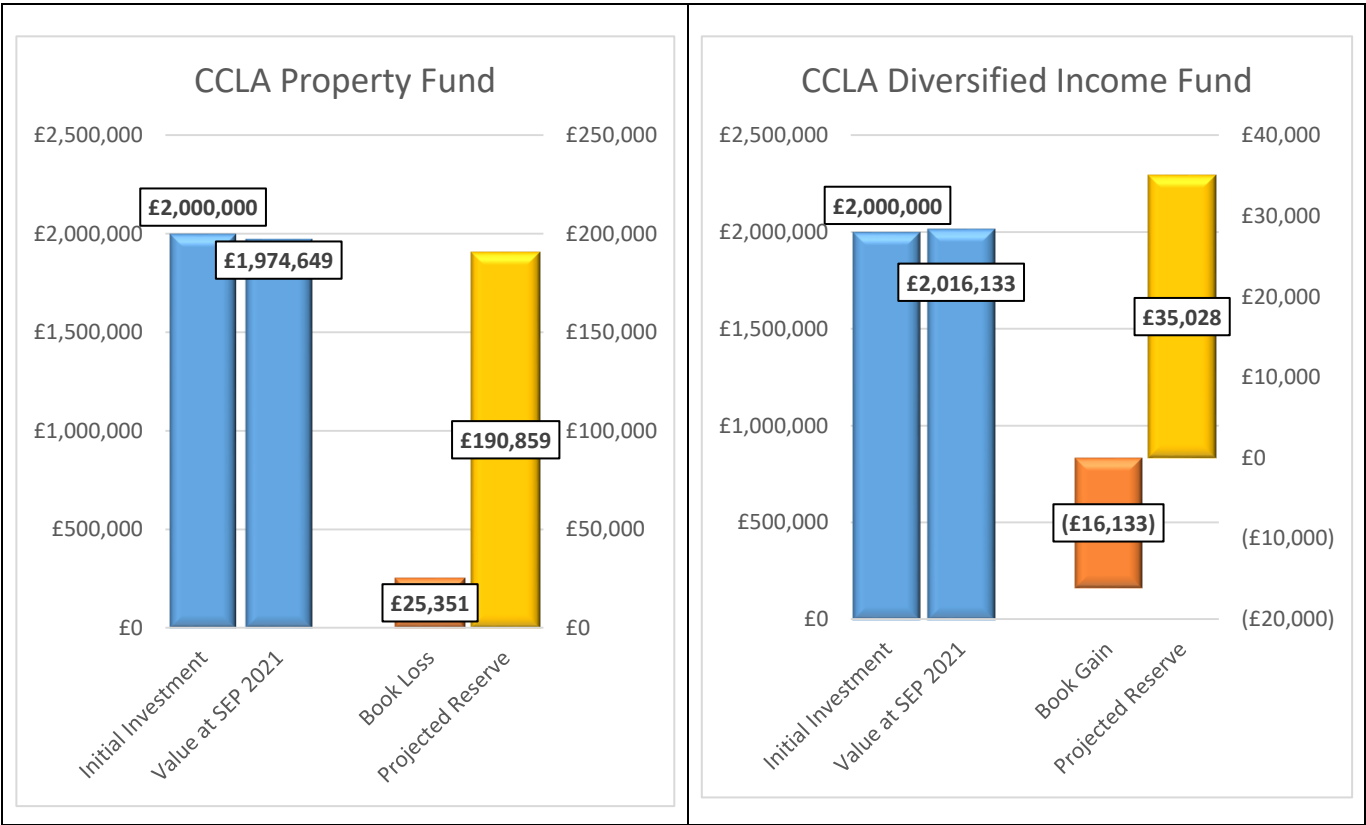
Treasury Management Investments

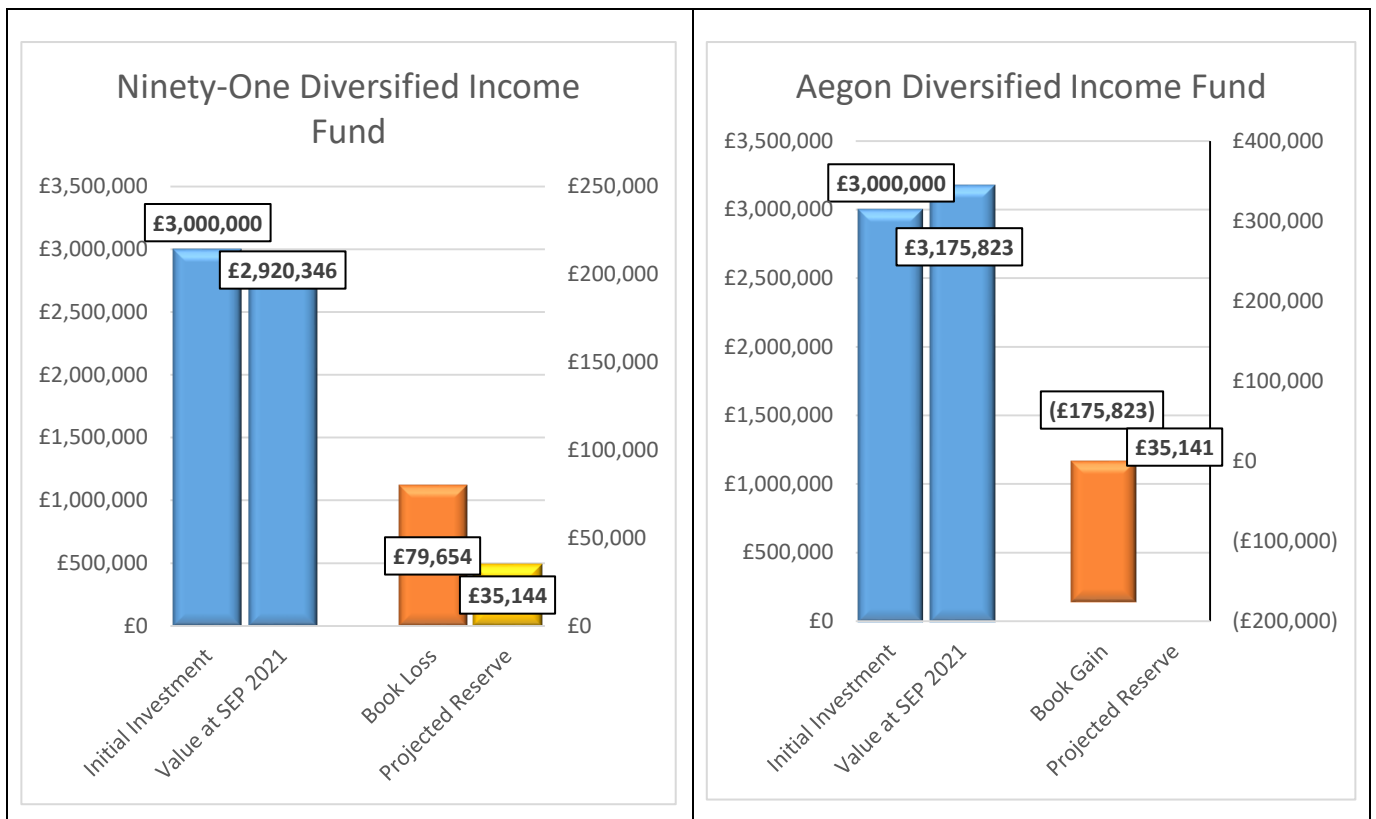
The Security of Our Investments

3.34. The investments the Council had at the 30 September 2021 of £50.60m (with the property and diversified income funds valued at original investment of £2.00m or £3.00m) by type and Country are summarised in the graph below and are shown in more detail at **APPENDIX C**:

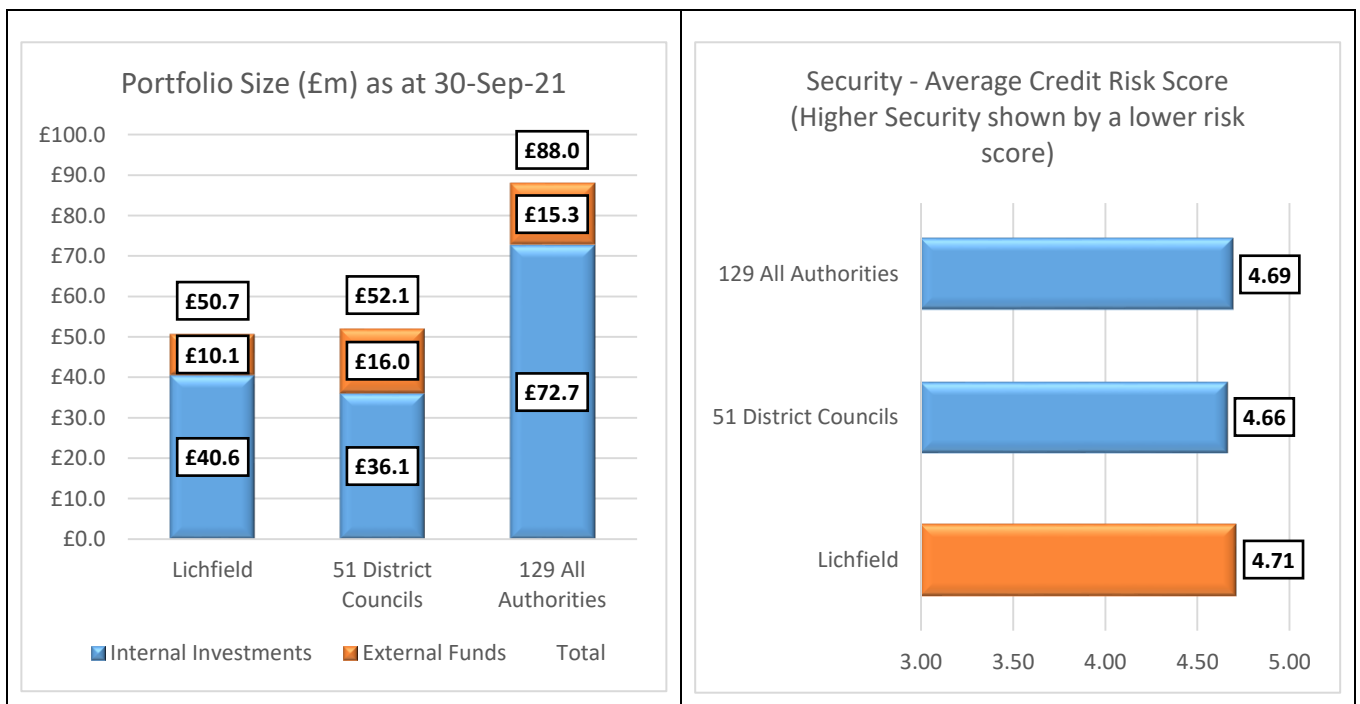


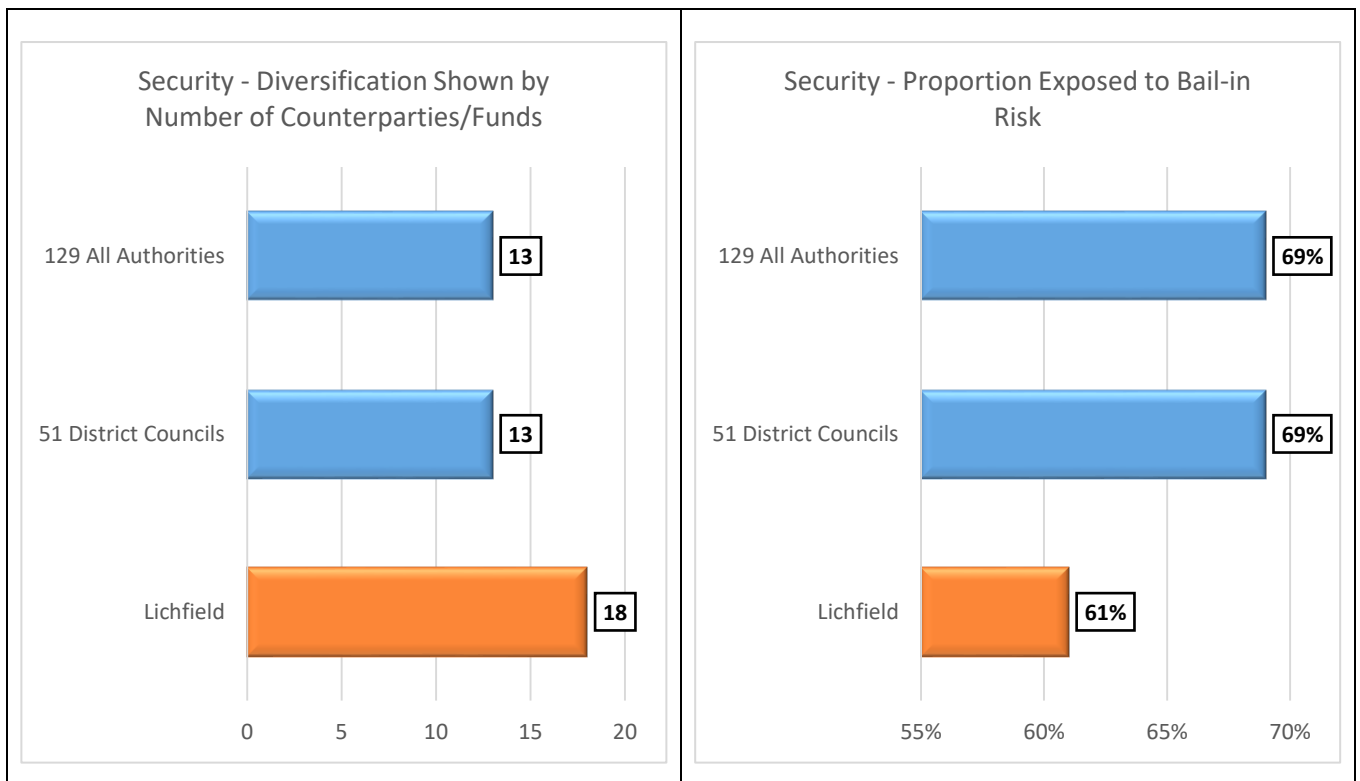
3.35. The current values of the Property Fund and the Diversified Income Fund together with the value of the projected earmarked reserve at the end of 2021/22 intended to offset reductions in value, are shown below:



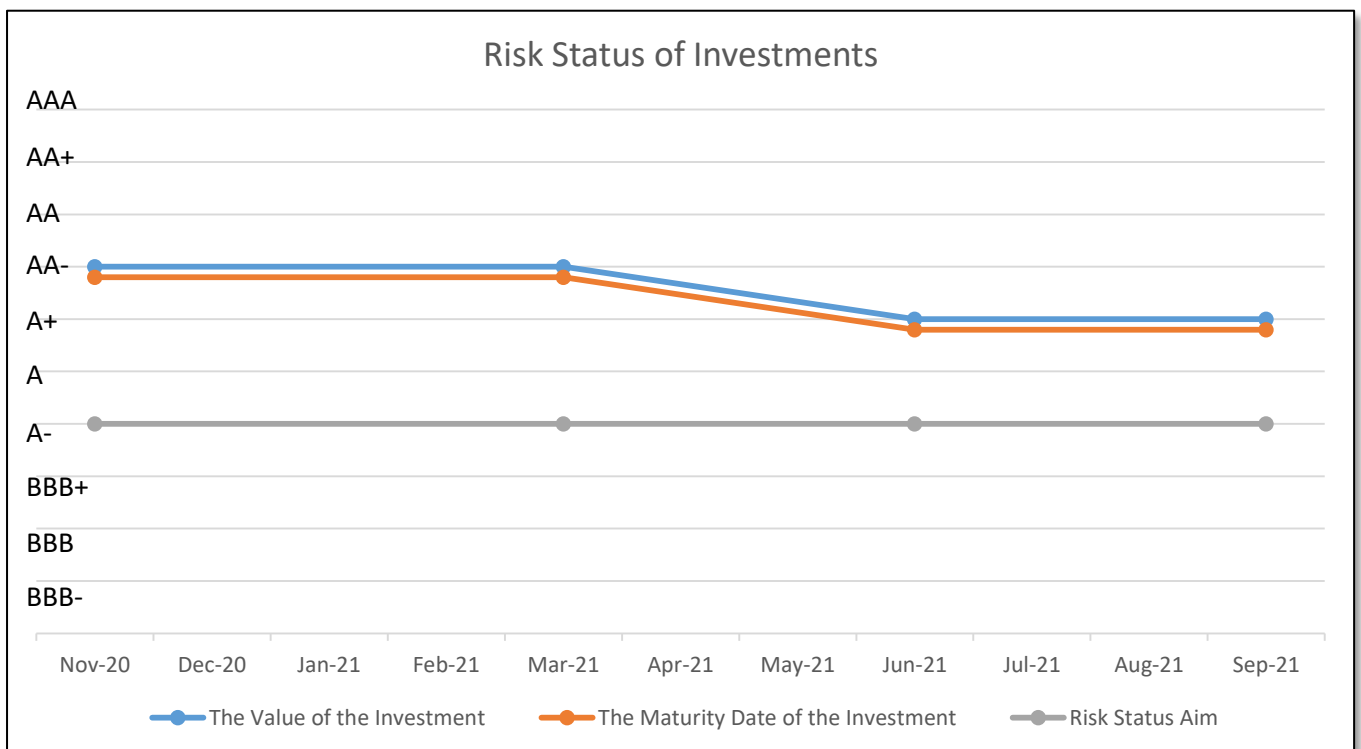


- 3.36. Overall in terms of strategic investments, there is a 'book gain' of **(£86,951)** and the earmarked reserve to manage volatility risk is projected to be **£296,172**.
- 3.37. A comparison of the Council's portfolio size of **£50.7m** (with the Property and Diversified Income funds valued at their current value of **£10.1m**), average credit score, level of diversification and level of exposure to 'Bail in' risk compared to all Arlingclose Clients is shown in the charts below:



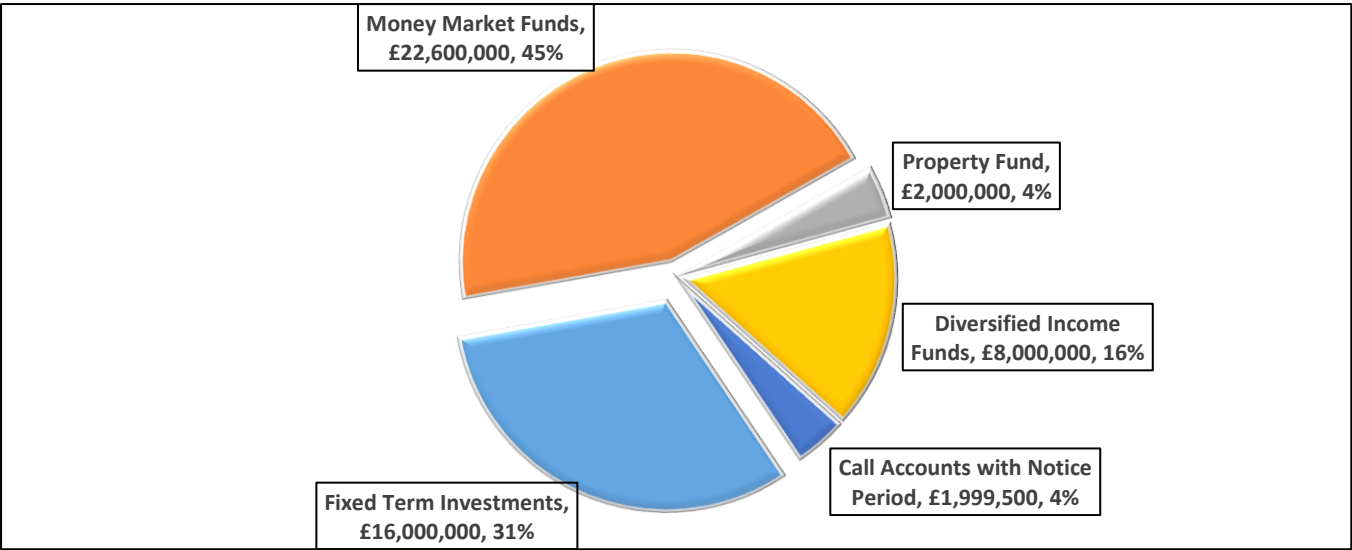


3.38. Our aim for the credit risk status of our investments was **A-**. The risk status based on the length of the investment and the value for a 12 month period is summarised below:

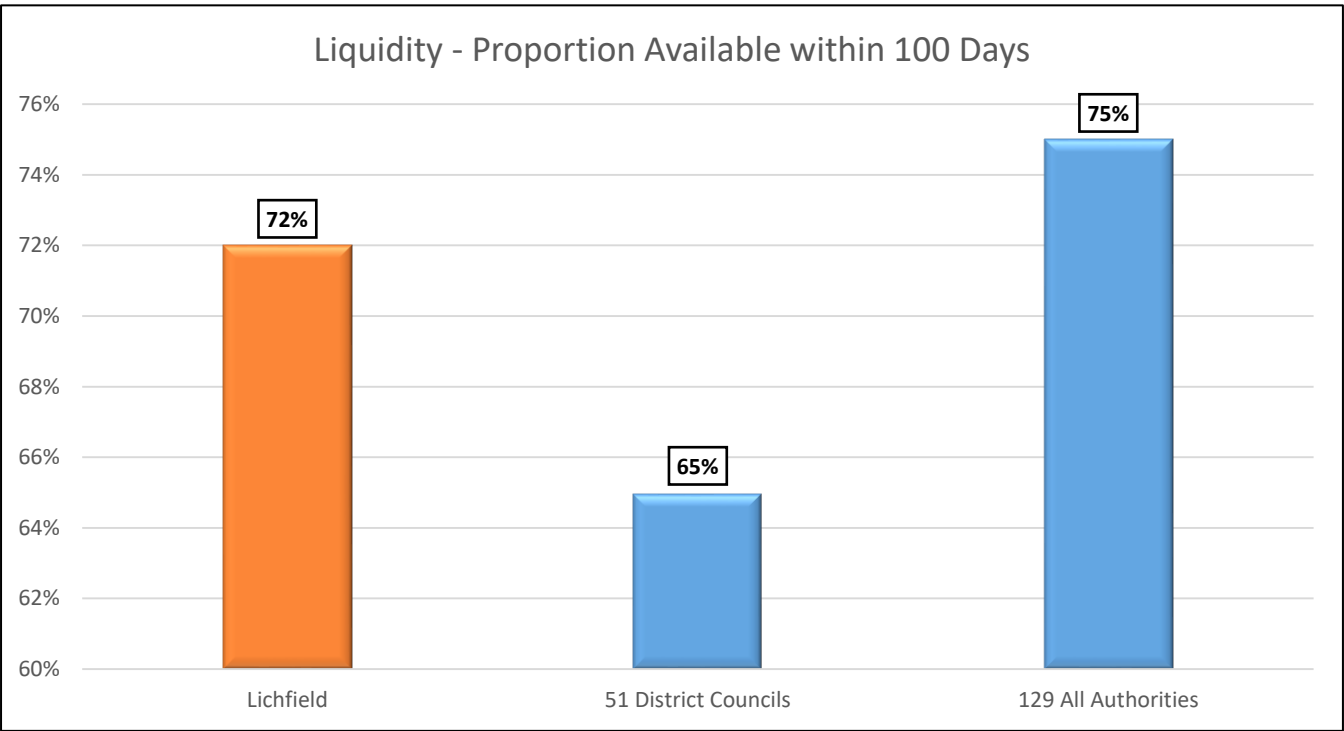


The Liquidity of our Investments

3.39. The Council has not had to temporarily borrow during 2021/22 and retains a proportion of its investments in instant access Money Market Fund investments to ensure there is sufficient cash available to pay for goods and services. The investments by type (with the property and diversified income funds at their original values of **£2m** or **£3m**) are shown below:

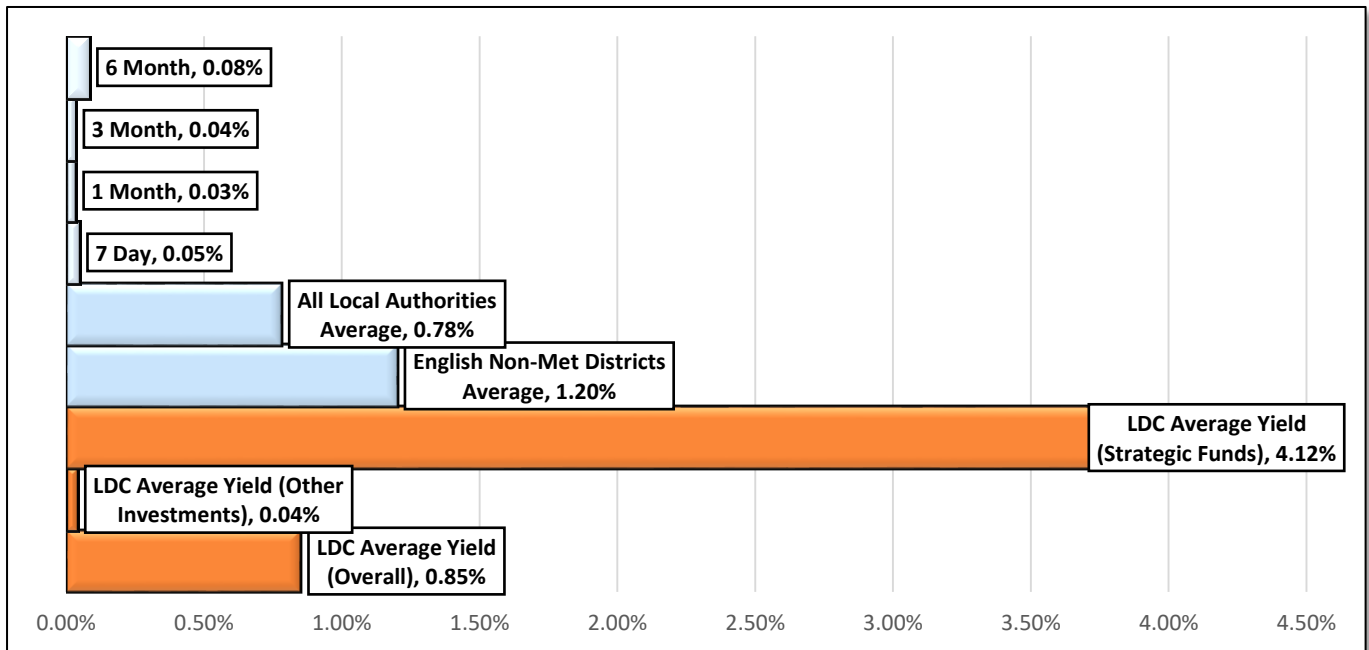


3.40. The proportion of the investment portfolio available within 100 days compared to all Arlingclose clients is shown below:



The Return or Yield of our Investments

3.41. The yield the Council was achieving as at 30 September, (Para 3.27 shows the projected yield for the financial year) compared to a number of industry standard benchmarks (including our preferred benchmark of the seven day LIBID rate) and all Arlingclose clients is shown below:



External Borrowing

3.42. The Council currently has two external loans with the Public Works Loans Board with **£2,127,425** outstanding and these are shown in detail at **APPENDIX C**.

Revisions to CIPFA Codes

3.43. In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes. The changes include:

- 3.43.1. Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority.
- 3.43.2. Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.
- 3.43.3. Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.
- 3.43.4. For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
- 3.43.5. Incorporating Environmental, Social & Governance (ESG) issues as a consideration within Treasury Management Practices (TMP) 1 Risk Management.
- 3.43.6. Additional focus on the knowledge and skills of officers and elected members involved in decision making.

3.44. Prudential Indicators

- 3.44.1. New indicator for net income from commercial and service investments to the budgeted net revenue stream.
- 3.44.2. Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.
- 3.44.3. Excluding investment income from the definition of financing costs.

DLUHC Improvements to the Capital Finance Framework

- 3.45. DLUHC published a brief policy paper in July outlining the ways it feels that the current framework is failing and potential changes that could be made. The paper found that "while many authorities are compliant with the framework, there remain some authorities that continue to engage in practices that push the bounds of compliance and expose themselves to excessive risk".
- 3.46. The actions announced include greater scrutiny of local authorities and particularly those engaged in commercial practices; an assessment of governance and training; a consideration of statutory caps on borrowing; further regulations around Minimum Revenue Provision (MRP) and ensuring that DLUHC regulations enforce guidance from CIPFA and the new PWLB lending arrangements.

Alternative Options	There are no alternative options.																																																																																
Consultation	Consultation is undertaken as part of the Strategic Plan and with Leadership Team.																																																																																
Financial Implications	<p>Projected Prudential indicators (PI) 2021/22:</p> <ul style="list-style-type: none">• We can confirm that the Council is compliant with its Prudential Indicators for 2021/22; these were originally approved by Council at its meeting on 16 February 2021 and will be fully revised and approved by Council on 22 February 2022.• In compliance with the requirements of the CIPFA Code of Practice this report provides members with a Summary Report of the Treasury Management Activity during 2021/22.• None of the other Prudential Indicators have been breached. The Prudential Indicators are summarised in the table below: <table><tr><th colspan="5">Capital Strategy Indicators</th></tr><tr><th colspan="5">Prudential Indicators</th></tr><tr><th>Indicators</th><th>2020/21 Actual</th><th>2021/22 Original</th><th>2021/22 Approved</th><th>2021/22 Projected</th></tr><tr><td><u>Capital Investment</u></td><td></td><td></td><td></td><td></td></tr><tr><td>Capital Expenditure (£m)</td><td>£3.264</td><td>£6.530</td><td>£7.668</td><td>£6.795</td></tr><tr><td>Capital Financing Requirement (£m)</td><td>£3.016</td><td>£2.444</td><td>£2.681</td><td>£2.681</td></tr><tr><td><u>Gross Debt and the Capital Financing Requirement</u></td><td></td><td></td><td></td><td></td></tr><tr><td>Gross Debt</td><td>(£2.295)</td><td>(£2.167)</td><td>(£2.101)</td><td>(£2.101)</td></tr><tr><td>Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement</td><td>No</td><td>No</td><td>No</td><td>No</td></tr><tr><td><u>Total Debt</u></td><td></td><td></td><td></td><td></td></tr><tr><td>Authorised Limit (£m)</td><td>£6.591</td><td>£15.435</td><td>£15.435</td><td>£15.435</td></tr><tr><td>Operational Boundary (£m)</td><td>£6.591</td><td>£7.007</td><td>£7.007</td><td>£7.007</td></tr><tr><td>Proportion of Financing Costs to Net Revenue Stream (%)</td><td>5%</td><td>5%</td><td>6%</td><td>6%</td></tr></table> <table><tr><th colspan="5">Local Indicators</th></tr><tr><th>Indicators</th><th>2020/21 Actual</th><th>2021/22 Original</th><th>2021/22 Approved</th><th>2021/22 Projected</th></tr><tr><td>Replacement of Debt Finance or MRP (£m)</td><td>(£0.747)</td><td>(£0.561)</td><td>(£0.663)</td><td>(£0.663)</td></tr></table>	Capital Strategy Indicators					Prudential Indicators					Indicators	2020/21 Actual	2021/22 Original	2021/22 Approved	2021/22 Projected	<u>Capital Investment</u>					Capital Expenditure (£m)	£3.264	£6.530	£7.668	£6.795	Capital Financing Requirement (£m)	£3.016	£2.444	£2.681	£2.681	<u>Gross Debt and the Capital Financing Requirement</u>					Gross Debt	(£2.295)	(£2.167)	(£2.101)	(£2.101)	Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	No	No	<u>Total Debt</u>					Authorised Limit (£m)	£6.591	£15.435	£15.435	£15.435	Operational Boundary (£m)	£6.591	£7.007	£7.007	£7.007	Proportion of Financing Costs to Net Revenue Stream (%)	5%	5%	6%	6%	Local Indicators					Indicators	2020/21 Actual	2021/22 Original	2021/22 Approved	2021/22 Projected	Replacement of Debt Finance or MRP (£m)	(£0.747)	(£0.561)	(£0.663)	(£0.663)
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Replacement of Debt Finance or MRP (£m)	(£0.747)	(£0.561)	(£0.663)	(£0.663)																																																																													

Repayment of Burntwood Leisure Centre loan and new additions	(£0.542)	(£0.000)	(£0.000)	(£0.000)
Capital Receipts (£m)	(£0.434)	(£0.537)	(£0.028)	(£0.286)
Liability Benchmark (£m)	£25.033	£11.755	£16.618	£17.798
Treasury Management Investments (£m)	£37.330	£23.813	£28.718	£29.899

Treasury Management Indicators				
Prudential Indicators				
	2020/21 Actual	Lower Limit	Upper Limit	2021/22 Projected
<u>Refinancing Rate Risk Indicator</u>				
Under 12 months	9%	0%	100%	10%
12 months and within 24 months	9%	0%	100%	10%
24 months and within 5 years	27%	0%	100%	30%
5 years and within 10 years	30%	0%	100%	26%
10 years and within 20 years	26%	0%	100%	25%
20 years and within 30 years	0%	0%	100%	0%
30 years and within 40 years	0%	0%	100%	0%
40 years and within 50 years	0%	0%	100%	0%
50 years and above	0%	0%	100%	0%

Indicators	2020/21 Actual	2021/22 Original	2021/22 Approved	2021/22 Projected
Principal Sums invested for periods longer than a year (£m)	£6.000	£10.000	£10.000	£10.000

Local Indicators				
Indicators	2020/21 Actual	2021/22 Original	2021/22 Approved	2021/22 Projected
	£m	£m	£m	£m
<u>Balance Sheet Summary and Forecast</u>				
Borrowing Capital Financing Requirement	£2.410	£2.336	£2.640	£2.640
Internal (over) Borrowing	£0.155	£0.277	£0.580	£0.580
Investments (or New Borrowing)	(£37.330)	(£23.813)	(£28.718)	(£29.899)
Liability Benchmark	(£25.033)	(£11.755)	(£16.618)	(£17.798)

	2020/21 Actual	Target	2021/22 Actual
<u>Security</u>			
Portfolio average credit rating	A+	A-	A+
<u>Liquidity</u>			
Temporary Borrowing undertaken	£3.000	£0.000	£0.000
Total Cash Available within 100 days (maximum)	76%	90%	72%

Approved by
Section 151
Officer

Yes

Legal Implications

No specific legal implications.

Approved by Monitoring
Officer

Yes

Contribution to the Delivery of
the Strategic Plan

The MTFS underpins the delivery of the Strategic Plan.

Equality, Diversity and Human
Rights Implications

There are no additional Equality, Diversity or Human Rights implications.

Crime & Safety Issues	There are no additional Crime and Safety Issues.
Environmental Impact	There are no additional Environmental Impacts.
GDPR/Privacy Impact Assessment	There are no GDPR/Privacy Impact Assessment Issues.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
Strategic Risk SR1 - Non achievement of the Council's key priorities contained in the Strategic Plan due to the availability of finance (Head of Finance and Procurement (Section 151)).				
A	Council Tax is not set by the Statutory Date of 11 March 2022	Likelihood : Green Impact : Red Severity of Risk : Yellow	Full Council set with reference to when major preceptors and Parishes have approved their Council Tax Requirements.	Likelihood : Green Impact : Red Severity of Risk : Yellow
B	Implementation of the Check, Challenge and Appeal Business Rates Appeals and more frequent revaluations	Likelihood : Yellow Impact : Red Severity of Risk : Red	To closely monitor the level of appeals. An allowance for appeals has been included in the Business Rate Estimates.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
C	The review of the New Homes Bonus regime	Likelihood : Red Impact : Red Severity of Risk : Red	The Council responded to the recent consultation. Not all of the projected New Homes Bonus is included as core funding in the Base Budget. In 2022/23 £400,000 is included with the balance transferred to general reserves. At this stage, no income is assumed from 2023/24 onwards.	Likelihood : Red Impact : Yellow Severity of Risk : Yellow
D	The increased Localisation of Business Rates and the Review of Needs and Resources	Likelihood : Red Impact : Red Severity of Risk : Red	To assess the implications of proposed changes and respond to consultations to attempt to influence the policy direction in the Council's favour.	Likelihood : Red Impact : Red Severity of Risk : Red
E	The affordability and risk associated with the Capital Strategy	Likelihood : Yellow Impact : Red Severity of Risk : Red	An estates management team has been recruited to provide professional expertise and advice in relation to property and to continue to take a prudent approach to budgeting.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
F	The public sector pay freeze in 2021/22 is not applicable to Local Government	Likelihood : Yellow Impact : Red Severity of Risk : Red	The current MTFS assumes that the pay freeze for those earning more than £24,000 per annum is applicable to Local Government. If this does not prove to be the case, an element of general reserves can be utilised to fund the increase in 2021/22 and projections for later years will be updated in the MTFS.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
G	Sustained higher levels of inflation in the economy	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow	To maintain a watching brief on economic forecasts, ensure estimates reflect latest economic projections and where possible ensure income increases are maximised to mitigate any additional cost.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
Strategic Risk SR3: Capacity and capability to deliver / adapt the new strategic plan to emerging landscape (Leadership Team).				
H	The financial impact of COVID-19 is not fully reimbursed by Government and exceeds the reserves available resulting in a Section 114	Likelihood : Yellow Impact : Red Severity of Risk : Yellow	The use of general and earmarked reserves to fund any shortfall.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
	notice			
I	The Council cannot achieve its approved Delivery Plan for 2022/23	Likelihood : Yellow Impact : Red Severity of Risk : Red	There will need to be consideration of additional resourcing and/or reprioritisation to reflect the ongoing impact of the pandemic.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
J	The resources available in the medium to longer term to deliver the Strategic Plan are diminished	Likelihood : Yellow Impact : Red Severity of Risk : Red	The MTFS will be updated through the normal review and approval process.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
K	Government and Regulatory Bodies introduce significant changes to the operating environment	Likelihood : Red Impact : Red Severity of Risk : Red	To review all proposed policy changes and respond to all consultations to influence outcomes in the Council's favour.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow

Background documents

- CIPFA Code of Practice for Treasury Management in the Public Services
- The Prudential Code for Capital Finance in Local Authorities
- Medium Term Financial Strategy (Revenue and Capital) 2020-2025 (MTFS) – Cabinet 9 February 2021
- Money Matters: 2020/21 Review of Financial Performance against the Financial Strategy – Cabinet 8 June 2021
- Medium Term Financial Strategy (MTFS) – Cabinet 6 July 2021

Relevant web links

Capital Programme 2021/22

Project		Original Budget	Approved Budget	Actual to Date	Projected Actual	Variance
New Build Parish Office/Community Hub	R	92,000	92,000	0	92,000	0
Armitage with Handsacre Village Hall storage container	R	6,000	6,000	5,700	6,000	0
Re-siting/improvement of Armitage War Memorial	R	120,000	120,000	80,000	120,000	0
Replacement of canopy and installation of artificial grass at Armitage	R	3,000	3,000	0	3,000	0
Burntwood LC CHP Unit	A	0	64,000	(4,835)	64,000	0
Friary Grange - Short Term Refurbishment	R	240,000	209,000	39,180	209,000	0
Replacement Leisure Centre	A	278,000	328,000	143,284	328,000	0
Beacon Park Pathway	A	0	30,000	0	37,000	7,000
Burntwood Leisure Centre - Decarbonisation Scheme	A	532,000	443,000	223,870	443,000	0
Accessible Homes (Disabled Facilities Grants)	R	1,272,000	1,100,000	416,886	1,100,000	0
Home Repair Assistance Grants	R	22,000	10,000	551	10,000	0
Decent Homes Standard	R	147,000	147,000	0	147,000	0
Energy Insulation Programme	R	22,000	0	0	0	0
DCLG Monies	R	212,000	212,000	0	212,000	0
Unallocated S106 Affordable Housing Monies	A	429,000	541,000	95,736	541,000	0
Enabling People Total		3,375,000	3,305,000	1,000,370	3,312,000	7,000
Canal Towpath Improvements (Brereton & Ravenhill)	R	36,000	36,000	36,854	44,000	8,000
Loan to Council Dev Co.	A	675,000	675,000	0	675,000	0
Lichfield St Johns Community Link	R	35,000	35,000	0	35,000	0
Staffordshire Countryside Explorer	R	44,000	44,000	0	44,000	0
Dam Street Toilets	A	0	40,000	0	40,000	0
Vehicle Replacement Programme (Waste)	A	0	0	0	21,000	21,000
Bin Purchase	A	150,000	240,000	0	240,000	0
Dual Stream Recycling	A	0	229,000	0	229,000	0
Vehicle Replacement Programme (Other)	A	108,000	107,000	24,950	128,000	21,000
Env. Improvements - Upper St John St & Birmingham Road	R	7,000	7,000	0	7,000	0
The Leomansley Area Improvement Project	R	3,000	3,000	0	3,000	0
Cannock Chase SAC	R	44,000	44,000	42,990	44,000	0
Shaping Place Total		1,102,000	1,460,000	104,795	1,510,000	50,000
Multi Storey Car Park Refurbishment Project	A	250,000	259,000	170,477	259,000	0
Vehicle Replacement Programme (Car Parks)	A	10,000	10,000	0	0	(10,000)
Birmingham Road Site - Coach Park	A	625,000	880,000	2,000	300,000	(580,000)
Birmingham Road Site - Short Term Redevelopment	A	0	13,000	8,319	13,000	0
Car Parks Variable Message Signing	A	32,000	32,000	0	0	(32,000)
Old Mining College - Refurbish access and signs	R	13,000	13,000	0	13,000	0
St. Chads Sculpture (Lichfield City Art Fund)	R	5,000	5,000	5,000	5,000	0
Developing Prosperity Total		935,000	1,212,000	185,796	590,000	(622,000)
Equipment Storage	A	0	100,000	0	125,000	25,000
Property Planned Maintenance	A	289,000	390,000	0	379,000	(11,000)
New Financial Information System	A	225,000	269,000	151,202	225,000	(44,000)
Depot Sinking Fund	A	11,000	0	0	0	0
Carbonisation Project - District Council House	A	0	263,000	195,879	263,000	0
IT Infrastructure	A	35,000	123,000	69,895	110,000	(13,000)
ICT Hardware	A	165,000	165,000	0	0	(165,000)
IT Innovation	A	205,000	143,000	(650)	43,000	(100,000)
District Council House Repair Programme	A	188,000	238,000	0	238,000	0
Good Council Total		1,118,000	1,691,000	416,326	1,383,000	(308,000)
Approved Budget		6,530,000	7,668,000	1,707,287	6,795,000	(873,000)
Asset	A	4,207,000	5,582,000	1,080,127	4,701,000	(881,000)
REFCUS	R	2,323,000	2,086,000	627,161	2,094,000	8,000

Funding Source	Original Budget	Approved Budget	Projected Actual	Variance
Capital Receipts	1,301,000	1,805,000	1,209,000	(596,000)
Corporate Revenue	0	0	0	0
Borrowing Need - Borrowing and Finance Leases	278,000	328,000	328,000	0
Capital Grants and Contributions	3,071,000	3,151,000	3,119,000	(32,000)
Reserves, Existing Revenue Budgets and Sinking Funds	1,880,000	2,384,000	2,139,000	(245,000)
Capital Programme Total	6,530,000	7,668,000	6,795,000	(873,000)

Balance Sheet Projections

	2020/21 Actual £000s	2021/22 Original £000s	2021/22 Projected £000s	2021/22 Variance £000s
Non-Current Assets	44,575	48,640	46,816	(1,824)
Equity Investment in Local Authority Company	225	225	225	0
Long Term Debtors	165	141	165	24
Long Term Debtors (Company Loan)	0	675	675	0
Investments	37,289	23,813	29,858	6,045
Borrowing	(2,255)	(2,059)	(2,060)	(1)
Finance Leases	(606)	(108)	(40)	68
Working Capital	(13,580)	(11,081)	(13,095)	(2,014)
Pensions	(41,554)	(33,493)	(43,918)	(10,425)
TOTAL ASSETS LESS LIABILITIES	24,259	26,753	18,626	(8,127)

<u>Unusable Reserves</u>				
Revaluation Reserve	(10,131)	(9,425)	(10,131)	(706)
Capital Adjustment Account	(31,653)	(37,671)	(34,904)	2,766
Deferred Credits	(47)	(47)	(47)	0
Pension Scheme	43,821	34,711	45,136	10,425
Benefits Payable During Employment Adjustment Account	460	332	460	128
Collection Fund	6,037	1,037	3,466	2,429
Financial Instruments Reserve	41	384	41	(343)
Total Unusable Reserves	8,528	(10,679)	4,020	14,699
<u>Usable Reserves</u>				
Unapplied Grants and Contributions	(3,618)	(1,633)	(2,601)	(968)
Usable Capital Receipts	(3,042)	(1,110)	(2,119)	(1,009)
Sinking Funds	(64)	0	0	0
Earmarked Reserves - Unrestricted	(15,145)	(3,760)	(6,855)	(3,095)
Earmarked Reserves - Restricted	(4,204)	(2,584)	(3,937)	(1,353)
General Fund Balance	(6,714)	(6,986)	(7,134)	(148)
Total Usable Reserves	(32,787)	(16,074)	(22,646)	(6,572)
TOTAL EQUITY	(24,259)	(26,753)	(18,626)	8,127

Capital Funding	(31,653)	(37,671)	(34,904)	2,766
Revaluation Reserve	(10,131)	(9,425)	(10,131)	(706)
Borrowing and Leasing	(2,861)	(2,167)	(2,101)	67
Non-Current Assets	44,800	48,865	47,041	(1,824)
Investments	37,330	24,197	29,899	5,702
Unapplied Grants & Earmarked Reserves	(26,073)	(9,088)	(15,512)	(6,424)
General Reserve	(6,714)	(6,986)	(7,134)	(148)
Long Term Debtors	165	141	165	24
Long Term Debtors (Company Loan)	0	675	675	0
Working Capital & Pensions	(4,863)	(8,541)	(7,998)	543
Balance Sheet Summary Total	0	0	0	0
Total Capital Financing Requirement³	3,016	2,445	2,681	236
Internal Borrowing	155	277	580	303

Borrowing Capital Finance Requirement	2,410	2,336	2,640	304
Working Capital, Pensions and Long Term Debtors	(4,657)	(8,016)	(7,792)	224
Usable Reserves	(32,787)	(16,074)	(22,646)	(6,572)
Minimum Level of Investments	10,000	10,000	10,000	0
Liability Benchmark	(25,034)	(11,754)	(17,798)	(6,044)

³ Borrowing Capital Finance Requirement plus finance leases.

Investments in the 2021/22 Financial Year

The table below shows a breakdown of our investments at the 30 September 2021:

Counterparty	Principal	Matures	Days to Maturity	Rate	Credit Rating	Foreign Parent
Money Market Funds						
Invesco Aim	£600,000	01-Oct-21	Instant Access	0.01%	0	N/A
Blackrock Institutional	£4,000,000	01-Oct-21	Instant Access	0.01%	0	N/A
Federated	£5,000,000	01-Oct-21	Instant Access	0.01%	0	N/A
Aberdeen	£4,000,000	01-Oct-21	Instant Access	0.01%	0	N/A
BNP Paribas MMF	£4,000,000	01-Oct-21	Instant Access	0.01%	0	N/A
CCLA MMF	£5,000,000	01-Oct-21	Instant Access	0.02%	0	N/A
Strategic Funds						
CCLA Property Fund	£2,000,000	N/A	N/A	3.51%	N/A	No
Ninety-One Diversified Income Fund	£3,000,000	N/A	N/A	4.05%	N/A	No
CCLA Diversified Income Fund	£2,000,000	N/A	N/A	2.14%	N/A	No
Aegon Diversified Income Fund	£3,000,000	N/A	N/A	3.59%	N/A	No
Fixed Term Investments						
Staffordshire Moorlands District Council	£2,000,000	18-Nov-21	49	0.25%	LOCAL	
Surrey Heath Borough Council	£2,000,000	15-Dec-21	76	0.06%	LOCAL	
Monmouthshire Council	£2,000,000	28-Apr-22	210	0.10%	LOCAL	
Cheltenham Borough Council	£2,000,000	12-Nov-21	43	0.05%	LOCAL	
Ashford Borough Council	£2,000,000	19-Apr-22	201	0.07%	LOCAL	
Debt Management Office	£6,000,000	19-Oct-21	19	0.01%	UK Gov.	
Call Accounts with Notice Period						
Lloyds	£1,000,000	03-Jan-22	95	0.03%	A+	
HSBC	£999,500	31-Oct-21	31	0.20%	A+	
Total Investments	£50,599,500					

External Borrowing

The Council currently has two external loans:

	Principal	Average Rate	Years to Final Maturity	(Premium) /Discount
PWLB Fixed Equal Instalment of Principal (EIP)	£1,126,280	2.59%	18.5	(£159,508)
PWLB Fixed Annuity	£1,001,145	1.71%	6.7	(£37,311)
TOTAL Borrowing	£2,127,425	2.18%	12.9	(£196,819)

Quarter 2 Internal Audit Progress Report

Cabinet Member for Finance, Procurement and Revenues & Benefits

Date: 11 November 2021

Agenda Item:

Contact Officer: Andrew Wood

Tel Number: 01543 308030

Email: Andrew.wood@lichfielddc.gov.uk

Key Decision? No

Local Ward Full Council

Members



**Audit and
Member
Standards
Committee**

1. Executive Summary

- 1.1 This report comprises Internal Audit's progress report for the period to 30 September 2021 (to Quarter 2) (**Appendix 1**).
- 1.2 Quarter 2 audit work performance has identified that 6% of the Audit Plan has been completed against profiled completion of 50.0%. There have been a number of factors which has impacted on delivery of audits this has been due to attributable factors include; reduced availability of internal audit staff due to staff leaving the section and implementation of new system processes / changes delayed audit commencement. In addition the subsequent procurement exercise was not concluded until the start of September.
- 1.3 At present there are four audits Shared Service (Joint Waste, Legal Services), IT Microsoft 365 and IT Remote Access which complete and draft reports issued to management. In addition Grants and Council Tax audits are currently in progress. Taking those audits where we have completed to at least draft stage we have completed 44% of the Audit Plan.
- 1.4 We have 6 audits scheduled for Quarter 3 and a further 4 audits in Quarter 4 (2 of which were delayed due to new system implementation and the conclusion of Council Elections). Detail of planned work is shown in **Appendix 1**.
- 1.5 As Committee will be aware and reported in July 2021 we have recently run a procurement exercise for both general auditor (TIAA) and IT auditor services (E-tec). This exercise is now complete and initial meetings have been held with both TIAA and E-tec and a planned work approach has been agreed. Fieldwork started from both service providers in mid-September 2021. This is reflected in **Appendix 1**.
- 1.6 E-tec have also completed an IT Audit Needs Assessment for the Council and this has been approved by the Head of Finance & Procurement (Section 151) and the Head of Corporate Services. The Audit Needs Assessment is as **Appendix 2** to this report.
- 1.7 To ensure completion of the audit plan all audits for the remainder of the year have been allocated to named individuals or to the general/IT Auditor. This together with the procurement exercise will ensure completion of the audit plan and support the current Internal Audit team.
- 1.8 The Audit Manager will continue to review current work plans to ensure completion of the 2021/2022 Audit Plan provide updates to Committee and liaise with the Head of Finance & Procurement (Section 151).

2. Recommendations

- To note the attached report.

3. Background

- 3.1. The Accounts and Audit Regulations require councils to undertake an effective internal audit to

evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Audit Standards.

3.2. Internal Audit's progress report for the period to Quarter 2 is detailed at **Appendix 1** for members to consider.

3.3. IT Audit Needs Assessment for the period 2021/2022 is detailed at **Appendix 2**.

Alternative Options	N/A
Consultation	N/A
Financial Implications	The audit service has been delivered within budget during the year.
Approved by Section 151 Officer	Yes
Legal Implications	There are no specific legal implications.
Approved by Monitoring Officer	Yes
Contribution to the Delivery of the Strategic Plan	Delivery of the audit plan contributes to all aspects of the Strategic Plan, but notably 'a good Council'.
Equality, Diversity and Human Rights Implications	There are no Equality, Diversity or Human Rights issues.
Crime & Safety Issues	There are no Crime and Community Safety Issues.
Environmental Impact	None arising.
GDPR/Privacy Impact Assessment	There are no specific implications.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	Significant / high risk systems of internal control fail and go un-addressed. Audit Manager	Likelihood: Yellow Impact: Red Severity: Red	The audit planning process ensures that audit resources are directed to areas of most significance / highest risk. The audit plan is monitored and progress is reported.	Likelihood – Green Impact - Yellow Severity of risk - Green (tolerable)

Background documents	Audit & Member Standards Committee routine reports, internal audit reports.
Relevant web links	

Internal Audit Progress Report (To Quarter 2) October 2021





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- 01 Introduction**
- 02 Internal Audit Work Undertaken**
- 03 Opinion**
- 04 Follow Up**
- 05 Performance of Internal Audit**

Appendices

- 01 Summary of Internal Audit Work Undertaken**
- 02 IT Audit Needs Assessment**

If you have any questions about this report, please contact Andrew Wood, Audit Manager andrew.wood@lichfielddc.gov.uk

The matters raised in this report are the ones that came to our attention during our internal audit work. While every care has been taken to make sure the information is as accurate as possible, internal audit has only been able to base these findings on the information and documentation provided. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be needed. This report was produced solely for the use and benefit of Lichfield District Council. The council accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the report, its contents, conclusions, any extract, reinterpretedation, amendment and/or modification.

Appendix 1

01 INTRODUCTION

BACKGROUND

This report summarises internal audit activity and performance for the period to 30 September 2021.

SCOPE AND PURPOSE OF INTERNAL AUDIT

The Accounts and Audit Regulations require councils to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

This progress report and opinion forms part of the framework of assurances that is received by the council and should be used to help inform the annual governance statement. Internal audit also has an independent and objective consultancy role to help managers improve risk management, governance and control.

Internal audit's professional responsibilities as internal auditors are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

ACKNOWLEDGEMENTS

Internal audit is grateful to the heads of service, service managers and other staff throughout the council for their help during the period.

02 INTERNAL AUDIT WORK UNDERTAKEN

The internal audit plan for 2021/22 was approved by the Audit & Member Standards Committee in March 2021. The plan is for a total of 16 audits.

Much of quarter two work has been related to the review of the planned audit resources and the tendering/procurement of both general auditor and IT auditor services. We have procured TIAA Ltd to provide general audit provision and E-tec Business Services in relation to IT Auditor provision. This audit provision started fully in mid-September 2021. In addition there has been an investigative matter reported to Internal Audit which is currently under review and has elicited time away from planned work during Quarter 2.

Performance indicators (Section 05) show there is a reduced coverage of the plan during quarter two (6% achieved against a profiled 50.0%). As Committee are aware two members of Internal Audit staff left the section in the quarter one of the financial year. The reduced completion rate of audits is being monitored and reviewed on a regular basis by the Audit Manager. The procurement exercise has provided further resource to ensure completion of the audit plan and a number of audits are scoped and in progress at the end of quarter 2, this is detailed in Appendix 1 of this report.

To ensure completion of the audit plan all audits for the remainder of the year have been allocated to named individuals or to the general/IT Auditor. At present there are three audits Shared Service, Grants and IT Microsoft 365 which are currently in progress and nearing completion. In addition we have been working on reviews in relation to Pandemic risks. We have 6 audits scheduled for Quarter 3 and a further 4 audits in Quarter 4 (2 of which were delayed due to new system implementation and the conclusion of Council Elections).

Appendix 1

As part of the IT Auditor service provision we requested an IT Audit Needs Assessment and this is shown in **Appendix 2** of this report. This provides an overview of the work to be undertaken during 2021/2022 and a provisional plan for 2022/2023. The Audit Needs Assessment has been discussed and approved by Head of Corporate Services and Head of Finance & Procurement (Section 151).

The audit findings of each review, together with recommendations for action and the management response are set out in our detailed reports. A summary of the reports we have issued during the period is included at **Appendix 01**.

03 OPINION

SCOPE OF THE OPINION

In giving an opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. In arriving at an opinion, following matters have been taken into account:

- The outcomes of all audit activity undertaken during the period.
- The effects of any material changes in the organisation's objectives or activities.
- Whether or not any limitations have been placed on the scope of internal audit.

- Whether there have been any resource constraints imposed upon us which may have impinged our ability to meet the full internal audit needs of the organisation.
- What proportion of the organisation's internal audit needs have been covered to date.

INTERNAL AUDIT OPINION

On the basis of audit work completed, our opinion on the council's framework of governance, risk management and internal control is reasonable in its overall design and effectiveness. Certain weaknesses and exceptions were highlighted by our audit work. These matters have been discussed with management, to whom we have made recommendations. All of these have been, or are in the process of being addressed.

SPECIFIC ISSUES

No specific issues have been highlighted during the period.

FRAUD & IRREGULARITY

One matter has been reported to Internal Audit and is currently under investigation.

CONSULTANCY & ADVICE

The audit team may be requested by managers to undertake consultancy and advice on governance, risk management and internal control matters. During the period to 30 September 2021, the following was undertaken:

Appendix 1

- Attending project board for payroll and new finance system.
- Review of draft Contract Procedure Rules.
- Attending elections core meeting.
- NFI data match investigations.
- Review of legal arrangements around Fradley Challenge.

04 FOLLOW UP

Internal audit follow up all high priority actions and those arising from no and limited overall assurance, manager's confirmation applies to the rest. There were eight high priority recommendations due to be followed up during the period, of which two were implemented (see KPI section 05).

Of those receiving a no or limited assurance opinion which require follow up, a summary of progress to date on these audits is given at Appendix 01.

Currently there are 85 outstanding recommendations at 30 September 2021, shown in the table below:

Action Priority Rating	Total Open Actions at 1 April 2021	Actions Raised Since April 2021	Total Overall	Total Closed out at 30 Sept 2021	Total Open at 30 Sept 2021	% Implemented in the period
High	10	0	10	2	8	20%
Medium	67	12	79	18	61	23%
Low	18	4	22	6	16	27%

05 PERFORMANCE OF INTERNAL AUDIT

Compliance with professional standards

We employ a risk-based approach in planning and conducting our audit assignments. Our work has been performed in accordance with PSIAS.

Conflicts of interest

There have been no instances during the year which have impacted on our independence that have led us to declare any interest.

Performance of internal audit

Internal audit quality assurance

To make sure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work.
- Review of files of working papers and reports by managers.
- Regular meetings of our networking groups, which issue technical and sector updates.

Performance Measures


- Complete 90% (profiled 50.0%) of the audit plan – 6%
- 100% Draft reports issued within 6 weeks of start date – 0%
- 100% Closure meetings conducted within 5 days of completion of audit work – 100%
- 100% draft reports to be issued within 10 working days of closure meeting – 100%
- 100% of all high priority actions are implemented at follow up – 25%
- All no and limited assurance reports have a revised assurance rating of substantial or reasonable on follow up - 100%
- Achieve an average customer satisfaction score of 4 or more – 100%
- Added value – Annual measure

Appendix 1

APPENDIX 01: SUMMARY OF INTERNAL AUDIT WORK UNDERTAKEN


Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Core Financial Systems	Debtors	Risk based review covering the adequacy and effectiveness of controls around debtors, including account set up / amendment, invoice requisitioning, invoicing, fees and charges and recovery. To accommodate the change to the new Civica Financials Live financial system.	Q3		
	Assets & Inventory	Risk based review covering the adequacy and effectiveness of controls regarding the Council's assets and inventory.	Q2		
	Grants	Risk based review of the adequacy of controls surrounding grants awarded to the authority. To include compliance with accountable body agreements including arrangements for third party compliance where appropriate.	Q2	Audit allocated to TIAA Ltd. Scoped and fieldwork commenced.	
	Council Tax	Risk based review of council tax including assurance over the adequacy of controls around the maintenance of systems recording taxable properties and liable persons, billing, discounts and reliefs, collection, refunds and write offs.	Q4		

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Strategic & Operational Risks	Strategic Risk Register	Risk based review of the adequacy and effectiveness of the controls in place to mitigate the Council's strategic risks.	Q4		
	Pandemic risks	'Flash' audits of dynamic risks arising from the Council's pandemic response. To include continuity and recovery arrangements, business grants, productivity and performance.	Q1-Q4	<p>Flash Covid 19 Risk Assurance - Governance</p> <p>Control measures to mitigate against the risk of potential governance failings arising from the Covid-19 crisis a year on from the start of the pandemic, were found to be adequate and effective. A number of good practice areas were noted:</p> <ul style="list-style-type: none"> • The system implemented by the Authority for remote governance was in accordance with the Local Authorities and Police and crime Panels (Coronavirus) (Flexibility of Local authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020. • Remote meetings were set up quickly and effectively using Zoom US. • A communications action plan to roll out virtual committee meetings was adopted. • Internal and external training was provided to staff and members providing an understanding of Zoom. The first live remote meeting took place on 5th May 2020 (Planning Committee). • 'Virtual Meetings – Guidance and Tutorials' procedure notes were created setting out meeting procedures (before and during), 	 <p>Substantial Assurance</p>

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				<p>viewing meeting documents, voting and polling, etc. Additionally, reminder guidance is sent out to all Councillors prior to a meeting.</p> <ul style="list-style-type: none"> Urgent decision arrangements were in place and managed in line with the Constitution. There was one urgent decision in January 21 in relation to the award of grant funding. Meetings are live streamed through Youtube. Social Media (Facebook and Twitter) was utilised to update followers of upcoming meetings including signposts to agendas and those who have subscribed to LDC's Youtube Channel receive notifications. From the 7th May 2021 traditional face to face meetings resumed. This has been reflected in the work undertaken by Health & Safety to ensure updated Government guidance is being met. E.g. Risk Assessments for all venues being considered for meetings. Hybrid meetings (live streaming of face to face meetings) are not yet set up but members of the public are now able to attend in public or review recorded meetings on Youtube. <p>With the continuation of Council meetings occurring albeit in a pre-Covid format the following areas are suggested as a forward focus:</p>	

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				<ul style="list-style-type: none"> Covid specific risk assessments should be regularly reviewed and amended where new hazards are identified to ensure they are in line with Government Legislation. Members have expressed a wish for continued virtual and hybrid meetings. The Council does not currently have the required equipment to facilitate hybrid meetings. On-going management of expectations around broadcasting meetings is one of the rising risks within the strategic risk register. Further progress should be made to implement hybrid meetings. <p>Covid 19 Risk Assurance –Productivity</p> <p>Control measures to mitigate against the risk of productivity being adversely impacted by the Covid-19 crisis were found to be adequate and effective within IT, Joint Waste and the Housing service areas. A number of good practice areas were noted:</p> <ul style="list-style-type: none"> A suite of KPI's for each service area is monitored and reviewed on a regular basis by managers. During the lockdown Housing showed a peak in B&B use due to government requirements for rough sleepers to be off the street and a temporary closure of accommodation. IT 	 <p>Substantial Assurance</p>


Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				<p>had an increase of work requests through their service desk.</p> <ul style="list-style-type: none"> • Performance and Development Reviews (PDR's) continued to be completed and were 80% for both the Corporate Services and Regulatory, Housing and Well-being service areas. However completion for Joint Waste was limited (25%) due to Covid and the requirement for 'Bubbles' for crew members. • Housing monitor officer caseloads and productivity through their database reporting function and produce quarterly government returns. • Performance of service areas has been managed by weekly reporting and monitoring. This is completed via Leadership Team Meetings with updates / issues discussed. Regular meetings are held within teams to discuss workload, wellbeing and duties. • Service delivery has been maintained coupled with Covid specific tasks i.e. reducing crew sizes (bubbles) in Joint Waste to minimise interactions and for Housing, a telephone was provided to rough sleepers without internet/ telephone access to enable a telephone interview. For IT the rotation of on-site and off-site staff was consciously chosen to provide resilience. 	

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				<ul style="list-style-type: none"> Covid-19 has accelerated the pace of change with ICT Services implementing new systems and features to support remote working i.e. MS Office 365 and moving to the cloud. <p>Whilst the Covid Pandemic continues and there remains a revision to working practice, a forward focus is suggested on lessons learned to ensure service delivery is maintained and productivity is managed effectively with KPI's continuing to be reviewed. Additionally, 1-2-1's and weekly Teams meetings will ensure productivity is maintained. PDR's which provide the opportunity of communication between managers and employees should be fully completed, particularly for Joint Waste where the restrictions have previously prevented this occurring.</p>	
	Replacement Financial System	Programme assurance based review of the replacement financial system programme to Civica Financials Live. To include income management system replacement. Programme assurance includes programme planning, governance structure and controls, delivery, change management, RAIDD management	Q1-Q2		

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Page 72		(Risk, Action, Issue, Decision, Dependency), testing and reporting.			
	Payroll transition	Assurance based review on the effectiveness of payroll controls following the transition from Stafford Borough Council to Stoke City Council, the new payroll agency provider.	Q3		
	Development Control (Planning)	Risk based review of systems of internal control for planning (using CIPFA control matrices), to include applications, appeals, fee management. Audit carried forward from 2020/21.	Q2	<p>Audit completed</p> <p>The Development Management (Planning) System is designed with controls in place to mitigate the major risks and were found to be adequate and effective.</p> <p>There are documented procedure notes that are available to staff and a suite of planning information accessible on the Council's website to residents. Planning applications are available to view on the Council's website, also providing opportunity for residents to comment on an application. Testing noted that officers pro-actively seek views through requesting feedback from statutory consultees, neighbours, placing of site notices or media advertising. The Uniform system is pre-populated with required consultees however spatial attributes require reviewing separately for instance, on Easytrees and Local View with the technical officers having to choose relevant consultees. The aim is to pre-populate spatial information onto Uniform.</p>	 <p>Reasonable Assurance</p>


Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
				<p>Decisions are independently reviewed by a more senior officer and the applicant/agent is notified electronically, the decision also uploaded to the website through Public Access. Appeals are received on notification from the Planning Inspectorate. The Council is required to provide information within set timescales. Testing confirmed the process had been followed. When an appeal decision is received it is distributed to all planning staff for discussion and a change of process would be introduced, if required.</p> <p>A review of new starters noted that qualifications are sufficient for the role and that detailed training is provided. The employee will follow the Council's Learning Passport or a specific accelerated training plan aimed for technical officers.</p> <p>For both applications and pre-applications, the correct fee had been received. Income is monitored through monthly meetings between the Planning Development Manager and the Accountant. Planning fee income is reported to Cabinet through the Money Matters reports.</p> <p>There are 4 KPI's that are updated quarterly (the latest being May 21). Performance is also reported through National Indicators to the Ministry of housing, communities and local government (MCHLG). A suite of monitoring information is also available through Enterprise. Target timescales are monitored and the system can also be used to monitor individual officer's case load and performance.</p>	



Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Page 74				Some weaknesses in control were found in the achievement of targets set for pre-applications and planning applications. The KPI's are currently not reported internally and the service plan (2021/22) which includes KPI's and risks, is not yet finalised. There are functionality weaknesses with the IT supporting systems. Implementation of the recommendations in the action plan will enhance arrangements and address these risks.	
	Shared Services	Risk based review of controls in place for effective delivery of shared services e.g. waste management, legal services, building control, internal audit.	Joint Waste Q2	Audit scoped and fieldwork commenced.	
	Elections	Risk based review of elections processes and in particular financial returns.	Q2		
	Climate Change	Risk based review looking at the Council's preparation to de-carbonisation / climate change agenda.	Q3		
ICT	IT Microsoft 365	A risk based review IT applications hosted in cloud together with One Drive storage		Audit scoped and fieldwork completed.	
ICT	Website Management and Security	A risk based review of the management and security of the Council's website.	Q2-4		
Governance, Fraud &	Disabled Facilities Grant	Assurance statement	Q3		

Appendix 1

Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
Other Assurance	Housing Benefit Memorandum of Understanding	Assurance statement to enable the Chief Finance Officer sign off to DWP.	Q3		
	Counter Fraud	Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.	Q1-Q4	Ongoing	
	Annual Audit Opinion	Production of the Annual Audit Opinion.	Q2		
	Management and Planning	Management, planning and assurance reporting to Leadership Team and Audit & Member Standards Committee.	Q1-Q4	Ongoing	
	Ad hoc / Consultancy / Contingency	Contingency allocation to be utilised upon agreement of the Chief Finance Officer.	Q1-Q4	Ongoing	
	Risk Management	Supporting the Council's risk management systems.	Q1-Q4	In progress and continuing, see Risk Management report at this Committee.	
	Election Support	Support to May 2021 Elections	Q1	Complete. Auditors provided support to the May 2021 Elections across a number of roles.	
Follow up all no and limited assurance reports and all high priority recommendations.	GDPR	Limited Assurance Follow up	Q1	A third follow up audit has now been undertaken and the full follow up audit report was issued to accountable officers and members of the Committee on 20 May 2021. In summary: Of the 2 outstanding actions (1 high and 1 medium). It can be confirmed that 1 has now been fully implemented with the remaining 1 (1 high) partially implemented.	 Substantial Assurance

Appendix 1

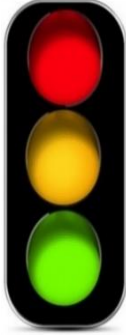
Assurance	Audit	Scope	Planned Quarter	Assurance Summary	Assurance Opinion
	Procurement	Limited Assurance Follow up	Q1	Originally 9 recommendations were made, 8 of which were agreed to be implemented by management. The findings of the follow up review show 5 of the recommendations have been implemented and 3 have been partially implemented.	 Reasonable Assurance
	Beacon Park	Limited Assurance Follow up	Q1	Originally 4 medium risk recommendations were made. The findings of this follow up review show 3 of the recommendations have been implemented, with 1 not implemented but has a due date not until January 2022.	 Reasonable Assurance

Page 76 ASSURANCE AND RECOMMENDATION CLASSIFICATIONS

Overall Audit Assurance Opinion	Definition
Substantial	There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.
Reasonable	While there is a basically sound system of internal control, there are some weaknesses which may put the organisation's objectives in this area at risk. There is a low level of non-compliance with some of the control processes applied.
Limited	Weaknesses in the system of internal controls are such as to put the organisation's objectives in this area at risk. There is a moderate level of non-compliance with some of the control processes applied.
No	Significant weakness in the design and application of controls mean that no assurance can be given that the organisation will meet its objectives in this area.

Priority	Definition
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Appendix 1

	High priority recommendation representing a fundamental control weakness which exposes the organisation to a high degree of unnecessary risk.
	Medium priority recommendation representing a significant control weakness which exposes the organisation to a moderate degree of unnecessary risk.
	Low priority (housekeeping) recommendation highlighted opportunities to implement a good or better practice, to add value, improve efficiency or further reduce the organisation’s exposure to risk.

PRIVATE AND CONFIDENTIAL



IT AUDIT NEEDS ASSESSMENT

LICHFIELD DISTRICT COUNCIL

AUGUST 2021



*Providing Advice and Assurance
Over Information and Communication Systems*

1. INTRODUCTION

- 1.1 At the request of the Audit Manager we undertook an IT audit needs assessment at Lichfield District Council. The purpose of the assessment was to identify the key areas of risk associated with the provision of IT services and to develop a programme of work to provide assurance that these risks are being managed.
- 1.2 There is no such thing as a risk-free environment and compliance with any number of standards does not create such an environment. Building a strong internal control culture within Information Technology can help to:
- Ensure efficient and effective operations;
 - Enhance risk management competencies and prioritisation of initiatives;
 - Enhance overall IT governance;
 - Enhance the understanding of IT amongst senior management and Executive;
 - Optimise operations with an integrated approach to security, availability and processing integrity;
 - Contribute to compliance with regulatory requirements in areas such as data security and privacy;
 - Align project initiatives with business requirements; and
 - Prevent loss of intellectual assets and the possibility of data breaches.
- 1.3 This report is based upon the high-level work completed at the time of the review and should not be seen as a comprehensive assessment of all IT operations or an evaluation of all areas of IT risk exposure. As such, no specific assurances are provided on the overall IT control framework or the level of risk exposure.

2. METHODOLOGY

2.1 Our approach to completing the IT audit needs assessment was to review the level of risk exposure in five core IT functional areas, as shown in the opposite diagram.



2.2 The level of risk in each area was evaluated and assessed to develop an IT audit plan for the period 2021-22, as detailed in Section 3 of this report. We have also highlighted other areas that may warrant a review in future years at Section 4.

2.3 The risk evaluation was undertaken through discussions with the ICT Manager, along with:

- A review of the IT risk register;
- Consideration of the IT audit work completed in the last three years and the level of assurance provided by each review;
- Identification of any significant changes made or planned to the IT environment and/or business systems; and
- Our experience and knowledge of issues facing the sector and other similar organisations.

2.4 The IT audit plan should be reviewed annually to reflect any changes to technology, business systems or core IT infrastructure.

3. PROPOSED COMPUTER AUDIT PLAN 2021/22

Area	Audit	Justification	Key Risks	No of Days
Cyber Security	Cloud Computing – Microsoft 365	<ul style="list-style-type: none"> A number of corporate IT applications are now hosted in the Microsoft cloud, including Email and SharePoint. OneDrive is being implemented for file storage. 	<ul style="list-style-type: none"> Poor security configuration, leading to unauthorised access to corporate data. Cyber-attack, leading to a data breach. 	10
Business Systems	Website Management & Security	<ul style="list-style-type: none"> The website is the public face of the Council and offers an increasing number of transactional services. Responsibility for managing the website has recently transferred to ICT Services. 	<ul style="list-style-type: none"> Reputational damage as a result of the corporate website being poorly managed and maintained. GDPR breach 	10
IT Operations	Remote Access – Availability of Services	<ul style="list-style-type: none"> The availability and reliability of remote access services is critical to support remote working. 	<ul style="list-style-type: none"> Remote workers are unable to connect to ICT systems and data. 	4

4. Forward Plan

4.1 The following are potential areas for future IT audits, subject to an annual review.

Area	Audit	Justification	Key Risks
Cyber Security	Cyber Security	<ul style="list-style-type: none"> This remains a high risk on the strategic risk register. 	<ul style="list-style-type: none"> Cyber-attack, leading to a data breach or loss of IT systems and services.
Business Systems	Finance System	<ul style="list-style-type: none"> A new financial system is going live in November 2021. 	<ul style="list-style-type: none"> Unauthorised access and/or changes to financial data. Loss of data integrity.
Compliance	Payment Card Industry Data Security Standard (PCI DSS)	<ul style="list-style-type: none"> Consultants are currently engaged to get the Council PCI compliant and compliance will need to be maintained moving forward. 	<ul style="list-style-type: none"> Financial penalties as result of cardholder data not being safeguarded. GDPR data breach.
Cyber Security	IT Disaster Recovery	<ul style="list-style-type: none"> Partially reviewed within the 19/20 civil contingencies and business continuity audit however a full review has not previously been completed. 	<ul style="list-style-type: none"> IT systems and services cannot be recovered within agreed timescales following a major incident.
Compliance	GDPR	<ul style="list-style-type: none"> Limited assurance was provided in the last review completed in 2018-19. 	<ul style="list-style-type: none"> GDPR requirements are not met, leading to financial penalties and reputational damage.

Risk Management

Cabinet Member for Finance, Procurement and Revenues & Benefits

Date: 11 November 2021

Agenda Item:

Contact Officer: Andrew Wood

Tel Number: 01543 308030

Email: andrew.wood@lichfielddc.gov.uk

Key Decision? No

Local Ward Full Council

Members



**Audit and
Member
Standards
Committee**

1. Executive Summary

- 1.1 To provide the Committee with their routine risk management update.

2. Recommendations

- 2.1 That Members note the risk management update and receive assurance on actions taking place to manage the Council's most significant risks.
- 2.2 That Members note the refreshed Risk Management Policy.

3. Background

- 3.1 The purpose of risk management is to effectively manage potential opportunities and threats to the Council achieving its objectives. Part of the Audit & Member Standards Committee's terms of reference is 'to monitor the effectiveness of the Council's risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management'. This report supports the Committee in achieving this objective.
- 3.2 The strategic risk register is produced by assessing the risk factors that could potentially impact on the Council's ability to deliver its strategic plan. This assessment ensures that there are the right measures in place to control the potential risks to our business objectives. Risks are assessed based on their likelihood of occurrence and their potential impact. Each of these are rated on a scale of 1 (Low), 2 (Medium), 3 (Significant) and 4 (High). By multiplying the two scores together, each risk receives a score.
- 3.3 The Council's approach to risk is detailed within the risk policy approved by the Committee on 14 November 2019. The Policy has been refreshed and is attached at **Appendix 1** for review and approval. Changes to the Policy have been highlighted in 'yellow'. Changes have been made to job titles and provide clarity around roles and responsibilities.
- 3.4 The Strategic Risk Register as at October 2021 (agreed with Leadership Team) is detailed at **Appendix 2**. The key changes since the Committee's last risk update (July 2021) are:
 - **SR2** (Resilience of teams to effectively respond to a further serious disruption to services). This risk has been re-evaluated and now has a rating of 12 (3 Likelihood x 4 Impact) from 16 (4 Likelihood x 4 Impact). Additionally the Recovery Strategy and from the pandemic is to reviewed by Leadership Team on 27 October 2021.

- **SR3** (Capacity and capability to deliver / adapt the new strategic plan to emerging landscape). This risk has also been reviewed by Leadership Team. It is noted that the risk score has not changed but mitigating actions in relation to the completion of PDR's, Work Place Plan and upcoming Peer Review in November 2021 have been added to the register. Actions arising from this strategic risk have been updated to include 'Better Council'.
- **SR7** (Threat to the Council's ICT systems of a cyber-attack). This risk has also been re-evaluated due to increased and more sophisticated 'phishing attacks' encountered by the Council. The rating is now 9 (3 Likelihood x 3 Impact) from 2 (1 Likelihood x 2 Impact). In addition an IT Audit Needs Assessment has been completed and this has been presented to Committee as part of the Quarterly Internal Audit Performance Report. Additionally reminders have been issued by Leadership Team to ensure that all staff comply with the requirements of 'Multi Factor Authentication, MFA' and comply with mandatory training provided on ICT Services. The Microsoft 365 review identified a number of users who had not activated MFA, this included staff e.g., maternity leave, long term absence. MFA is now active and they will be required to implement this on their return to work. There are a number of Councillors who have not activated MFA and these will be addressed in December 2021.
- Updates to mitigating controls, actions and lines of assurance have been updated on the Register where applicable.
- 'Other Horizon Scanning Risks Arising at October 2021' (at the end of the register) are risks which are not strategic risks currently, but that need a 'watching brief' have been reviewed and updated.

All changes have been highlighted on the Strategic Risk Register at **Appendix 2**.

3.5 The Council's 7 strategic risks at October 2021 are shown below:

likelihood			SR1	
			SR4, SR7	SR2
		SR5, SR6	SR3	
Impact				

- **SR1:** Pressures on the availability of finance may mean the Council is not able to deliver the key priorities of the strategic plan.
- **SR2:** Resilience of teams to effectively respond to a further serious disruption to services.
- **SR3:** Capacity and capability to deliver / adapt the new strategic plan to emerging landscape.
- **SR4:** Failure to meet governance and / or statutory obligations e.g. breach of the law.
- **SR5:** Failure to adequately respond to the wider socio-economic environment over which the Council may have little control, but which may impact on the growth and prosperity of the local area.
- **SR6:** Failure to innovate and build on positives / opportunities / learning arising (including from the Covid-19 situation) to maximise outcomes for the Council, e.g. technological solutions.
- **SR7:** Threat to the Council's ICT systems of a cyber-attack.

- 3.6 SR1, SR2, SR4 & SR7 remain outside of appetite (within the red zone) and are therefore being actively managed with the aim to bring them back within tolerance. However, there are many external factors associated with these risks, which are beyond the Council's control.
- 3.7 Work to review of the effectiveness of our sub strategic (service / operational) and project risk has now been completed. In summary:
- The 3 lines of assurance approach (as used in the Strategic Risk Register) has now been adopted for sub-strategic risks (i.e. service level risks).
 - Quarterly update meetings have been scheduled with Heads of Service and Audit Manager (Shared Service).
 - There is no longer a requirement to record and manage risks below service level (services or teams are, however, at liberty to do so if it meets their business requirement).
 - Project risks continue to be managed in accordance with accepted project methodology (i.e. PRINCE2).

Alternative Options	There are no alternative options.
Consultation	Leadership Team consulted on Risk Policy and receive monthly updates on Strategic Risk Register
Financial Implications	Risk management processes consider value for money at all times of the process. Failure to manage risks could lead to the Council being faced with costs that could impact on its ability to achieve its objectives.
Approved by Section 151 Officer	Yes
Legal Implications	None identified.
Approved by Monitoring Officer	Yes
Contribution to the Delivery of the Strategic Plan	Sound risk management ensures that risks affecting the delivery of the strategic plan are identified and managed.
Equality, Diversity and Human Rights Implications	None.
Crime & Safety Issues	None.
Environmental Impact	Risk arising from climate change and the green agenda are considered by management and Leadership Team.

GDPR/Privacy Impact Assessment	Risks associated with non-compliance with GDPR are included within SR4: Failure to meet governance and / or statutory obligations e.g., breach of law (e.g., Health & Safety, GDPR, procurement, Safeguarding).
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	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	Failure to manage known risks and opportunities proactively. Leadership Team	Likelihood: Green Impact: Red Severity: Red	Strategic risks are closely monitored by the Audit & Member Standards Committee, Cabinet Member and Leadership Team. Reports to Audit & Member Standards Committee provide assurance that active steps are being taken to control risks.	Likelihood: Green Impact: Yellow Severity: Green

Background documents	Risk Management Update – Audit & Member Standards Committee 22 July 2021. Risk Management Policy – updated 14 November 2019 and refreshed for consideration at Audit & Member Standards Committee 11 November 2021.
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Relevant web links	
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Risk Management Policy

November **20192021**

Document Location

This document is held by Lichfield District Council, and the document owner is **Anthony Thomas, Head of Finance and Procurement.**

Printed documents may be obsolete. An electronic copy will be available on Lichfield District Council's Intranet. Please check for current version before using.

Revision History

Revision Date	Version Control	Summary of changes
10/08/15	1.01.01	1 st draft
01/09/16	1.01.02	Scheduled review
21/08/17	1.01.03	Scheduled review
08/10/18	1.01.04	Scheduled review
30/09/19	1.01.05	Scheduled review
XX/XX/21	1.01.06	Scheduled interim review

Approvals

Name	Approved
Audit & Member Standards Committee	Yes
Leadership Team	Yes

Document Review Plans

This document is subject to a scheduled 4 yearly review with a 2 yearly interim review. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

Distribution

The document will be available on the Intranet **and the website.**

RISK MANAGEMENT POLICY STATEMENT

Lichfield District Council Risk Management Policy Statement

Our risk management policy is drawn up within the context of the Lichfield District Council's strategic objectives.

Our strategic objectives are set out in our Strategic Plan and are underpinned by targets and milestones which are monitored through our Performance Management processes that covers the key areas of the Council's activity.

Risk taking is part of innovation and change and as such is to be encouraged, not avoided; it must however be carefully assessed, regularly monitored, and effectively managed. There is a risk in all that we do. Some of that risk can be controlled and reduced, or mitigated, by effective management and clear ownership.

A risk management policy is an essential component of sound governance. It will help us to identify, analyse and control those risks which might prevent the Council achieving its objectives in a clear, visible, coherent and consistent way. It is an essential tool for all managers and Councillors.

The overall policy is supported by separate guidance notes on the methodology to be used. It is also supported by our corporate business continuity processes. Transparency and accountability is key to the process.

This policy is fully supported by Members, the Chief Executive and the Leadership Team.

1 Introduction

- 1.1 Risk management is an integral part of good corporate governance. Good corporate governance requires maintaining a sound system of internal control. Financial Procedure Rules place responsibility with Chief Officers for risk management and maintaining sound systems of internal control within their area of service delivery.
- 1.2 Implementation of the policy will ensure that two types of risk are addressed:
- Direct threats – (damaging events) which could lead to a failure to achieve ambitions and deliver on priorities
 - Opportunities – (constructive events) if exploited can offer an improved way of achieving objectives but which are surrounded by threats. Examples include areas such as partnership arrangements.

2 What is Risk Management?

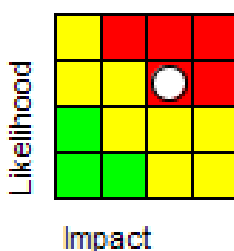
- 2.1 Risk can be defined as the chance or possibility of loss, damage, injury or failure to achieve objectives being caused by an unwanted or uncertain action, event, or chain of events. Risk therefore includes a level of uncertainty of outcome (whether positive outcome or negative threat). Risk is ever present and some amount of risk taking is inevitable if the Council is to achieve its objectives.
- 2.2 Risk management involves having processes in place to identify and monitor risks, be able to access up to date and reliable information about risks, ensure the right balance of control in place to deal with risks; and a decision making process that is supported by a framework of risk analyses and evaluation. Risks should be managed in an integrated way at different key levels to manage interdependencies – corporate strategic risk, operational risk and project risks.
- 2.3 The purpose of this Risk Management Policy is to effectively manage potential opportunities and threats to the organisation achieving its objectives. The main objectives of the risk management policy are to:
- Embed a culture that integrates risk management into the day-to-day management processes.
 - Raise awareness of the importance of risk management by all those connected with the delivery of service, including partners.
 - Anticipate and respond to changing social, environmental, economic, technological and legislative conditions.
 - Minimise the impact and/or likelihood of risks occurring.
 - Maximise the exploitation of opportunity events;
 - Put in place a robust framework in place to identify, assess and manage the major risks facing the organisation.

- Minimise the total cost of risk.

Detailed guidance can be found in the Risk Management Guidance.

3 Risk Appetite

- 3.1 The risk appetite is “the amount of risk that an organisation is prepared to accept, tolerate or be exposed to at any point in time.” (CIPFA). The Council will manage its risks by, reducing, preventing, transferring, eliminating or accepting the risks. The Council’s risk appetite is defined by the ‘red’ section of the 4 x 4 matrix. Guidelines on scoring of impact and likelihood are contained within the risk management guidelines.



- 3.2 Whilst the Council acknowledges that it will have “Severe” (red) risks from time to time, it will endeavour to reduce these to an acceptable level either through controls, actions to reduce the risk or ceasing the activity (if applicable). Where a current risk score is within the ‘red’ zone, an action plan will usually be required to bring the risk within appetite. The target score of a risk must be within appetite (the yellow / green zone). Sometimes risks are identified and even though managed, may still remain “severe” (red risk). Severe risks at an operational and project level are reported to the Leadership Team to manage and monitor.

Risk registers must be maintained and managed in the following areas:

- Corporate Strategic Risks,
- Operational Risks,
- Project Risks,
- Partnership Risks,
- Opportunity Risks.

“Severe” risks can appear in any of the above risk registers.

Corporate Strategic risks are owned and managed by leadership team. These risks are those risks that are identified as those that could have a high level impact at a corporate level.

The corporate Strategic risk register and “red” project risks are routinely reported the Audit & Member Standards Committee.

4 The Benefits of Having a Risk Management Policy

- Risk Management will alert the Leadership Team to the main service and financial issues. This will allow early and proportionate management handling i.e. mitigation, diversion of resources.
- It contributes to better decision making, and the process of achieving objectives. When embedded within existing planning, decision taking and option appraisal processes, risk management provides a basis for ensuring implications are thought through, the impact of other decisions, initiatives and projects are considered, and conflicts are balanced. This will influence success and improve service delivery.
- It provides assurance to members, management and auditors on the adequacy of arrangements for the conduct of business and the use of resources. It demonstrates openness and accountability to various inspectorate bodies and stakeholders more widely.
- It leads to greater risk awareness and an improved control environment, which should mean fewer incidents and other control failures. In some cases this can result in lower insurance premiums.

4.1 These are not intangible benefits. By identifying risks earlier, by making sure processes are fit for purpose and not over engineered, and achieving a behavioural shift, risk management will be a process that is justified many times over.

4.2 Our approach to risk management which underpins the policy and provides a vision of what we are aiming for, is summarised below:

“Risk management in Lichfield District Council is all about managing our business threats and opportunities and creating an environment of “no surprises”.

Risk management is the identification, analysis and control of those risks which might prevent an organisation achieving its objectives.

Risk management is not about insurance – not least because most risks faced by organisations are not insurable. Certainly risk transfer is part of risk management, but so is risk retention and control”.

4.3 Risk profiling is carried out at all levels of the organisations with each level feeding up to the next level to ensure that operational risks that could pose greater / corporate-strategic risks are escalated and are not missed.

5 Roles, Responsibilities and Reporting Lines

5.1 The importance of establishing roles and responsibilities within the risk management framework

is pivotal to successful delivery. The consideration of risk must be embedded into corporate policy approval and operational service delivery.

- 5.2 The agreed roles and responsibilities within the risk management framework at Lichfield District Council are outlined in the table below:

Group / Individual	Role
Leadership Team	<ul style="list-style-type: none"> Provide leadership for the process to manage risks effectively. Review and revise the risk management policy in accordance with the review period. Monitor and review the corporate-strategic risk register on a quarterly-monthly basis including the identification of trends, upcoming events and potential new corporate-strategic risks.
Chief Finance Officer <u>Head of Finance and Procurement</u>	<ul style="list-style-type: none"> To own the risk management policy and ensure effective risk management arrangements in place in accordance with requirements set out in Financial Procedure Rules.
Audit & Member Standards Committee	<ul style="list-style-type: none"> Monitor the effectiveness of the Council's risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management. To monitor action being taken by the Council to mitigate the impact of potentially serious risks.
Cabinet	<ul style="list-style-type: none"> To provide strategic direction with regards to Risk Management and be collectively responsible for the Risk Management process. To consider risk management operation per their Cabinet responsibility.
<u>Cabinet Member (Finance and Procurement, Revenues and Benefits)</u>	<ul style="list-style-type: none"> <u>Monitor the effectiveness of the Council's risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management.</u> <u>To monitor action being taken by the Council to mitigate the impact of potentially serious risks.</u>
<u>Directors/</u> Heads of Service	<ul style="list-style-type: none"> To provide leadership and 'champion' the process of managing risks within their areas of responsibility. To ensure that risk management methodology is applied to all service plans, projects, partnerships and proposals within their areas of responsibility. To identify and manage business/operational risks. To ensure that the management of risk is monitored as part of the

	<p>performance management process.</p> <ul style="list-style-type: none"> • Provide assurance to Leadership Team and the Chief Executive that this policy is being complied with. • To ensure that employees attend appropriate risk management training to assist in the implementation of this policy. • To ensure that risk management is a standard agenda item at team meetings. • To review and update their operational risk registers on at least a quarterly basis. • To determine the method of controlling the risk. • To delegate responsibility if appropriate for the control of the risk. • To notify Leadership Team of new risks identified, for consideration for inclusion on the Corporate Strategic Risk Register.
All Staff	<ul style="list-style-type: none"> • To ensure that risk is effectively managed in their areas. • To ensure that they notify their managers of new and emerging risks
Audit Manager/Head of Audit	<ul style="list-style-type: none"> • To ensure that the risk management policy is regularly reviewed and updated. • Promote and support the risk management process throughout the Council. • Advise and assist Heads of Service/ managers in the identification of risks.

Risk Management Process

6 Risk Identification

- 6.1 The identification of risks is completed at various levels and primarily, risks (and opportunities) relate to the achievement of the Council's objectives. The risks can therefore be at **Corporate Strategic**, Operational, Project, Partnership or Opportunity level. This stage will be repeated regularly to ensure that new and emerging risks arising are identified and recorded on the risk register as appropriate. In addition, risks that are no longer relevant are removed.
- 6.2 The Council acknowledges that no one person is responsible for identifying key risks and that they are identified at various levels and various ways.
- 6.3 As a basis, the following risks must be identified:
- Those that affect the delivery of the strategic plan;
 - Those that affect operational issues i.e. the delivery of a service;

- Those that affect the delivery of a project;
- Those that affect the delivery within a partnership.

7 Recording Risks

- 7.1 The Council's risk register is the primary tool to record risks identified. ~~Currently, the system for recording risks is the Pentana system.~~ All ~~corporate strategic~~, operational, project and partnership risks are recorded.
- 7.2 All risks recorded on the risk register should identify:
- risk description
 - risk owner ~~(responsible Cabinet member and risk 'assigned to'~~
 - gross (unmitigated), current (mitigated) and target risk scores using the 4x4 matrix of likelihood x impact)
 - risk factor /causes of the risk
 - potential effects/consequences of the risk as well as opportunities;
 - risk treatment measures controls in place to the reduce the risk and any actions, timescales and responsibilities required.

8 Reporting Risks

- 8.1 The ~~corporate strategic~~ risk register is reviewed and updated by the Leadership Team ~~each month. A quarterly update is reported to the Cabinet Member (Finance and Procurement, Revenues and Benefits) and quarterly before being reported~~ to the Audit and Member Standards Committee. Red (severe) project risks are also reported at the same time.
- 8.2 All reports to the Council require that any risks inherent within the decision recommended, are identified. The Committee report template is set up so that this is completed. It is the duty of the report writer that the relevant risk register ~~on Pentana~~ is updated to take account of these risks.

9 Reviewing Risks

- 9.1 Risks should be reviewed on a regular basis. The Leadership Team and Head of Audit will provide an overall review of risks to ensure that risks are being consistently scored. The review period will depend on the type of risk. For example, operational risks (those that affect the delivery of a service) will more than likely not need to be reviewed as often as project risks. ~~The Pentana system allows you to set appropriate review periods for each risk.~~ Risks can be added or deleted at any time.

10 Performance Management

- 10.1 The following key performance indicators for the risk management process will be completed:

- The risk management policy will be reviewed and updated fully on a 4 yearly basis (with a 2 year interim review in between).
- Leadership Team will review and update the ~~corporate strategic~~ risk register taking into account emerging and changing risks, on a ~~quarterly~~ monthly basis.
- Risks are reviewed appropriately to the severity/changing nature of the risk.
- Staff are appropriately trained in risk management ~~and the use of the Pentana system.~~

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
A good council, developing prosperity, shaping place, enabling people Page 97	SR1 Pressures on the availability of finance may mean the Council is not able to deliver the key priorities of the strategic plan. The risk is influenced by: <ul style="list-style-type: none"> • The spending review. • Local Government Finance Reform including New Homes Bonus, Business Rates and the Fair Funding Review. • The financial impact of the Covid-19 pandemic in the current year and beyond. • Other Government Policy announcements impacting on Local Government such as the Call for Evidence on Business Rates and Procurement Policy Notes. • Funding of Council's headline priorities and the shortfall of funding. 	16 (L4xI4)	<ul style="list-style-type: none"> • Prudent estimates for Business Rates and New Homes Bonus based on modelling provided by Local Government Finance experts. • Risk assessed minimum level of reserves set at £1.6m. • Routine budget monitoring reported to Leadership Team, Cabinet and Strategic (OS) Committee. • Requirements of the new CIPFA Financial Management Code, information contained in the CIPFA Resilience Index and benchmarking reports from LG Futures. • In terms of the Covid-19 pandemic – introduction of enhanced monthly income monitoring and receipt of financial assistance from Government. 	12 (L4xI3) ↔	4 (L2xI2)	<ul style="list-style-type: none"> • Update of the Medium Term Financial Strategy Responsibility: Head of Finance and Procurement /will commence in July 2021 and approval in February 2022 	1st Line: <ul style="list-style-type: none"> • Approved Medium Term Financial Strategy including the Capital Strategy covering 5 years plus a 25 year capital investment model. • A longer term financial plan covering a 25 year horizon for revenue budgets. • Approved Treasury Management Strategy. • Production of monthly budget reports to Managers. • Procurement Strategy
							2nd Line: <ul style="list-style-type: none"> • Leadership team review of 3, 6, 8 and 12 month reports to Cabinet and Strategic (OS) Committee. • Mid-year and outturn Treasury Management reports to Audit and Member Standards Committee. • Initial assessment of LDC's level of compliance with the FM Code to Audit and Member Standards Committee 12/11/2020.

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
Page 98	Owner: Head of Finance & Procurement (Section 151 Officer).						<ul style="list-style-type: none"> CIPFA Resilience Index with comparative information to nearest statistical neighbours and all District Councils. Cabinet and Leadership Team are undertaking work to look at options to address the Funding Gap.
							3rd Line: <ul style="list-style-type: none"> External Audit – going concern test and sign off of financial statements 2019/20. Unqualified VFM assessment. Internal Audits of Accountancy and Budgetary Control 2018/19 -substantial assurance, Capital Strategy 2020/21 – reasonable assurance, Capital Accounting 2020/21 – substantial assurance, Income Management 20/21 – reasonable assurance, Procurement 20/21 limited assurance


Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
A good council, developing prosperity, shaping place, enabling people Page 99	SR2 Resilience of teams to effectively respond to a further serious disruption to services (e.g. multiple layer disruption arising from flooding, coupled with a local outbreak / subsequent waves of Covid-19 (including the increased risk of transmission of new variants), other pressures - such as seasonal flu). New people into organisation. Owner: Leadership Team	8 (L2xI4)	<ul style="list-style-type: none"> • Mutual aid assistance • Local Resilience Forum (LRF). • Tested business continuity arrangements in place. • Strong links with the Staffordshire CCU and wider LRF. • Actively engaged in ongoing Local Resilience Forum response and recovery work streams. • Experienced (from previous waves / national lockdowns re Covid-19) Leadership Team and supporting teams in place to respond. • Clear structure and plan in place for Covid-19 waves. • Ongoing dialogue with CCU re D20 'BREXIT' risks. • Strategic and tactical flood planning work across LRF, to assist in 	12 (L3xI4) ↔	6 (L2xI3)	<ul style="list-style-type: none"> • Links to actions arising from recovery strategy e.g. Encourage digital contact, harness and encourage the spirit and commitment shown by the Council and the Community in response Leadership Team / 27 October 2021 • Monitor and build on learning from subsequent pandemic waves and D20 Brexit risks (no significant impacts have arisen since the end of the transition period, however this is being monitored) and ongoing involvement in LRF structures such as SCG and TCG is continuing. 	1st Line: <ul style="list-style-type: none"> • Day to day business continuity plans in place. • Training programme.
							2nd Line: <ul style="list-style-type: none"> • Annual Report to Leadership Team. • CCU test of arrangements feedback. • Response and learning from recent incident at Ridware House. • Report on recovery plan and climate change to Overview & Scrutiny (O&S).
							3rd Line: <ul style="list-style-type: none"> • Internal Audit of business continuity 2019/20 – reasonable assurance, ICT – remote working 20/21 – reasonable assurance. • Flash Covid-19 Risk Assurance Business Continuity, Emergency Planning and Recovery 20/21 substantial assurance

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
Page 100			our response and the multi-agency response to such events. This includes identifying 'at risk' areas in the District and specific actions required.			Leadership Team/ 27 October 2021	3rd Line: <ul style="list-style-type: none"> Internal Audits of Accountancy and Budgetary Control 2018/19 -substantial assurance, Capital Strategy 2020/21 – reasonable assurance, Capital Accounting 2020/21 – substantial assurance, Income Management 20/21 – reasonable assurance, Procurement 20/21 limited assurance External Audit – going concern test and sign off of financial statements 2020/21. Unqualified VFM assessment.
	A good council, developing prosperity, shaping place, enabling people SR3: Capacity and capability to deliver / adapt the new strategic plan to emerging landscape. Cabinet review of corporate priorities. Work Place Plan and New Ways of Working with upcoming Peer Review.	6 (L2xI3)	<ul style="list-style-type: none"> Regular review of progress against delivery plan outcomes and prioritisation process agreed between Leadership Team and Cabinet. Robust project management. People strategy. 	6 (L2xI3) ↔	4 (L2xI2)	<ul style="list-style-type: none"> Implementation of people strategy and workforce development plan to take account of 'Better Council'. Head of Governance & Performance / Jan 2022	1st Line: <ul style="list-style-type: none"> Day to day business / service planning, financial planning and performance management. Completion of PDRs. 2nd Line: <ul style="list-style-type: none"> Delivery Plan reported 6 monthly to Cabinet and shared with Overview & Scrutiny.


Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
good Council	Owner: Leadership Team		<ul style="list-style-type: none"> Communications to all staff. PDRs linked to Strategic and Delivery Plans. Recruitment activity. PDR completion leading to identifying training and development needs. Monitoring resource demands. Mental health / wellbeing systems in place. 				<ul style="list-style-type: none"> Quarterly updates to LT on people strategy.
							3rd Line: <ul style="list-style-type: none"> Internal Audits of People Strategy and Workforce Development 2019/20 – reasonable assurance, Performance Management 19/20 – substantial assurance.
good Council	SR4: Failure to meet governance and / or statutory obligations e.g. breach of the law (e.g. Health & Safety, GDPR, procurement, Safeguarding), lack of openness / transparency in decision making, breach of the constitution. This could lead to fines as well as reputational damage. Subsidy Control Framework and self-assessment risks subject to challenge.	9 (L3xI3)	<ul style="list-style-type: none"> Regularly reviewed constitution, policies and procedures. Meta compliance policy training, testing and acceptance systems. Training and awareness for all staff and members. Effective Overview and Scrutiny and Audit & Member Standards Committee oversight. Codes of Conduct. Internal audit. 	9 (L3xI3) 	6 (L2xI3)	<ul style="list-style-type: none"> Annual Health & Safety Report to be produced for Employment Committee Head of Governance & Performance / December 2021. 	1st Line: <ul style="list-style-type: none"> Day to day processes and Local Code of Governance Forward plans/committee work plans/ delivery plan and service planning. Use of Mod Gov and publication scheme. 2nd Line: <ul style="list-style-type: none"> Annual reports to Audit and Member Standards Committee. Regular reports to leadership team. Transparency data publication.

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
Page 102	<p>Arrangements in process of being developed, requirement to build in operation and awareness training.</p> <p>Owner: Head of Governance & Performance</p>		<ul style="list-style-type: none"> • Roles of Section 151 Officer and Monitoring Officer. • Shared legal services. • New procurement team. • New Governance Team with additional capacity being recruited. • Review of document storage and filing systems. • Electronic retention of documentation. • Sealed documents held in fire proof room. • Education and development of Service Managers to support teams with advice and guidance. • Training in place for LT October covering H&S. • Meta Compliance training. 				<ul style="list-style-type: none"> • Completed review of document storage.
							<p>3rd Line:</p> <ul style="list-style-type: none"> • RIPA, ICO and Ombudsman reports/returns. • External audit of Annual Governance Statement as part of the financial statements. • Internal Audits of Ethics 2019/20 – adequate assurance, Health and Safety 2019/20 – adequate assurance, GDPR follow up 2019/20 – limited assurance, Transparency code follow up 2019/20 reasonable assurance, Safeguarding Inc. modern slavery 2019/20 – reasonable assurance, Committee Reporting 2019/20 – substantial assurance, Legal Compliance (shared service agreement) 2019/20 – reasonable assurance, Equalities 2019/20 – substantial assurance, Management of Property (LA

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
							<p>Trading Company) 20/21 – substantial assurance, Procurement 20/21 limited assurance.</p> <ul style="list-style-type: none"> External investigations and lessons learnt exercises to address internal control weaknesses.
A good council, developing prosperity, shaping place, page 163	SR5: Failure to adequately respond to the wider socio-economic environment over which the Council may have little control, but which may impact on the growth and prosperity of the local area, for example, the UK withdrawal from the European Union / Covid-19 crisis, results in an increase in unemployment, business closures coupled with emergence of higher expectation of ongoing support from the Council. Increased demand on Council services such as benefits via increased Universal Credit claims, at	9 (L3xI3)	<ul style="list-style-type: none"> Financial assistance from Government to businesses and the public (Grants, Test & Trace Support Payments) particularly in terms of furlough scheme end Oct 20, potential further implications for individuals and businesses arising from potential local lockdowns and Brexit. Prosperity is a key theme in the new Strategic Plan. Economic Development Strategy is in place. Council's effective presence on the Local Enterprise Partnerships. 	4 (L2xI2) 	4 (L2xI2)	<ul style="list-style-type: none"> Continued delivery of immediate actions to support high street economy and business (including visitor economy and hospitality sector). Further government support – the Welcome back Fund - received to extend timescales and assist with the reopening of high streets and support to local businesses through to March 2022. Additional spend on a variety of projects 	1st Line: <ul style="list-style-type: none"> Day to day delivery of economic development, housing and health and wellbeing strategies.
							2nd Line: <ul style="list-style-type: none"> Leadership team review of 3, 6, 8 and 12 month Money Matters reports to Cabinet, Strategic (OS) Committee. Health and Wellbeing Strategy delivery reports.
							3rd Line: <ul style="list-style-type: none"> Internal Audit of Economic Development Partnership Arrangements 2017/18 – adequate assurance, Tourism 2019/20 – reasonable assurance, Housing Benefits – overpayments 2017/18 –

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
Page 104	<p>the same time that Council suffering reduced income.</p> <p>Local Enterprise Partnership review and residual role around support. Ongoing relationship change leading to potential increase in future opportunities.</p> <p>Owner: Leadership Team</p>		<ul style="list-style-type: none"> Strong partnership working e.g. Lichfield District Board, Staffs CC, Birmingham Chambers. Lichfield City BID, Burntwood Business Community LGA, DCN, New burdens funding. Partnership influences built into business case considerations. Work with redundancy task force Continue to develop and improve the business contact and relationships locally. 			<p>currently in process of being identified.</p> <ul style="list-style-type: none"> Economic Development, Finance and Revenues and Benefits Services distributing government grants to support businesses impacted by Covid-19 pandemic. Discretionary Additional Restricted Grant scheme providing for direct business support, start up assistance and skills/training. ARG top up monies to be allocated shortly subject to member agreement. Decision taken to defer preparation of new ED Strategy to focus on Covid-19 recovery via the Corporate Recovery 	adequate assurance, Housing Benefits – verification and performance 2016/17 – substantial assurance, Housing Benefits and Council Tax Relief 20/21 substantial assurance


Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
Page 105						Plan and use time to gather intelligence to inform new strategy. <ul style="list-style-type: none"> Council continues to be a member of the County Redundancy Task Group identifying impacts of Covid-19 on local employment levels and particular demographic groups and agreeing responses. Head of Economic Growth and Development/LT 	
	A good council, enabling people SR6: Failure to innovate and build on positives / opportunities / learning arising (including from the Covid-19 situation) to maximise outcomes for the Council, e.g. technological solutions Owner: Leadership Team	9 (L3xI3)	<ul style="list-style-type: none"> ICT service plan. ICT hardware replacement programme. Migration to HIS and implementing of O365. Refurbishment and reorganisation of office spaces. Cyber security e-learning. Engagement Strategy. Capture best practice 	4 (L2xI2) ↔	1 L1xI1	<ul style="list-style-type: none"> Roll out of MS teams and all functions in train for completion later this year, Information & Communications Technology Manager / October 2021 Acceleration of New Ways of Working processes, terms and conditions. Head of 	1st Line: <ul style="list-style-type: none"> ICT hardware replacement programme providing the right equipment for mobile and flexible working. Ongoing monitoring of customer (internal and external) feedback. 2nd Line: <ul style="list-style-type: none"> Monitoring of Lichfield Connects contact levels, trends and reporting on

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
Page 106			<ul style="list-style-type: none"> Reinforce a culture of innovation. People strategy. Virtual committee meetings. Business cases required for all major projects. Drive to find ongoing efficiencies as part of service / financial planning process. Customer promise. 			Governance & Performance / As part of recovery planning processes – October 2021 <ul style="list-style-type: none"> Links to actions arising from recovery strategy e.g. Encourage digital contact, harness and encourage the spirit and commitment shown by the Council and the Community in response to recovery Leadership Team / 27 October 2021 	complaints and compliments to Leadership Team.
							3rd Line: <ul style="list-style-type: none"> Local Government Ombudsman. Flash Covid-19 Risk Assurance Staff Wellbeing 20/21 substantial assurance

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
A good council	SR7: Threat to the Council's ICT systems of a cyber-attack following dramatic increase in remote working which if successful could result in loss of data / loss of access to applications – which may incur fines / reputational damage. Increased number of sophisticated 'phishing' attacks with increased time taken to investigate and remediate. Move away from purely email to other platforms such as 'Teams'. Failure by staff to complete ICT training and the take up of MFA.	3 (L1xI3)	<ul style="list-style-type: none"> • Use of firewalls and virus protection to manage cyber security, including penetration testing. • Strong access level controls (including remote access). • Training and regular awareness raising to staff of risks. • Digital strategy. • PSN compliance checklist. • Revision of Service Business Continuity Plans to incorporate lessons learnt from COVID-19. • IT Auditor provision resourced from August 2021. • Adoption of multi-factor authentication. 	9 (L3xI3) 	2 (L1xI2)	<ul style="list-style-type: none"> • The move to Health is sufficiently complete that we have been able to end the contract for our hardware maintenance and support with ANS. The migration has presented the opportunity to also upgrade some of our servers to the latest version of Windows Server and close down the oldest servers with the additional security benefits that this brings. • The email migration to Office 365 has been completed and the next stage will be to 	1st Line: <ul style="list-style-type: none"> • Day to day operation of ICT Training programme for all staff. • Up to date versions of software and implement all IT security patches.
							2nd Line: <ul style="list-style-type: none"> • Regular monitoring and reporting on security issues to Leadership Team. • External penetration testing. • Full Council wide adoption of multi-factor authentication.

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
Page 108	Owner: Head of Corporate Services		<ul style="list-style-type: none"> Development of monthly management reports for follow up of staff not completing mandatory training. 			<ul style="list-style-type: none"> roll out the Office 365 desktop software along with Teams and starting the migration of our file server to Microsoft OneDrive. Bringing these elements together opens further opportunities in relation to security and to look at how people log into our systems with the intention of reducing our reliance on passwords and increasing the use of other authentication methods such as secondary devices and biometrics. 	3rd Line: <ul style="list-style-type: none"> Internal Audit of business continuity 2019/20 – significant assurance (DR plan noted as an action), Cyber Security 2019/20 – reasonable assurance, IT Governance 2019/20 – adequate assurance, IT Application Controls – follow up 2019/20 – reasonable assurance, ICT – remote working 20/21 – reasonable assurance. Flash Covid-19 Business Continuity 20/21 substantial assurance. ICT Audit Procurement to review risk environment. ICT Audit Needs Assessment completed. Review of Microsoft 365 2021/22.

Appendix 1: Strategic Risk Register – October 2021

Strategic Plan Link	Risk & Owner	Original Score	Mitigating Controls	Current Score	Target Score	Actions Responsibility / Timescale	3 Lines of Assurance
Page 109						<ul style="list-style-type: none"> Review of risk scores completed due to increase in 'phishing attacks'. Completed. Full enrolment of staff adopting multi-factor authentication. Head of Corporate Services. Message from Leadership Team and reminder to staff of importance of MFA and training. Completed. Review mandatory training requirements. Session for Councillors concerning switch on of MFA to be arranged. December 2021. 	

Appendix 1: Strategic Risk Register – October 2021

Key to 3 lines of assurance:	
1 st Line	Day to day operations of internal control systems
2 nd Line	Management oversight and monitoring controls
3 rd Line	Independent assurance from Internal / external audit and other independent assurance sources (e.g. HSE, BFI)
Other Horizon Scanning Risks Arising October 2021:	
Impact on the organisation arising from the devolution / local recovery white paper which was due in September 2020 and has now been postponed to 2021. Not a strategic risk at present, to include as a horizon scan until more information is known and impact on operations can properly be assessed.	
Impact on Council activities via the Government's legislative timeframes and planning activities arising from the Planning Bill detailed in the Queen's Speech.	
Risks arising from staff leaving key posts.	
Transition to new payroll provider – removed.	
Sunset clause on Regulations allowing remote council meetings ends early May 2021 on going management of expectations around broadcasting of meetings.	
Elections review by Association of Electoral Administrators (AEA) and challenge around legislation in the reduction of time for provision of elections.	
Resourcing requirements for the retention and filing of legal documentation.	
To balance the delivery of service specific objectives against the priorities and demands from Members/Cabinet to ensure continued alignment with Strategic Plan.	
Legal Shared Service – capacity and resilience	
Disabled Facilities Grants	
Economic pressures due to energy price reviews/inflation rates and index linking to prices.	
Impact of withdrawal of government support measures (furlough), Universal Credit and implications for businesses and residents.	

Counter Fraud Update Report

Cabinet Member for Finance, Procurement and Revenues & Benefits

Date: 11 November 2021

Agenda Item:

Contact Officer: Andrew Wood

Tel Number: 01543 308030

Email: Andrew.wood@lichfielddc.gov.uk

Key Decision? No

Local Ward Members Full Council



**Audit and
Member
Standards
Committee**

1. Executive Summary

1.1 To provide the Committee with an update on counter fraud.

2. Recommendations

2.1 The Committee:

- To note the contents of this Counter Fraud update report.

3. Background

- 3.1 The system of internal control is designed to manage risk (including fraud), to a reasonable level. It cannot eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 3.2 As well as operation of the overall system of control, counter fraud work this financial year has included National Fraud Initiative (NFI), the Cabinet Office's national data matching service. New matches continue to be received and processed. This year is also a national exercise year which means that data sets across the public sector are matched to prevent and detect fraud.
- 3.3 The Council's counter fraud plan is detailed at Appendix 5 of the Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes (which is Appendix 1 of this report).
- 3.4 There has been one report of suspected fraud/irregularity identified during Quarter 3 of 2020/21 which related to a loss of takings (£99.65) at Beacon Park. Recommendations have been agreed with management to strengthen arrangements.
- 3.5 There have not been any 'whistle-blows' in 2020/21, which has been the case for the last four years.
- 3.6 Committee will be aware that at its meeting on 12 November 2020 it was agreed that the review cycle for all Fraud Policies would be extended from annually to four years around the elections cycle with a two-year light touch review (unless there is a major change required in accordance with legislation/best practice) with minor amendments (e.g. job title changes) delegated to the Shared Head of Audit/Principal Auditor to undertake. In line with this delegation the Audit Manager and Principal Auditor have completed a refresh of the documents outlined below.

- **Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes (refresh at Appendix 1).** This review is the annual refresh, minor changes only, as delegated to Audit Manager (Shared Service).
- **Confidential Reporting (Whistleblowing) Policy (Appendix 2).** This review is the annual refresh, minor changes only.
- **Anti-Money Laundering Policy (Appendix 3).** This review is the annual refresh, minor changes only.
- **Prevention of the Facilitation of Tax Evasion Policy (Appendix 4).** This review is the annual refresh, minor changes only.

Alternative Options	There are no alternative options.
Consultation	Consultation has taken place with appropriate Officers within the Council and Leadership Team.
Financial Implications	None directly identified however potential loss of assets and monies due to failure to comply with the Policies as detailed.
Approved by Section 151 Officer	Yes
Legal Implications	Potential legal action/reporting to Police required.
Approved by Monitoring Officer	Yes
Contribution to the Delivery of the Strategic Plan	Safeguarding and protecting Council assets.
Equality, Diversity and Human Rights Implications	None identified
Crime & Safety Issues	Legal compliance with legislative requirements
Environmental Impact	None identified
GDPR/Privacy Impact Assessment	Legal compliance with legislative requirements.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	The Council does not have in place an approved policies and	Likelihood: Yellow Impact: Red	Regular review and refresh of Policies covering Fraud, Whistleblowing, Anti-	Likelihood: Green Impact: Yellow

	<p>procedures that have been created to protect Council's Assets.</p> <p>The risk would impact on both Governance and Internal Control Processes within the Council.</p> <p>Head of Finance & Procurement (Section 151)</p>	Severity: Red	<p>Money Laundering and Tax Evasion based on good practice. These policies have been reviewed and updated to reflect current needs of Governance and Internal Control Processes.</p>	Severity: Yellow
B	<p>Potential failure to report fraud and not comply with legislative requirements</p> <p>Head of Finance & Procurement (Section 151)</p>	<p>Likelihood: Yellow Impact: Red Severity: Red</p>	<p>Regular review and refresh of Policies covering Fraud, Whistleblowing, Anti-Money Laundering and Tax Evasion based on good practice. These policies have been reviewed and updated to reflect current needs of Governance and Internal Control Processes.</p>	<p>Likelihood: Green Impact: Yellow Severity: Yellow</p>

Background documents	
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Relevant web links	
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COUNTER FRAUD AND CORRUPTION POLICY STATEMENT, STRATEGY & GUIDANCE NOTES

November 2021~~2020~~

Document Location

This document is held by Lichfield District Council, and the document owner is the Chief Executive

Printed documents may be obsolete. An electronic copy is available on Lichfield District Council's Intranet. Please check for current version before using.

Revision History

Revision Date	Version Control	Summary of changes
November 2020		Refresh
October 2021		Refresh

Approvals

Name	Title	Approved
Audit & Member Standards Committee	Committee Approval	
Leadership Team	Leadership Approval	Yes
Chief Executive Approval	Policy Owner Approval	Yes

Document Review Plans

This document is subject to a scheduled review every 43 years in accordance with the election cycles. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

Distribution

The document will be available on the Intranet and the website.

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LICHFIELD DISTRICT COUNCIL

COUNTER FRAUD AND CORRUPTION POLICY STATEMENT

- 1.0 The Council fully recognises its responsibility in relation to the spending of public money (Protecting the Public Purse) and is committed to the fullest support for Members and Staff in upholding the reputation of the Council and maintaining public confidence in its integrity. It also recognises its responsibilities under the Proceeds of Crime Act 2002, Money Laundering Regulations 2017, Criminal Finances Act 2017 (Part 3) and the Bribery Act 2010.
- 2.0 The Council acknowledges the threats of fraud and corruption and the harm that they can cause. The Council is committed to maintaining an ethical culture which does not and will not tolerate any form of fraud and corruption. Any such issues will be thoroughly investigated and, if confirmed, dealt with rapidly in the strongest possible way. We will seek the strongest possible sanctions against those who seek to defraud the Council. This includes taking appropriate action against Staff, Members, contractors, external individuals and organisations.
- 3.0 To deliver the Council's corporate priorities, aims and strategic objectives we need to maximise the financial resources available to us. In order to do this we must reduce the risk of fraud to an absolute minimum.
- 4.0 This Policy Statement, together with the Counter Fraud & Corruption Strategy and Guidance Notes, is intended to provide advice and information to Staff and Members, but suppliers, contractors and the general public are also encouraged to use this advice and guidance.

Chief Executive

Leader of the Council

COUNTER FRAUD AND CORRUPTION STRATEGY

1.0 Introduction

1.1 This strategy is a key element of the Council's overall corporate governance arrangements which aim to ensure the Council is well managed and does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable way. The Council has a range of other interrelated policies and procedures that provide a corporate framework to counter fraud activity. These have been formulated in line with appropriate legislative requirements and include:

- Financial Procedure Rules,
- Contract Procedure Rules,
- Codes of Conduct,
- Whistleblowing Policy,
- Accounting procedures and records,
- Sound internal control systems,
- Effective Internal Audit,
- Effective recruitment & selection procedures,
- Disciplinary Procedures,
- Fraud Response Plan,
- Anti Fraud Framework for the Benefits Section,
- General Data Protection Policy,
- IT Security Policy,
- Constitution,
- Scheme of Delegation,
- Members Handbook,
- Code of Corporate Governance,
- Gifts & Hospitality Policy & Register,
- Anti-money Laundering Policy,
- Prevention of the Facilitation of Tax Evasion Policy
- Other council procedures as appropriate,
- Any relevant professional Codes of Ethics or obligations.

1.2 All references to fraud within this document include any type of fraud-related offence. Fraud, theft, bribery and corruption are defined as follows:

Fraud – “the intention to make gain or cause loss by false representation, failure to declare information or abuse of position”. The Fraud Act 2006

Theft – “ a person shall be guilty of theft if he/she dishonestly appropriates property belonging to another with the intention of permanently depriving the other of it”. The Theft Act 1968.

Bribery – “A person (“P”) is guilty of an offence if either of the following cases applies.

Case 1 is where—

- (a) P offers, promises or gives a financial or other advantage to another person, and
- (b) P intends the advantage—
 - (i) to induce a person to perform improperly a relevant function or activity, or
 - (ii) to reward a person for the improper performance of such a function or activity.

Case 2 is where—

- (a) P offers, promises or gives a financial or other advantage to another person, and
- (b) P knows or believes that the acceptance of the advantage would itself constitute the improper performance of a relevant function or activity. (The Bribery Act 2010)

Corruption – there is no universally accepted definition of corruption, but it is generally understood to involve the abuse of office and position to benefit a third party (an individual, business or other organisation), in return for payment or other reward. (HM Government – UK Anti-Corruption Strategy 2017 – 2022)

1.3 A dishonest act or fraudulent activity may be, but is not limited to, an act or activity that is unethical, improper, or illegal such as:

- theft of an asset including, but not limited to, money, tangible property, intellectual property etc;
- misappropriation, misapplication, destruction, removal, or concealment of property;
- false claims and/or misrepresentation of facts;
- alteration or falsification of paper or electronic documents, including the inappropriate destruction of paper or electronic documents;
- inappropriate use of computer systems including hacking and software piracy;
- embezzlement;
- bribery, or corruption of any kind;
- unlawful or undeclared conflict of interest;
- unauthorised use or misuse of Council property, equipment, materials or records.

1.4 Although a dishonest or fraudulent act may have criminal and/or civil law consequences, the Council is not required to use a determination by a criminal or civil body as the basis for determining whether an act is dishonest or fraudulent, nor must the act rise to the level of a crime or violation of civil law in order to constitute a violation of the Council's Code of Conduct or other

associated policies ~~e.~~

- 1.5 The Council also expects that individuals and organisations (e.g. partners, suppliers/contractors and service users) which it comes into contact with, will act towards the Council with integrity and without actions involving fraud or corruption. The Council in turn will endeavour to ensure that all of its dealings will be on the same basis.
- 1.6 In administering its aims and responsibilities the Council is totally committed to deterring fraud and corruption, whether it is attempted on or from within the Council, and is committed to an effective counter fraud and corruption strategy designed to:
 - limit, as far as possible, the opportunities to commit fraudulent acts - **prevention**,
 - enable any such acts to be **detected** at an early stage, and
 - deal with any subsequent **investigations** in a prompt, thorough and professional manner.
- 1.7 Overall responsibility for dealing with fraud and corruption rests with the Head of Finance & Procurement, who is the nominated Section 151 Officer having a statutory duty under Section 151 of the Local Government Act 1972 to ensure that there are proper arrangements in place to administer the Council's financial affairs.
- 1.8 Internal scrutiny of the Council's various activities occurs as a result of:-
 - the Head of Finance & Procurement's Section 151 responsibilities and Section 114 Local Government Finance Act 1988 responsibilities,
 - the establishment of sound Internal Audit arrangements in accordance with the Accounts and Audit Regulations 2015, and
 - the responsibilities placed on the Monitoring Officer under Section 5 of the Local Government and Housing Act 1989.
- 1.9 External scrutiny of the Council's various activities occurs as a result of involvement by:-
 - Local Government Ombudsman,
 - External Auditor,
 - Central Government Departments and Parliamentary Committees,
 - HM Revenues and Customs,
 - The Department for Work and Pensions
 - The general public.
- 1.10 This Counter Fraud and Corruption Strategy is based on a series of comprehensive and inter-related procedures designed to deter any attempted fraudulent or corrupt act. These cover:-

- Culture,
- Prevention,
- Detection and Investigation,
- Recovery, Sanction and Redress,
- Training and Awareness,
- Sharing Information,
- Implementing the Strategy.

2.0 Objectives

2.1 The key objectives of this Counter Fraud and Corruption Strategy are to:

- Increase awareness of the counter-fraud responsibilities at all levels within and outside the Council;
- Further embed and support the effective management of fraud risk within the Council;
- Support counter-fraud activities across the Council;
- Minimise the likelihood and extent of loss through fraud and corruption.

2.2 All of the above will directly support the achievement of the Council priorities whilst ensuring that statutory responsibilities are met.

3.0 Roles and Responsibilities

3.1 Roles and responsibilities for identifying and mitigating against the risk of fraud must be clearly understood and embraced effectively.

3.2 The risk of fraud and corruption is considered in the Council's corporate risk management arrangements. Service Managers must therefore ensure that:

- Their risk register accurately reflects the risk of fraud and corruption including any emerging risks;
- Controls, including those in a computerised environment and for new systems and procedures, are effective and are properly maintained and documented;
- There is compliance with the Council's Financial Procedure Rules and associated guidance, Contract Procedure Rules and any other relevant codes of practice;
- Those engaged in countering fraud and corruption, have the appropriate authority, skills and knowledge to undertake this work effectively;
- That the necessary framework agreements to counter fraud are in place where the Council is working with other organisations either by way of contract or partnership. The Council will not knowingly enter into any contractual agreement with an

organisation that fails to comply with its Code of Practice and/or other related procedures.

- Findings from fraud investigations lead to relevant system changes.

4.0 Culture

- 4.1 The Council has determined that the culture and ethics of the Authority are one of honesty and openness in all its dealings, with opposition to fraud and corruption. This strategy forms part of the governance arrangements for the authority.
- 4.2 The Council's Members and staff play an important part in creating and maintaining this culture. They are encouraged to raise any matters that concern them relating to the Council's methods of operation in accordance with this Counter Fraud & Corruption Strategy or the Council's Whistleblowing Policy.
- 4.3 The Council is committed to driving down all Fraud. Both public perception and organisational culture play key roles in achieving this aim. All Members and staff are therefore required to report any suspected or known frauds. Failure to do so may result in Disciplinary action.
- 4.4 Staff are required to declare any situation or transaction in which they may have an interest e.g. processing a relative's claim, appointing a member of staff. In such cases, staff will be removed from taking any further part in the transaction.
- 4.5 The Council's Whistleblowing Policy ensures that those raising concerns know they will be treated seriously and their concerns are properly investigated in a confidential and impartial manner. In raising concerns staff can be assured that they will be protected if the disclosure is made in the public's interest and will not affect their employment situation or future prospects with the Council.
- 4.6 Staff should raise their concerns with the **Audit Manager (Shared Service)**~~Shared Head of Audit~~, or in ~~their~~**his/her** absence with a member of the Internal Audit Team. Where staff feel unable to raise concerns with the **Audit Manager (Shared Service)**~~Shared Head of Audit~~, they can raise their concern with their line manager, who must immediately inform the **Audit Manager (Shared Service)**~~Shared Head of Audit~~. Under no circumstances should any investigations be undertaken by management.
- 4.7 In addition, a confidential reporting hotline (01543 308111) has been set up for staff and members of the public to report any concerns. Anyone using this facility should provide as much information as possible to ensure the concern can be properly investigated, including leaving your name and contact number, if possible. Concerns made anonymously are much less powerful, but they will be considered in an appropriate manner.

- 4.8 Alternatively, use the Council's website 'Report It' function.
- 4.9 For housing benefit fraud issues, concerns should be raised by contacting the National Benefit Fraud hotline on 0800 854 440 or online at <https://www.gov.uk/report-benefit-fraud>.
- 4.10 Elected Members, suppliers, contractors, and the general public are also encouraged to report concerns through any of the above routes.
- 4.11 Unless there are good reasons to the contrary, any allegations received by way of confidential letters or telephone calls will be taken seriously and investigated in an appropriate manner. All allegations received in this manner should immediately be forwarded to the **Audit Manager (Shared Service)**~~Shared Head of Audit~~.
- 4.12 All concerns will be treated in confidence and every effort will be made not to reveal the identity of anyone reporting an incident or concern. At the appropriate time the council will discuss the role of the person reporting the matter as a witness and whether and how the matter can proceed with.
- 4.13 Formal reports will be issued aimed at addressing control weaknesses and these will be reported to the Audit & Member Standards Committee in the **Audit Manager (Shared Service)**~~Shared Head of Audit's~~ progress report.
- 4.14 The Nolan Committee set out the seven guiding principles that apply to people who serve the public. The Council will develop our working behaviour around these principles, which are attached as Appendix 1.

5.0 Prevention

5.1 Staff

- 5.1.1 The Council recognises that a key preventative measure in the fight against fraud and corruption is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential staff, in terms of their propriety and integrity. In this regard temporary, agency and contract staff should be treated in the same manner as permanent staff. Service Managers are responsible for ensuring agencies engaged for the supply of temporary staff have rigorous vetting processes and that references are sought direct from previous clients with regard to the suitability and integrity of the candidate.
- 5.1.2 Employee recruitment is required to be in accordance with procedures laid down by the Council. Written references covering the known honesty and integrity of potential staff and where required, evidence of a licence to practice must always be obtained. All qualifications will be verified. There will be an open and fair policy of recruitment with no 'canvassing' or 'favouritism'.
- 5.1.3 Staff of the Council are expected to follow the Council's Code of Conduct, any Code of Conduct relating to their personal Professional Body and also abide

by the terms and conditions of employment as set out in the Contract of Employment and the National Scheme of Conditions. The Council will report any known impropriety to the relevant Institution for them to consider appropriate disciplinary action.

- 5.1.4 Staff are reminded that they must comply within Section 117 of the Local Government Act 1972 which requires any interests in contracts that have been or are proposed to be entered into by the Council to be declared. The legislation also prohibits the acceptance of fees or rewards other than by means of proper remuneration. Details are described within the Code of Conduct.
- 5.1.5 Managers are required to observe the formal Disciplinary Policy & Procedure.
- 5.1.6 All staff are required to declare in a public register (held by the Monitoring Officer) any offers of gifts or hospitality which are in any way related to the performance of their duties in relation to the Authority. Staff should also declare private work (paid or unpaid) etc., which if permitted must be carried out during hours when not employed on Council work, and should not be conducted from Council premises or use any Council equipment/assets.
- 5.1.7 The above matters are brought to the attention of staff via induction training and subsequently by internal communications.
- 5.1.8 Management at all levels are responsible for ensuring that staff are aware of the Authority's Financial Procedure Rules and Contract Procedure Rules, and that the requirements of each are being met. They are also responsible for ensuring that appropriate procedures are in place to safeguard the resources for which they are responsible, which include accounting control procedures, working manuals and operating procedures. Management must ensure that all staff have access to these rules and regulations and that staff receive suitable training.
- 5.1.9 Managers should strive to create an environment in which staff feel able to approach them with concerns they may have about suspected irregularities. If Managers and staff are unsure of the appropriate action they should consult with the Internal Audit Section.

5.2 Members

5.2.1 Members are required to operate within: -

- Sections 49 - 52 of the Local Government Act 2000,
- Local Authorities (Members' Interest) Regulations 1992 (S.I. 618)
- The National Code of Local Government Conduct
- Any local code or amendments agreed and

- The Council's Contract Procedure Rules and Financial Procedure Rules.

5.2.2 These matters are specifically brought to the attention of elected Members at their induction and subsequent training. Members are required to provide the Monitoring Officer with specific information concerning their disclosable pecuniary interests and to keep that information up to date, as required by sections 29-34 of the Localism Act 2011. The Members Interests Register is held by the Monitoring Officer.

5.3 Systems

5.3.1 The Council's Constitution, Codes of Conduct, Scheme of Delegation, Contract Procedure Rules and Financial Procedure Rules place a duty on all Members and staff to act in accordance with best practice when dealing with the affairs of the Council.

5.3.2 The Head of Finance & Procurement has a statutory responsibility under Section 151 of the Local Government Act 1972 to ensure proper administration of financial affairs. Various Codes of Practice outlining systems, procedures and responsibilities are widely distributed to staff.

5.3.3 The Internal Audit Section assesses regularly the level of risk within the Council with a view to preventing fraud and corruption. Such assessments are discussed with Heads of Service and Service Managers and, where appropriate, incorporated into work plans.

5.3.4 Significant emphasis has been placed on thorough documentation of financial systems, and every effort is made to continually review and develop these systems in line with best practice to ensure efficient and effective internal controls and to include adequate separation of duties. The adequacy and appropriateness of the Council's financial systems are independently monitored by both the Internal Audit Section and External Audit. Any weaknesses identified in internal control will be reported to management whose duty it will be to ensure that corrective action is taken. The Section 151 Officer will use his statutory power to enforce the required changes if necessary.

5.3.5 Heads of Service and Service Managers will ensure that internal controls, including those in a computerised environment, are effectively maintained and documented and will investigate any potential weaknesses.

5.3.6 Heads of Service and Service Managers must ensure that proportionate counter fraud measures are applied to new systems/procedures.

5.3.7 It is evident across the country that an increasingly wide variety of frauds are being perpetrated. The larger frauds may involve the creation of multiple identities and false addresses, and involve different agencies. Staff are therefore encouraged to liaise with those other agencies, exchanging information (subject to GDPR) where possible and appropriate to help prevent and detect such fraud. It is important that arrangements exist, and are

developed, to encourage the exchange of information with other agencies including:-

- other local and statutory authorities,
- Chief Financial Officer Group,
- local, regional and national Auditor networks,
- government departments,
- police forces,
- the External Auditors,
- **Staffordshire Counter Fraud Partnership.**
- the National Anti-Fraud Network, and
- any other Fraud Networks/Forums.

5.3.8 The Council has established formal procedures to respond to complaints received about any aspect of service delivery. Issues relating to fraud and corruption will be passed directly to the **Audit Manager (Shared Service)** ~~Shared Head of Audit~~. Specific guidance has also been issued to all staff in relation to Proceeds of Crime and Money Laundering. The Head of Finance & Procurement as the Council's Money Laundering Reporting Officer.

5.3.9 The Council will involve the police to prosecute offenders where fraudulent or corrupt acts are discovered. This will be a matter for the Head of Finance & Procurement, Monitoring Officer and the Chief Executive to decide.

6.0 Detection and Investigation

6.1 The Council's preventative systems, particularly internal control systems, provide indicators of fraudulent activity and are designed to deter any fraudulent activity.

6.2 It is often the alertness of elected Members, council staff, and the general public to the possibility of fraud and corruption, that enables detection to occur and appropriate action to take place.

6.3 Many frauds are discovered by chance, 'tip-off' or general audit work and arrangements are in place to enable such information to be properly dealt with.

6.4 Heads of Service and Service Managers are required by Financial Procedure Rules to report all suspected instances of fraud and corruption to the **Audit Manager (Shared Service)** ~~Shared Head of Internal Audit~~. Early reporting is essential to the success of this strategy, and;

- ensures the consistent treatment of information regarding fraud and corruption,
- facilitates a thorough investigation of any allegation received by an independent unit (Internal Audit), and
- ensures maximum protection of the Council's interests.

- 6.5 Suspicions that any transaction or dealing may involve the proceeds of crime should be reported to the Head of Finance & Procurement, who will ensure such suspicions are reported to the appropriate authorities as required by the relevant Act.
- 6.6 The investigating officer will be appointed by the Head of Finance & Procurement. The investigating officer will usually be an Internal Audit Officer. The investigating officer will;-
- inform the Section 151 Officer (Head of Finance & Procurement) and Chief Executive, as necessary;
 - deal promptly and confidentially with the matter;
 - have unhindered access to employees, information and other resources as required for investigation purposes;
 - record all evidence received;
 - ensure that evidence is sound and adequately supported;
 - ensure security of all evidence collected;
 - liaise as necessary and appropriate with the relevant Director;
 - liaise as necessary with external agencies e.g. Police;
 - notify the Council's Insurance Officer, if appropriate; and,
 - implement Council Disciplinary Policy & Procedure where appropriate.
- 6.7 The Council can be expected to deal swiftly and thoroughly with any employee who attempts to defraud the Council or who is corrupt. The Council will deal positively with fraud and corruption or suspicions thereof.
- 6.8 There is a need to ensure that any investigation process is not misused and, therefore, any abuse such as raising unfounded malicious allegations may be dealt with as a disciplinary matter.
- 6.9 When it is found that fraud or corruption has occurred due to a break down in the Council's systems or procedures, the Council will ensure that appropriate improvements in systems of control are promptly implemented in order to prevent a reoccurrence.
- 6.10 Depending on the nature and anticipated extent of the allegations, the Internal Audit section will normally work closely with management and other agencies such as the police to ensure that all allegations and evidence is properly investigated and reported upon.
- 6.11 Procedures for dealing with the investigation of fraud and corruption are included in the Fraud Manual of the Audit Section.
- 6.12 The Council's disciplinary process will be used where the outcome of the Audit Investigation indicates improper behaviour.

- 6.13 The Council will normally wish the police to independently prosecute offenders where financial impropriety is discovered.
- 6.14 All investigations into suspected instances of fraud and corruption undertaken by the Council shall comply with the requirements of the Human Rights Act 1998, Regulation of Investigatory Powers Act 2000, Criminal Procedures and Investigation Act 1996 and have regard to the Police and Criminal Evidence Act 1984
- 6.16 Any Councillor who is the subject of allegations of wrong doing can be referred to the Monitoring Officer to the authority (details on the website), who will determine what action should be taken.
- 6.17 All contractors, consultants and organisations receiving funding from the Council who are accused of wrong doing will be the subject of an investigation and where appropriate an independent decision may be taken to terminate the agreement/grant.
- 6.18 The Council's External Auditor has a responsibility to review the Council's arrangements for the prevention, detection and investigation of fraud and corruption and report accordingly.

7.0 Recovery, Sanctions & Redress

- 7.1 Where the Council identifies fraud then it will:

Recover, prosecute or apply other sanctions to perpetrators, where appropriate.
- 7.2 Where fraud or corruption by staff is indicated, then action will be taken in accordance with the Council's Disciplinary Policy & Procedure. This may be in addition to any civil recovery action or sanctions.
- 7.3 The Council aims to be effective in recovering any losses incurred to fraud using, as appropriate, criminal and/or civil law. Success rates will be monitored routinely as an indicator and part of the quality process.
- 7.4 Wherever possible, redress should be applied. This ensures that the Council is seen as recovering money lost to fraud.

8.0 Training & Awareness

- 8.1 The Council recognises the importance of training in the delivery of high quality services. The Council supports the concept of fraud awareness training for Managers and for Staff involved in internal control systems to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced. Staff who ignore such training and guidance may face the possibility of disciplinary action.
- 8.2 Specifically, awareness is raised by a combination of face-to-face awareness sessions, e-learning and publications about general and specific fraud issues.

- 8.3 Investigation of fraud and corruption centres around the Council's Internal Audit section. Staff engaged in this section, for the detection and prevention of fraud, are properly and regularly trained in all aspects of it. The training plans of the sections will reflect this requirement.
- 8.4 Regular training seminars will be provided for Members on a wide range of topics including declarations of interest and the Code of Conduct as detailed in the Constitution.
- 8.5 The Council will maintain an up to date awareness of the types of fraud that it may be exposed to, especially given the ongoing financial situation and the resourcefulness of potential fraudsters. It will review national developments and strengthen systems and procedures accordingly using the following key sources of information:

National Fraud Reports

National Anti-Fraud Network

Midlands Fraud Forum

Local Networking through Staffordshire and the Midlands (Staffordshire Counter Fraud Partnership)

Any other sources of fraud awareness/updates etc.

9.0 Sharing Information

- 9.1 The Council is committed to working with other agencies in the detection and prevention of fraud.
- 9.2 There are a variety of arrangements in place, which facilitate the regular exchange of information between the District Council and other local authorities and agencies, for the purpose of preventing and detecting fraud. These involve national, regional and local networks of investigators.
- 9.3 The District Council is a member of the National Anti-Fraud Network (NAFN). NAFN provides access to information relating to fraud within the public sector. Fraud intelligence is collated and circulated to members, and information services to assist in the more effective investigation of fraud are available. We make use of these services.
- 9.4 As technologies develop, there is an ever increasing need to take advantage of the processing and analysis of data stored across the Authority and beyond. This enables information and intelligence to be generated, which is a recognised means of preventing fraud and corruption.

- 9.5 The Cabinet Office has a Code of Data Matching Practice for its National Fraud Initiative (NFI), which is recognised by the Information Commissioner as complying with Data Protection legislation.
- 9.6 The District Council has a Fraud Hotline for reporting fraud suspected within the Council – 01543 308111. There are a number of ways in which the Internal Audit Team can be contacted to report concerns of fraud and corruption, all of which are outlined in Appendix 4.
- 9.7 Any action taken under this policy in respect of information must be GDPR compliant.

10.0 Implementing the Strategy

- 10.1 Internal Audit will undertake an annual assessment of the effectiveness of existing counter-fraud and corruption arrangements against:

Relevant Standards

Other best practice/statutory guidance as required

The roles and responsibilities as set out in Appendix 2 of this strategy.

- 10.2 Internal Audit will report its findings to the Audit & Member Standards Committee who will consider the effectiveness of the counter-fraud risk management arrangements.

11.0 Conclusions

- 11.1 The Council's systems, procedures, instructions and guidelines are designed to limit, as far as is practicable, acts of fraud and corruption. All such measures will be kept under constant review to ensure that they keep pace with developments in prevention and detection techniques regarding fraudulent or corrupt activity.
- 11.2 The Council will maintain a continuous review of all its systems and procedures through the Head of Finance & Procurement and Internal Audit, in consultation with the Monitoring Officer where required.

COUNTER FRAUD AND CORRUPTION GUIDANCE NOTES

1.0 Why Do We Need a Counter Fraud And Corruption Strategy?

- 1.1 Even though the vast majority of people working for the Council are honest and diligent, the Council cannot be complacent. Fraudulent or corrupt acts may include:

System issues	ie where a process/system exists which can be abused by either staff or members of the public (eg expense claims)
Financial issues	ie where individuals or companies have fraudulently obtained money from the Council (eg invalid invoices/work not done)
Equipment issues	ie where Council equipment is used for personal use (eg personal use of council IT equipment)
Resource issues	ie where there is misuse of resources (eg theft of building materials/cash)
Other issues	ie activities undertaken by officers of the Council which may be: unlawful; fall below established standards or practices; or amount to improper conduct (eg receiving unapproved hospitality)

(This is not an exhaustive list.)

- 1.2 The prevention of fraud, and the protection of the public purse is **EVERYONE'S BUSINESS**. It is important that all staff know:

- how to recognise a fraud,
- how to prevent it, and
- what to do if they suspect that they have come upon a fraud.

- 1.3 This guidance has been drawn up to provide information to staff at all levels. The strategy and guidance attempt to assist staff and others with suspicions of any malpractice. The overriding concern is that it is in the public interest for the malpractice to be corrected and, if appropriate, sanctions and redress applied.

- 1.4 It is important that staff should be able to use any mechanism without fear of victimisation, and fully know that their concerns will be addressed seriously, quickly and discreetly.

- 1.5 It is important that the whole Council works together to reduce Benefit Fraud. All Staff are therefore required to transfer relevant information gathered in their normal day to day activities about possible Benefit irregularities to the Department for Works and Pensions (DWP). So, for example, if during a routine visit/interview you become aware that a customer is working and

“signing on” which they may be entitled to do so but you must tell the DWP this information. You are not expected to and must not delve any further.

1.6 The Council has determined that it should have a culture of honesty and openness in all its dealings, with opposition to fraud and corruption. The Council’s Whistleblowing Policy does this by :-

- making it clear that vigilance is part of the job. Knowingly not raising concerns may be a serious disciplinary offence,
- recognising that early action may well prevent more worry or more serious loss/damage,
- making it safe and simple to convey critical information ensuring that any concern in this area is seen as a concern and not a grievance,
- encouraging information exchange, remembering that there are two sides to every story,
- providing a way in which concerns can be raised in confidence and not necessarily via the nominated line manager or supervisor,
- recognising the need for discretion,
- ensuring the anonymity of the individual, where possible, should this be preferred by the employee, and by protecting employers from reprisals.

1.7 Under the Enterprise and Regulatory Reform Act 2013, any disclosure made using the Whistleblowing Policy, within reasonable belief of the worker making the disclosure will only be protected if it is made in the public interest. More detail is found in the Whistleblowing Policy.

1.8 There is a need to ensure that any investigation process is not misused and, therefore, any abuse such as raising unfounded malicious allegations may be dealt with as a disciplinary matter.

2.0 Why Do We Need This Advice?

2.1 It is important that you follow the advice given and do not try to handle the problem yourself, without expert advice and assistance. A badly managed investigation may do more harm than good. There are a number of internal and external processes which have to be followed to yield a satisfactory conclusion.

3.0 How To Recognise A Fraud

3.1 Each employee must be aware of fraud and the areas within their responsibility where fraud may occur.

3.2 Fraud can happen wherever staff or independent contractors complete official processes and can take financial advantage of the Council. The risk of fraud is enhanced where staff or contractors are in positions of trust or responsibility and are not checked or subjected to effective monitoring or validation. Consequently the following areas are susceptible to fraud:-

- claims for work done by independent contractors,
- travel and expense claims,
- cash receipts/ petty cash,
- payroll,
- ordering, and
- stocks and assets.

3.3 Fraud involves the falsification of records, failing to disclose information or abuse of position. Managers need to be aware of the possibility of fraud when presented with claims/forms/documentation etc. Issues which may give rise to suspicions are:-

- systems / documents (including online forms) that have been amended or tampered with,
- claims that cannot be checked, particularly if prior authorisation was not given,
- strange trends (use comparisons and reasonableness),
- confused, illegible text and missing details,
- delays in documentation, completion or submission, and
- no evidence e.g. vouchers or receipts to support claims.

3.4 There are a number of indications of an employee being in a situation whereby they could be acting fraudulently. Common indicators could be:-

- living beyond their means,
- under financial pressure,
- not taking annual leave, and
- solely responsible for a “risk” area and/or possibly refusing to allow another officer to be involved in their duties and/or have minimal supervision.

4.0 How To Prevent It

4.1 By establishing an adverse culture to fraud and corruption the Council can help to prevent its occurrence.

4.2 Managers need to :-

- Minimise the opportunity for fraud – this can be achieved by putting in place robust systems of internal controls and checks.
- Reduce the “Pay – Off” – this is achieved by increasing the chances of detection and increasing the penalty for the perpetrator so risks outweigh the benefits of getting “away with it”

- 4.3 There are 8 basic control types which management should concern themselves with: -

Supervision

Supervisory checks should be completed and recorded by the line manager on the work completed by his/her team.

Organisation

Within each system, there should be policies/procedures setting out how functions should be carried out. There should be clear structures/rules which staff should work within.

Authorisation

Within a system there should be authorisation controls e.g. controls to authorise a payment (electronic/physical signature), and the correct level of authority is used in decision making.

Personnel

There should be clear roles and responsibilities and appropriate level of delegation. The right person should be doing the right job.

Segregation of Duties

Seek to avoid the sole ownership for the processing and control functions of any activity, by one employee.

Physical

This relates to physical controls e.g. access to monies, documents, security of premises etc should be appropriate and restricted where necessary. Where restricted access is necessary, access to keys/door numbers etc should be retained by the person granted access rights. They should not be left on the premises. Inventory checks ensure that assets are controlled.

Arithmetical Accuracy

Checks completed by another person to confirm the accuracy of data input/independent reconciliations of cash floats etc.

Management Functions

Within the system there should be controls for monitoring and reporting upon activity e.g the production of audit trail reports from systems etc. Monitoring to highlight exceptions/irregularity/non-compliance with rules and procedures and reporting – being accountable for actions.

- 4.4. Staff need to be aware of the possibility of fraud when presented with claims/forms/ documentation, etc. They should also have an awareness of internal rules and procedures; i.e. financial and contract procedure rules, declarations of outside work, hospitality etc.
- 4.5 Deterrence and prevention is the primary aim and if managers implement and control areas as mentioned in 4.3, any deviation from the set procedure should be highlighted in a timely manner.

5.0 What To Do On Suspecting A Fraud

5.1 Action By Staff

- 5.1.1 The Council is committed to the highest possible standards of openness, probity and accountability. Any employee who believes such standards are being breached should report their suspicions. This should be done via this Policy, by contacting the **Audit Manager (Shared Service). Shared Head of Audit.**
- 5.1.2 You should report the matter immediately, make a note of your suspicions and provide as much factual information to support your concerns. Concerns are better raised in writing.
- 5.1.3 The background and the history of the concern, giving names, dates and places where possible, should be set out and the reason why the individual is particularly concerned about the situation. Those who do not feel able to put their concern in writing can telephone or meet the appropriate officer. The earlier the concern is expressed, the easier it is to take action. Individuals may invite their trade union or professional association to raise a matter on their behalf.
- 5.1.4 Do not try to carry out an investigation yourself. This may damage any investigation carried out by the Internal Audit section. Help the official investigators by providing information as and when requested and by giving a written statement when required.

5.2 Action By Managers

- 5.2.1 If managers become suspicious of any action by an employee or supplier or such suspicions are reported to them they should follow these simple rules.
- if possible establish if the irregularity (potential fraud, corruption or error) is a genuine error or possible fraud.
 - contact the **Audit Manager (Shared Service). Shared Head of Audit** or in their absence a member of the Internal Audit section.
 - do nothing else, except remain vigilant and await further instructions from the investigating team.

5.2.2 The Council is required to report any cases in which it is suspected that transactions involve the proceeds of crime. If staff or managers have any such suspicion, this should be reported immediately to the Head of Finance & Procurement, who shall advise on the necessary action and ensure the matter is reported to the appropriate authorities.

5.2.3 Details of the relevant contacts can be found in Appendix 4.

6.0 What Happens To The Allegation

6.1 Internal Audit will normally carry out a full enquiry even where there is clear evidence of an offence following the Fraud Response Plan (Appendix 3). A full report will be copied and sent to:-

- the relevant Chief Officer, and
- the Chief Executive to consider if there needs to be any police involvement.

6.2 It is essential that the Internal Audit investigation be a complete one and the investigating officer to whom it is delegated is entitled to expect the fullest co-operation from all staff.

6.3 A full detailed report on any system control failures and recommended actions to address the failures will be issued to the relevant manager in the format of an internal audit report.

The Seven Principles of Public Life (Nolan Committee)

Selflessness

Holders of public office take decisions in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

Statement of Expected Responsibilities

Stakeholder	Expected Responsibilities
Chief Executive	Ultimately accountable as Head of Paid Service for the effectiveness of the Council's arrangements for countering fraud and corruption as well as corporate governance.
Head of Finance & Procurement (Section 151 Officer)	The Head of Finance & Procurement has a statutory duty, under Section 151 of the Local Government Act 1972, Sections 114 and 116 of the Local Government Finance Act 1988 and Accounts and Audit Regulations 2011 to ensure the proper administration of the Council's financial affairs. The operation of the Council's Money Laundering Policy.
Head of Governance & Performance (Monitoring Officer)	To advise Members and officers on ethical issues, standards and powers to ensure that the Council operates within the Law and Statutory Codes of Practice. Maintain a Register of Disclosable Pecuniary Interests. To put in place a corporate recruitment and selection policy and monitor compliance against it. The operation of the Council's Regulation of Investigatory Powers Act (RIPA) 2000 Policies and Procedures.
Heads of Service	To ensure that fraud and corruption risks are considered as part of the Council's corporate risk management arrangements. To ensure that actions to mitigate risks in this area are effective. To notify the Audit Manager (Shared Service) Shared Head of Audit of any fraud arising in a timely manner.

Leadership Team	Challenge new policies and strategies to ensure that fraud and corruption risks have been taken into account. Review the corporate framework designed to promote an over-riding counter-fraud culture on a regular basis. This will include monitoring and evaluating arrangements to ensure effectiveness and compliance with best practice.
Audit & Member Standards Committee	To monitor the Council's policies and consider the effectiveness of the arrangements for Counter Fraud and Whistleblowing.
Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits	To champion the Council's Counter Fraud & Corruption arrangements and promote them at every opportunity.
Elected Members	To support and promote the development of a strong counter fraud culture.
External Audit	Statutory duty to ensure that the Council has in place adequate arrangements for the prevention and detection of fraud, corruption and theft.
Internal Audit	Responsible for developing and implementing the Counter Fraud and Corruption Policy Statement, Strategy and Guidance Notes and investigating any issues reported under this policy. Reporting on the effectiveness of controls to the Audit & Member Standards Committee. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with this Strategy and that action is identified to improve controls and reduce the risk of recurrence.
Senior Managers	To promote employee awareness and ensure that all suspected or reported irregularities are immediately referred to the Audit Manager (Shared Service) Shared Head of Audit . To ensure that there are mechanisms in place within their service areas to assess the risk of fraud, corruption and theft and to reduce these risks by implementing robust internal controls.

Staff	To comply with Council policies and procedures, to be aware of the possibility of fraud, corruption and theft, and to report any genuine concerns to the <u>Audit Manager (Shared Service)</u> Shared Head of Audit .
Public, Partners, Suppliers, Contractors and Consultants	To be aware of the possibility of fraud and corruption against the Council and report any genuine concerns or suspicions. To ensure that effective controls are in place to mitigate risks to the Council.

HOW TO REPORT ANY SUSPECTED FRAUDS, CORRUPTION, OTHER IRREGULARITIES OR CONCERNS

To contact Internal Audit Services

- Contact can be made with Lichfield Internal Audit Section in a number of ways. These are:

For all general issues:

- Call the **Audit Manager (Shared Service)** on 01543 308030
 - Email the **Audit Manager (Shared Service)** on **andrew.wood@lichfielddc.gov.uk** or **Rebecca.neill@lichfielddc.gov.uk**
 - Telephone the confidential reporting hotline on 01543 308111
 - Write to Lichfield Internal Audit, District Council House, Frog Lane, Lichfield, WS13 6ZB.
 - Use the Council's Internet 'Report It' function.
- If in doubt, then [Public Concern at Work](#) will give free and totally independent advice on how to proceed. More information can be found in the [Whistleblowing Policy](#).

To contact the Council's external auditor

Write to:

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
West Midlands
B4 6AT
Tel: 0121 212 4000

**National Audit Office – Comptroller and Auditor General Whistleblowing
hotline: 020 7798 7999**

For Housing Benefit Fraud (including local council tax support and single person discount), contact:

- Telephone the national benefit fraud hotline on 0800 854 440 or
- Text phone number 0800 320 0512 or
- Via their website at <https://www.gov.uk/report-benefit-fraud>
- Write to NBFH, PO Box No. 224, Preston, PR1 1GP

Frauds and cyber-crime can also be reported via:
<https://www.actionfraud.police.uk/reporting-fraud-and-cyber-crime>

CREATING AN ANTI-FRAUD CULTURE		
OBJECTIVE	RISK	PROGRESS
<p>To build an anti-fraud culture through the adoption of various measures to promote counter fraud awareness by:</p> <p>Continued use of e-learning of fraud awareness</p> <p>Provide drop in sessions (if required) to staff and members.</p> <p>Continue to make available counter fraud strategies/policies on the intranet</p>	<p>Failure to make staff, members and the public that their suspicions will be treated confidentially, objectively and professionally.</p>	<p>On-going</p>
<p>To complete an annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.</p>	<p>Failure to make available enough resources for counter fraud work</p>	<p>Annually as part of the audit planning process</p>

DETECTING FRAUD		
OBJECTIVE	RISK	PROGRESS
Review communications so that the most effective ways of communication with staff are utilised	A lack of robust strategic approach to deterring fraud can undermine actions to build an anti-fraud culture.	Conduct an of annual anti-fraud campaign
Deter fraud attempts by publishing the organisations counter fraud and corruption stance and the actions it takes against fraudsters.	A lack of understanding as to the stance the authority takes against fraud.	Publish strategy on the intranet and raise staff awareness annually

PREVENTING FRAUD		
OBJECTIVE	RISK	PROGRESS
Review the existing Counter Fraud Policy Statement, Strategy & Guidance Notes and update and amend as appropriate.	Out of date policies and procedures which do not cover relevant legislation	Three-Four yearly review (unless legislation / best practice changes). Minor amendments (i.e. role changes) delegated to the <u>Audit Manager (Shared Service)</u> Shared Head of Audit to undertake
Review and update the fraud risk register in line with potential system weaknesses identified during audits or investigations.	Potential risks not identified	Completed annually
Implement effective Whistleblowing arrangements	Out of date policies and procedures which do not cover relevant legislation.	Four-Three yearly review (unless legislation / best practice changes). Minor amendments (i.e. role changes) delegated to the <u>Audit Manager (Shared Service)</u> Shared Head of Audit to undertake

DETECTING FRAUD		
OBJECTIVE	RISK	PROGRESS
Undertake enquiries as a result of the outcome of the National Fraud Initiative	If not undertaken, there is a risk that the opportunity to abuse a system weakness may be heightened as the risk of being caught maybe deemed negligible by the perpetrator.	On-going
Undertake local proactive exercises through data & intelligence analysis at the Authority in line with the audit plan	If not undertaken, there is a risk that the opportunity to abuse a system weakness may be heightened as the risk of being caught maybe deemed negligible by the perpetrator.	As required
Review and evaluated the potential for the use of computer aided and other innovative techniques for the detection of fraud.	If not undertaken, there is a risk that fraud could go undetected	As required

INVESTIGATIONS		
OBJECTIVE	RISK	PROGRESS
All referrals will be investigated in accordance with the Counter Fraud and Corruption Policy Statement & Strategy.	The risk of not investigating is that fraud goes unpunished and there is no resulting deterrent effect thus increasing the prevalence of fraud further	On-going

SANCTIONS		
OBJECTIVE	RISK	PROGRESS
Ensure that the sanctions are applied correctly and consistently (including internal disciplinary, regulatory & criminal).	If sanctions are not imposed there is no deterrence of fraud.	On-going

REDRESS		
OBJECTIVE	RISK	PROGRESS
Maintain comprehensive records of time spent on each investigation so that this can be included in any compensation claim. Identify and maintain a record of the actual proven amount of loss so that appropriate recovery procedures can be actioned.	Fraudsters may not realise that any and all measures will be taken to recover any money lost to fraud.	On-going

MANDATORY COUNTER FRAUD ARRANGEMENTS (STRATEGIC WORK)		
OBJECTIVE	RISK	PROGRESS
Attendance at relevant fraud forums/meetings to ensure that professional knowledge and skills are maintained.	Failure to ensure the completion of mandatory strategic work may mean that the professional knowledge and skills are not maintained to a high standard.	On-going
Completion and agreement of work plan		On-going
Regular meetings with the Head of Finance & Procurement		On-going
Regular report of counter fraud work		On-going
Attendance at relevant training as required.		On-going



Confidential Reporting (Whistleblowing) Policy

October 2020

Document Location

This information can be produced on request in other formats and languages

This document is held by Lichfield District Council, and the document owner is the Chief Executive.

Printed documents may be obsolete. An electronic copy is available on Lichfield District Council's Intranet. Please check for current version before using.

Revision History

Revision Date	Version Control	Summary of changes
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October 2021		Refresh

Approvals

Name	Title	Approved
Audit & Member Standards Committee	Committee Approval	
Leadership Team	Leadership Approval	Yes
Chief Executive Approval	Policy Owner Approval	Yes

Document Review Plans

This document is subject to a scheduled review every 43 years in accordance with the election cycles. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

Distribution

The document will be available on the Intranet and the website.

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LICHFIELD DISTRICT COUNCIL

CONFIDENTIAL REPORTING (WHISTLEBLOWING) POLICY

1. Policy Statement

- 1.1 Those working for the Council are often the first to realise that there may be something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.
- 1.2 The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment it expects its workers and employees, and others that it deals with, who have serious concerns about any aspect of the Council's work to come forward and voice those concerns. It is recognised that most cases will have to proceed on a confidential basis.
- 1.3 This policy document makes it clear that you can do so without fear of victimisation, subsequent discrimination or disadvantage. This Whistleblowing Policy is intended to encourage and enable anyone to raise concerns in the public interest, within the Council rather than overlooking a problem or 'blowing the whistle' outside.

2 Introduction

- 2.1 The Public Interest Disclosure Act 1998 became law in July, 1999. This Act, introduced the protection of whistleblowers and removes the limits of financial liability to which an organisation is exposed should a whistleblower receive unfair treatment. This policy document sets out the Council's response to the requirements of the Act.
- 2.2 Under the Enterprise and Regulatory Reform Act 2013, any disclosure made using the Whistleblowing Policy, within reasonable belief of the worker making the disclosure will only be protected if it is made in the public interest. It must also show one or more of the following:
 - (a) that a criminal offence has been committed, is being committed or is likely to be committed,
 - (b) that a person has failed, is failing or is likely to fail to comply with any legal obligation to which they are subject,
 - (c) that a miscarriage of justice has occurred, is occurring or is likely to occur,
 - (d) that the health or safety of any individual has been, is being or is likely to be endangered,

- (e) that the environment has been, is being or is likely to be damaged, or
- (f) that information tending to show any matter falling within any one of the preceding paragraphs has been, is being or is likely to be deliberately concealed.

2.3 This policy is designed for workers. Workers include:

- employees;
- agency workers;
- people that are training with an employer but not employed; and
- self-employed workers, if supervised or working off-site.

2.4 Local Government employees have an individual and collective responsibility regarding their conduct and practices, which are always subject to scrutiny. As individuals, employees are required to work within the Code of Conduct for Lichfield District Council Employees and the relevant codes of conduct including the standards appropriate to their professional organisations or associations. The Council's regulatory framework also includes Financial Procedure Rules and Contract Procedure Rules that must be met.

2.5 All employees have a duty to bring to the attention of management any deficiency in the provision of service and any impropriety or breach of procedure, in accordance with Financial Procedure Rules."

2.6 These procedures are in addition to the Council's complaints procedures including the Grievance Policy & Procedure and Prevention of Bullying and Harassment at work policy and other statutory reporting procedures applying to some Services.

3 Aims and Scope of this Policy

3.1 This policy aims to:

- encourage you to feel confident in raising concerns that are in the public interest
- provide avenues for you to raise those concerns and receive feedback on any action taken
- ensure that you receive a response to your concerns and that you are aware of how to pursue them if you are not satisfied
- re-assure you that you will be protected from possible reprisals or victimisation if you have a reasonable belief that you have made any disclosure in the public interest.

3.2 There are existing procedures in place to enable you to disclose particular concerns. These are:

- The Authority's Grievance Policy & Procedure which enables you to lodge a grievance relating to your own employment;

- The Authority's Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes, which outlines how you can disclose potential fraud, bribery, corruption and theft;
- The Authority's Prevention of Bullying and Harassment at Work Policy & Procedure, which enables you to disclose cases of potential harassment and bullying;
- The Authority's Safeguarding Children & Vulnerable Adults Protection Policy (which has its own Whistleblowing Procedures in place), for disclosures regarding suspected mistreatment of children and vulnerable adults.
- The Authority's Prevention of the Facilitation of Tax Evasion Policy for disclosures relating to the prevention of the facilitation of tax evasion by the Council's staff, agents and contractual associates under Part 3 of the Criminal Finances Act 2017.

3.3 This policy does **not** replace the corporate complaints procedure or other existing policies for raising issues regarding your employment.

3.4 This policy is subject to ~~four~~ **three**-yearly review, unless legislative changes or best practice changes occur. Minor amendments to this policy such as job title changes will be made by the **Audit Manager (Shared Service), Shared Head of Audit** / Principal Auditor.

4 Safeguards

4.1 The Council is committed to good practice and high standards and shall be supportive of employees.

4.2 The Council recognises that the decision to report a concern can be a difficult one to make. If what you are saying is within reasonable belief, you should have nothing to fear because you will be doing your duty to your employer and those for whom you are providing a service.

4.3 The Council will not tolerate any harassment or victimisation (including informal pressures) and will take appropriate action to protect you when you raise a concern in the public interest.

5 Confidentiality

5.1 All concerns will be treated in confidence and every effort will be made not to reveal your identity if you so wish. At the appropriate time, however, you may need to come forward as a witness, but this will be discussed with you, as to whether and how the matter can be proceeded with.

6 Anonymous Allegations

6.1 This policy encourages you to put your name to your allegation whenever possible.

- 6.2 Concerns expressed anonymously are much less powerful but will be considered at the discretion of the Council.
- 6.3 In exercising this discretion the factors to be taken into account would include:
- the seriousness of the issues raised;
 - the credibility of the concern; and
 - the likelihood of confirming the allegation from attributable sources.

7 Untrue Allegations

- 7.1 If you make an allegation in the public interest, but it is not confirmed by the investigation, no action will be taken against you. If, however, you make an allegation frivolously, maliciously or for personal gain, disciplinary action may be taken against you.

8 How to Raise a Concern

- 8.1 You should raise your concern with the **Audit Manager (Shared Service) Shared Head of Audit**, or in their absence, a member of the Internal Audit Team. Where staff feel unable to raise concerns with the **Audit Manager (Shared Service) Shared Head of Audit**, they can raise their concern with their line manager, who must immediately inform the **Head of Finance & Procurement Shared Head of Audit**. Under no circumstances should any investigation be undertaken by management.
- 8.2 You may wish to consider discussing your concern with a colleague first and you may find it easier to raise the matter if there are two (or more) of you who have had the same experience or concerns.
- 8.3 If the concern raised relates to fraud or corruption, then the matter will be reviewed and investigated by Internal Audit. If however, the concern relates to a management issue, then the matter will be recorded and forwarded onto the appropriate officer to deal with it.
- 8.4 Concerns are best raised in writing. You are invited to set out the background and history of the concern, giving names, dates and places where possible, and the reason why you are particularly concerned about the situation. If you do not feel able to put your particular concern in writing, you can telephone or meet the appropriate officer. The Officer notified of an individual's concern must record those concerns taking a statement where they feel it appropriate.
- 8.5 In addition, a confidential reporting hotline (01543 308111) has been set up for staff and members of the public to report any concerns. Anyone using this facility should provide as much information as possible to ensure the concern can be properly investigated, including leaving your name and contact number, if possible.

- 8.6 The earlier you express the concern, the easier it is to take action, and although you will not be expected to prove the truth of the allegation, you will need to be able to demonstrate to the person contacted that there are sufficient grounds for your concern.
- 8.7 You may invite your trade union or professional association representative or a member of staff to be present during any meetings or interviews in connection with the concerns you have raised.
- 8.8 Advice and guidance on how matters of concern may be pursued can be obtained from the: -

Head of Governance & Performance Tel: 308002,

Audit Manager (Shared Service) Shared Head of Audit Tel: 308230

9 External contacts

- 9.1 While it is hoped that this policy gives you the reassurance you need to raise such matters internally and the Council strongly encourages you to pursue concerns through this process, it is recognised that there may be circumstances where you can properly report matters to outside bodies, such as prescribed regulators, some of which are outlined below, or the police, or if applicable your own union, who will be able to advise you on such an option and on the circumstances in which you may be able to contact an outside body safely.
- 9.2 Examples of relevant Prescribed Regulators are as follows:

Proper conduct of public business, value for money fraud and corruption relating to the provision of public services	Comptroller and Auditor General
Serious and complex fraud	Director of the Serious Fraud Office
Environmental issues	Environment Agency
Accounting, auditing and actuarial issues	Financial Reporting Council Limited
Health & safety issues	Health & Safety Executive
Social housing	Homes & Communities Agency
Data Protection & Freedom of Information	Information Commissioner
Corruption & Bribery	National Crime Agency

Child Welfare & Protection	Children's Commissioner NSPCC

The full list of prescribed regulators can be found in The Public Interest Disclosure (Prescribed Persons) Order 2014.

- 9.3 Public Concern at Work, 0207 404 6609, www.helpline@pcaw.co.uk , are a registered charity set up to give free independent advice to employees and workers who contact them with concerns. They have qualified legal staff.

10 How the Council Will Respond

- 10.1 The Council will always respond to your concerns. Do not forget that testing out your concerns is not the same as either accepting or rejecting them.

- 10.2 Where appropriate, the matters raised may:

- be investigated internally (the Disciplinary Procedure may be used);
- be referred to the police;
- be referred to the external auditor; or
- form the subject of an independent inquiry.

- 10.3 In order to protect individuals and those accused of misdeeds or possible malpractice, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. The overriding principle which the Council will have in mind is the public interest. Concerns or allegations which fall within the scope of specific procedures (for example, child protection or discrimination issues) will normally be referred for consideration under those procedures.

- 10.4 Some concerns may be resolved by agreed action without the need for investigation. If urgent action is required this will be taken before any investigation is conducted.

- 10.5 Within ten working days of a concern being raised, the Head of Governance & Performance will write to you:

- acknowledging that the concern has been received;
- indicating how the Council propose to deal with the matter;
- giving an estimate of how long it will take to provide a final response;
- telling you whether any initial enquiries have been made;
- supplying you with information on how the Council will support you if you think this is necessary, whilst the matter is under consideration; and
- telling you whether further investigations will take place and if not, why not.

- 10.6 The amount of contact between the officers considering the issues and you will depend on the nature of the matter raised, the potential difficulties

involved and the clarity of the information provided. If necessary, the Council will seek further information from you.

- 10.7 Where any meeting is arranged, you have the right, if you so wish, to be accompanied by a Union or professional association representative or a friend who is not involved in the area of work to which the concern relates.
- 10.8 The Council accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, we will inform you of the outcome of any investigation.

11 The Responsible Officer

- 11.1 The Chief Executive has overall responsibility for the maintenance and operation of this policy. Internal Audit will maintain a record of concerns raised and the outcomes (but in a form which does not endanger your confidentiality) and will report as necessary to the Council.

12 How the Matter can be Taken Further

- 12.1 If you feel that the Council has not responded correctly at any stage, remember you can go to the other levels and bodies mentioned earlier. While it cannot be guaranteed that all matters will be addressed in the way that you might wish, it will always be the Council's intention to handle the matter fairly and properly. By using this policy, you will help achieve this.
- 12.2 If you do take the matter outside the Council, you should ensure that you do not disclose confidential or privileged information. Advice can be sought from the Head of Governance & Performance (Monitoring Officer).

Anti Money Laundering Policy

Nov 2020

Document Location

This document is held by Lichfield District Council, and the document owner is the Head of Finance & Procurement (Section 151 Officer).

Printed documents may be obsolete. An electronic copy is available on Lichfield District Council's Intranet. Please check for current version before using.

Revision History

Revision Date	Version Control	Summary of changes
November 2020	1.0	Refreshed Policy
October 2021	1.1	Refresh

Approvals

Name	Title	Approved
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LICHFIELD DISTRICT COUNCIL

ANTI-MONEY LAUNDERING POLICY STATEMENT

1. Lichfield District Council fully recognises its responsibility in relation to the spending of public money (Protecting the Public Purse) and is committed to the fullest support for Councillors and Employees in upholding the reputation of the Council and maintaining public confidence in its integrity. It also recognises its responsibilities under the Proceeds of Crime Act 2002 (as amended by the serious organised Crime and Police Act 2005), Money Laundering Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (*and as amended*) (MLR) and the Bribery Act 2010.
2. The Council acknowledges the threat of money laundering and the harm that it can cause. The Council is committed to maintaining an ethical culture which does not and will not tolerate any form of fraud and corruption. Any such issues will be thoroughly investigated and, if confirmed, dealt with rapidly in the strongest possible way. We will seek the strongest possible sanctions against those who seek to defraud the Council. This includes taking appropriate action against employees, Councillors, contractors, external individuals and organisations.
3. To deliver the Council's corporate priorities, aims and strategic objectives we need to maximise the financial resources available to us. In order to do this we must reduce the risk of fraud to an absolute minimum.
4. This document is intended to provide advice and information to Employees and Councillors but suppliers, contractors and the general public are also encouraged to use this advice and guidance.

LICHFIELD DISTRICT COUNCIL ANTI-MONEY LAUNDERING POLICY

1. Introduction

Although local authorities are not directly covered by the requirements of the Money Laundering Regulations (MLR), guidance from CIPFA indicates that they should comply with the underlying spirit of the legislation and regulations.

Lichfield District Council is committed to the highest possible standards of conduct and governance, therefore, it has put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.

The Council must apply customer due diligence measures if the person carries out an occasional transaction that amounts to a transfer of funds exceeding €1,000. **To address and prevent money laundering and terrorist financing the Council has set a cash payment limit of £1,000.**

This is not designed to prevent customers making payments for Council services but to minimise the risk to the Council of high value cash transactions. Best practice is to be encouraged – seek payment electronically from a UK clearing bank.

2. Scope of the Policy

This policy applies to all employees, whether permanent or temporary, and Members of the Council.

Its aim is to enable employees and Members to respond to a concern they have in the course of their dealings for the Council. Individuals who have a concern relating to a matter outside work should contact the Police.

3. Definition of Money Laundering

Money laundering is a general term for any method of disguising the origin of “dirty” or criminal money. This money may be the proceeds of any criminal activity including terrorism, drugs trafficking, corruption, tax evasion and theft. The purpose of money laundering is to hide the origin of the dirty money so that it appears to have come from a legitimate source. Unfortunately, no organisation is safe from the threat of money laundering, particularly where it is receiving funds from sources where the identity of the payer is unknown. It is, therefore, possible that the Council may be targeted by criminals wishing to launder the proceeds of crime.

In addition, it is possible that the proceeds of crime may be received from individuals or organisations who do not realise that they are committing an offence. It is no defence for the payer or the recipient to claim that they did not know that they were committing an offence if they should have been aware of the origin of the funds. All staff therefore dealing with the receipt of funds or having contact with third parties from whom funds may be received need to be aware of the possibility of money laundering taking place.

Money laundering describes offences involving the integration of the proceeds of crime or terrorist funds into the mainstream economy. Such offences are

defined under the Proceeds of Crime Act 2002 ("the Act"); the following are 'prohibited acts':

- Concealing, disguising, converting, transferring or removing criminal property from the UK
- Becoming involved in an arrangement which an individual knows or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person
- Acquiring, using or possessing criminal property
- Failure to disclose one of the offences listed above, where there are reasonable grounds for knowledge or suspicion
- Doing something that might prejudice an investigation e.g. falsifying a document
- Tipping off a person(s) who is or is suspected of being involved in money laundering in such a way as to reduce the likelihood of or prejudice an investigation

Provided the Council does not undertake activities regulated under the Financial Services and Markets Act 2000, the offences of failure to disclose and tipping off do not apply. However, the Council and its employees and Members remain subject to the remainder of the offences and the full provisions of the Terrorism Act 2000.

The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism.

Although the term 'money laundering' is generally used to describe the activities of organised crime, for most people it will involve a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

Potentially very heavy penalties (unlimited fines and imprisonment up to fourteen years) can be handed down to those who are convicted of one of the offences above.

It is important therefore that staff are aware of the rules and procedures that the Council has in place to ensure that they comply with the relevant legislation and approach taken by the Council as set out in this policy.

4. Requirements of the Money Laundering Legislation

The main requirements of the legislation are:

- To appoint a money laundering reporting officer.
- Conduct a money laundering and terrorist financing risk assessment.
- Implement systems, policies, controls and procedures to address money laundering and terrorist financing risks and meet the requirements under the regulations.
- Apply policies, procedures and adopt appropriate internal controls.
- Provide training for staff.
- Maintain customer due diligence, enhanced due diligence and simplified due diligence requirements in certain circumstances.
- Comply with requirements relating to politically exposed persons.

- Implement a procedure to enable the reporting of suspicions of money laundering, including record keeping and compliance with data protection systems.
- Maintain record keeping procedures

5. The Money Laundering Reporting Officer (MLRO)

The Council has designated the Head of Finance & Procurement (Section 151 Officer) as the Money Laundering Reporting Officer (MLRO). They can be contacted on 01543 308012 or by email on anthony.thomas@lichfielddc.gov.uk

In the absence of the MLRO or in instances where it is suspected that the MLRO could be involved in suspicious transactions, concerns should be raised with the Chief Executive. They can be contacted on 01543 308001 or by email on simon.fletcher@lichfielddc.gov.uk diane.tilley@lichfielddc.gov.uk.

6. Possible Signs of Money Laundering

It is not possible to give a definitive list of ways in which to spot money laundering but facts which tend to suggest that something “odd” is happening may be sufficient for a reasonable suspicion of money laundering to arise.

The following are the types of risk factors which *may*, either alone or cumulatively with other factors, suggest the possibility of money laundering activity:

- A new customer with no previous history with the Council.
- A secretive customer: for example one who refuses to provide requested information without a reasonable explanation.
- Concerns about the honesty, integrity or identity of a customer.
- Illogical third party transactions: for example unnecessary routing or receipt of funds from third parties or through third party accounts.
- Involvement of an unconnected third party without logical reason or explanation.
- Payment of substantial sum in cash.
- Overpayments by a customer.
- Absence of an obvious legitimate source of the funds.
- Movement of funds to and from overseas, particularly to and from a higher risk country.
- Where, without reasonable explanation, the size, nature and frequency of transactions or instructions is out of line with normal expectations.
- Cancellation or reversal of an earlier transaction.

7. Due Diligence Procedures

The Money Laundering Regulations require us to carry out “Customer Due Diligence”. Staff should therefore be alert to where Lichfield District Council may be targeted by individuals trying to launder the proceeds of crime and/or finance terrorist activity.

Staff should avoid alerting anyone dealing with Lichfield District Council that there is a suspicion that they may be attempting to launder, or have laundered,

the proceeds of crime; and report any suspicions of money laundering to the Money Laundering Reporting Officer.

Training will be provided to all relevant staff regarding money laundering to assist them in their awareness of how money laundering could take place and the appropriate method of dealing with this. In effect, any areas where money changes hands could therefore be at risk of money laundering attempts, i.e. Application fees for taxi licences, planning applications etc.

The Council already has procedures in place to limit the amount of cash that it receives, with other payment methods being made available. To ensure however that the system is manageable, if a cash payment of less than £1,000 is received; no identification checks will be needed.

Where the £1,000 limit is exceeded, officers dealing with the matter will need to (1) establish the identity of the individual/company involved (2) seek advice from the MLRO (01543 308012) to ensure that the risk of receiving the proceeds of crime can be minimised.

For individuals, their passport or photo driving licence should be obtained, together with one of the following:

- Utility bills i.e. electricity, water etc. however mobile phone bills are not acceptable.
- Mortgage/building society/bank statements.
- Credit card statements.
- Official receipt of pension / benefit confirmation.

If a passport or photo driving licence is not available, then two of the other items listed above will need to be produced. These can be electronic verifiable format.

For companies, a Companies House search should be undertaken to confirm the existence of the company and identify who the directors are. Personal identification should then be obtained for the representatives of the company together with proof of their authority to act on behalf of the company. The name of the company, company number or other registration and address of the registered office and if different, principal place of business should be recorded. Care should be taken if it becomes clear that the individual has only recently become a director of the company or if there has been a recent change in the registered office.

For any other type of organisation, for example a sole trader or partnership, personal identification should be obtained for the individuals together with documents indicating their relationship to the organisation. Where applicable identify the beneficial owners of the individual and assess the purpose and intended nature of the transaction.

Enhanced due diligence checks should take place and/or must be applied, in any transaction or business relationship involving a person established in a 'high risk third country', any transaction or business relationship involving a 'politically exposed person' (PEP) or a family member or known associate of a PEP and any other situation that presents a higher risk of money laundering or terrorist financing.

Simplified due diligence is permitted where it is determined that the business relationship or transaction presents a low risk of money laundering or terrorist financing, taking into account the risk assessment.

Customer due diligence measures will differ from case to case but most reflect the assessment of the level of risk in each particular case.

Copies of any evidence provided in support of the identification of an individual or organisation should be kept on a central file so that it can be referred to later if necessary. Records should be kept for 6 years after the end of the transaction.

8. Land/Property Transactions

The Council has in place procedures to identify customers when Council land or property is being sold without the involvement of independent legal advice. The procedures will require the Council to:

- Identify customers and verify their identity on the basis of documents from a reliable and approved source;
- Identify where applicable the beneficial owner (see below) and take adequate measures on a risk sensitive basis to verify their identity;
- Maintain records of all checks.

“Beneficial owners” are the individuals who ultimately own, control or have a legal interest in the asset or the person on whose behalf a transaction or activity is being conducted.

If satisfactory evidence of a customer’s identity cannot be obtained at the outset then the business transaction CANNOT proceed any further.

All personal data collected will be kept in accordance with the General Data Protection Regulations.

9. Procedure for Reporting Suspicious Transactions

Any suspicious transactions which staff may become aware of in the course of their work must be reported to the MLRO immediately using the Council’s Internal Disclosure Form (see Appendix 2). Failure to make the appropriate report immediately will be regarded as gross misconduct and may result in dismissal without notice or pay in lieu of notice.

The report must include as much detail as possible including:

- Full details of the people involved.
- Full details of the nature of their/your involvement.
- The types of money laundering activity involved.
- The date(s) of such activity/ies.
- Whether the transactions have happened, are ongoing or are imminent.
- Where they took place (if applicable).
- How they were undertaken (if applicable).
- The (likely) amount of money/assets involved.
- Why, exactly, there are suspicions.

This should be supported by any other available information to enable the MLRO to make a sound judgement as to whether there are reasonable grounds for knowledge or suspicion of money laundering and to enable them to prepare a report to the National Crime Agency (NCA), where appropriate. You should also enclose copies of any relevant supporting documentation.

It is imperative, if staff have a suspicion concerning an individual or organisation with which they are dealing, that they do not alert them to that suspicion i.e. that no “tipping off” is done. Staff must, therefore, **not** make them aware that an internal disclosure report may be made. Once the report is made, the cash/cheques/other form of payment from this source should not be banked until clearance has been received from the MLRO. Such clearance may take up to seven days from the time when the initial report to the MLRO is made.

If the funds are banked in this period without getting clearance from the MLRO that staff members runs the risk of a fine and/ or imprisonment for up to 14 years.

10. Additional Guidance

If you require any additional information or guidance in relation to the contents of this policy and your responsibilities please contact the MLRO. An Aide Memoir has been prepared – Appendix 3, which can be used as a brief reminder to staff of their responsibilities.

11. Consideration of the Disclosure by the Money Laundering Reporting Officer

Upon receipt of a report, the MLRO must note the date thereof and acknowledge receipt. They should also advise you of the timescale within which they expects to respond to you.

The MLRO will consider the report and any other available internal information they think relevant e.g.

- reviewing other transaction patterns and volumes;
- the length of any business relationship involved;
- the number of any one-off transactions and linked one-off transactions;
- any identification evidence held;

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

Once the MLRO has evaluated the report and any other relevant information, they must make a timely determination as to whether:

- there is actual or suspected money laundering taking place; or
- there are reasonable grounds to know or suspect that is the case; and
- there is a requirement to seek consent from the NCA for a particular transaction to proceed.

Where the MLRO does so conclude, then they must disclose the matter as soon as practicable to the NCA on their standard report form and in the prescribed manner, unless they has a reasonable excuse for non-disclosure to the NCA (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information).

Where the MLRO suspects money laundering but has a reasonable excuse for non-disclosure, then they must note this accordingly; they can then immediately give their consent for any ongoing or imminent transactions to proceed.

In cases where legal professional privilege may apply, the MLRO must liaise with the Head of Governance & Performance (Monitoring Officer) to decide whether there is a reasonable excuse for not reporting the matter to the NCA.

Where consent is required from the NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until the NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from the NCA.

Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then they shall note this accordingly and give consent for any ongoing or imminent transaction(s) to proceed.

All reports referred to the MLRO and reports made by them to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of six years.

The MLRO commits 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.

12. Training

Officers considered likely to be exposed to suspicious situations, will be made aware of these by their senior officer and provided with appropriate training. In effect, any areas where money changes hands could therefore be at risk of money laundering attempts i.e. application fees for taxi licences, planning applications, etc.

Additionally, all employees and Members will be familiarised with the legal and regulatory requirements relating to money laundering and how they affect both the Council and themselves.

Notwithstanding the paragraphs above, it is the duty of officers and Members to report all suspicious transactions whether they have received their training or not.

13. Conclusions

The Council has put into place a number of arrangements to protect itself from the risk of money laundering. However in the current climate of change there are issues that will increase this risk. Changes in structure, changes in systems and the turnover of staff all contribute to our exposure to the risk of money

laundering. To mitigate against this risk the Council will regularly review arrangements.

The Money Laundering Policy provides a framework for preventing and tackling money laundering acts against the Authority. The approval of the Policy by the Audit and Member Standards Committee and the Council, demonstrates the Council's commitment to protecting public funds. Having made this commitment, it is imperative that the MLRO puts in place arrangements for disseminating the Policy and promoting money laundering awareness, throughout the Council. The Council believes that this policy represents a proportionate response to the level of risk it faces from money laundering offences.

14. Review

This policy and associated procedure will be subject to a review every 3 years unless any changes or updates to any of the relevant legislation require that it is undertaken sooner.

Role of the Money Laundering Report Officer – “MLRO”

The duties of the Money Laundering Reporting Officer are:

- To ensure that the Council complies with the requirements of the Money Laundering Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (and as amended) and the Proceeds of Crime Act 2002.
- To ensure that all relevant staff are aware of and comply with the Council's Anti-Money Laundering Policy.
- To ensure that the Council properly identifies all third parties dealing with the Council where there is a higher risk of the Council receiving the proceeds of crime and to ensure that copies of any documents taken as proof of evidence are kept on a central file by the Council.
- To ensure that all relevant staff receive training on how to identify, deal with and prevent money laundering.
- To ensure that all necessary disclosures to the National Crime Agency (NCA) are made and that they are made as soon as practically possible after the suspicion has been raised.
- To decide whether a suspicious transaction report requires a disclosure to be made to NCA.
- To liaise with NCA regarding the outcome of the disclosure and update staff accordingly.



MONEY LAUNDERING – INTERNAL REPORTING FORM

Money laundering legislation requires all individuals within the Council to report any knowledge or suspicions that they might have of money laundering (as defined in the Proceeds of Crime Act 2002) to the Council's Money Laundering Reporting Officer. To assist individuals the following pro forma has been developed. Particular circumstances may require different information to be disclosed and this should be fully explained, if applicable.

Instructions for Completion

It is your legal duty and a requirement of your employment with Lichfield District Council that you report any suspicion concerning proceeds of crime to:

Money Laundering Reporting Officer
Lichfield District Council
District Council House
Frog Lane
Lichfield
Staffordshire
WS13 6YY

This should be marked **URGENT – **RESTRICTED** TO THE ADDRESSEE ONLY**.

You are also reminded that “**Tipping-Off**” is a criminal offence. You should therefore avoid discussing the content of this report with anyone other than the Money Laundering Reporting Officer.

Date of Report:		Date suspicion first aroused:	
Prepared by: Name & Dept:			
Disclosure Type:	(ie. Connections to crime/drugs/terrorism)		

Main Subject (Person)

Surname:		Forename(s):		Title:	

Date of Birth:		Gender:		
Occupation:		Employer:		
Address: (in full)		Postcode:	Home/Business /Registered	Current/Previous

Or

Main Subject (Company)

Company Name:			Company No:	
Type of Business:			VAT No:	
Country of Reg:				
Address: (in full)		Postcode:	Home/Business/ Registered	Current/Previous

Bank Account Details

Account Name:		Sort Code:	
Opened:		Account No:	
Closed:		Balance:	

Other Information

Any information/evidence held to confirm identification and/or address, i.e. Passport/driving licence etc.:

Connected Subject Person (if any)

Surname:		Forename(s):		Title:	
Date of Birth:		Gender:			
Occupation:		Employer:			
Address: (in full)		Postcode:	Home/Business /Registered	Current/Previous	

Or
Connected Subject Company (if any)

Company Name:			Company No:	
Type of Business:			VAT No:	
Country of Reg:				
Address: (in full)		Postcode:	Home/Business/ Registered	Current/Previous

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Bank Account Details

Account Name:		Sort Code:	
Opened:		Account No:	
Closed:		Balance:	

Other Information

Any information/evidence held to confirm identification and/or address, ie. Passport/driving licence etc:

Reason for the Suspicion

Please tick any or all of the following which might apply

Drugs

Personal Tax Fraud

Vat Fraud

Crime

Company Tax Fraud

Immigration

Tobacco/Alcohol Excise Fraud

Following on from above, please set out the reason for the suspicion:

Please continue on separate sheet if required

Names of all other colleagues (principals and staff) who have been involved in the case

Declaration

The above is an accurate account of the facts that are available to me at the time of making the report. If I become aware of additional and/or changes in the information provided I will disclose these to the Money Laundering Reporting Officer in a timely manner. I am aware of the risks and penalties regarding “tipping-off” or frustrating in any way an investigation of the above or related matters by the authorities.

Signed: _____ Date: _____

Name in
Full: _____ Position: _____

For Completion by the MLRO

Date received	
Date acknowledged	
Unique case ref	
Are there reasonable grounds for suspecting money laundering activity?	
If yes, confirm date reported to NCA	
Is consent is required from the NCA to any on-going or imminent transactions which would otherwise be prohibited by the act? If yes, please confirm full details	
Date consent received from NCA	
Date consent given to employee for transaction to proceed	
If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the NCA, please set out the reasons for non disclosure	
Date consent given by you to the employee for transaction to proceed. Signed and dated	
This report to be retained for at least 6 years	

MONEY LAUNDERING AVOIDANCE AIDE MEMOIR

1. No member of staff must accept cash of more than £1,000 from any member of the public.
2. If you are offered cash of more than £1,000 you should advise the person offering it to you that it is not Council policy to accept large amounts of cash of more than £1,000 and that you need to obtain guidance from a senior member of staff. You should then contact the Money Laundering Reporting Officer to obtain authorisation to take cash, if appropriate.
3. Any large cash sums should not be banked in the first instance. The Money Laundering Reporting Officer should be contacted to seek guidance as to how to deal with the funds. Forms to report the matter are included in the policy document at Appendix 2.
4. Whilst it is not acceptable to be suspicious of all cash based businesses, anyone whom you know to be associated with such a business should be dealt with using a higher degree of scepticism. If you have any reason to suspect the source of their funds then you should contact the Money Laundering Reporting Officer to discuss your concerns, even if the payment is not received in cash.
5. If you receive a complaint from a member of the public in relation to possible criminal activity being carried out by someone who may be a customer of the Council (i.e. a Council Tax or Business Rates payer, rent payer, licensee etc.) you must pass this on to the Money Laundering Reporting Officer.
6. For Land and property transactions where Council land or property is sold without the involvement of independent legal advice, customers' identity must be verified on the basis of documents from a reliable and approved source; and the beneficial owner identified. Adequate measures must be taken on a risk sensitive basis to verify their identity. If satisfactory evidence of a customer's identity at the outset cannot be obtained, then the business transaction CANNOT proceed any further.



Prevention of the Facilitation of Tax Evasion

Document Status: Final

Version: 01.01.01

Date: November 2020

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Approvals

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Audit & Member Standards Committee	Committee Approval	
Leadership Team	Leadership Approval	Yes
Head of Finance & Procurement (Section 151 Officer) Approval	Policy Owner Approval	Yes

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1. Prevention of the Facilitation of Tax Evasion Policy Statement

This Statement sets out Lichfield District Council's (the Council's) policy in relation to tax evasion. It has the full support of both the Leadership Team and elected members through the Audit & Member Standards (A&MS) Committee.

Part 3 of the Criminal Finances Act 2017 created a corporate criminal offence where a corporate entity fails to prevent the facilitation of tax evasion by its employees, agents and contractual associates.

The Council has a zero tolerance approach to all forms of tax evasion, whether under UK law or under the law of any foreign country. Employees of the Council, its agents and contractual associates must not undertake any transactions which:

- (a) Cause the Council to commit a tax evasion offence; or
- (b) Facilitate a tax evasion offence by a third party.

The Council is committed to acting professionally, fairly and with integrity in all its dealings and relationships wherever we operate and implementing and enforcing effective systems to counter tax evasion facilitation. At all times, Council business should be conducted in a manner such that the opportunity for, and incidence of, tax evasion is prevented.

Governance and internal control procedures are already in place to meet the statutory requirements; and there is no suggestion that the Council tolerates tax evasion, or that employees engage in such behaviour. However, adopting an express corporate policy will help the Council defend any allegation that it has facilitated tax evasion.

This Policy Statement is intended to compliment the Council's suite of counter fraud related policies, notably the Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes which sets out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud, corruption and other financial irregularity and the key responsibilities with regard to fraud prevention, what to do if fraud or financial irregularity is suspected and the action that will be taken by management.

2. What is Tax Evasion?

Tax evasion is the illegal non-payment or under-payment of taxes, usually as the result of making a false declaration (or no declaration) of taxes due to the relevant tax authorities, which results in legal penalties if the perpetrator is caught.

Tax evasion involves all forms of tax, including income tax, corporation tax, VAT, national insurance, Business Rates and Council tax. This list is not exhaustive.

Tax avoidance, by contrast, is seeking to minimise the payment of taxes without deliberate deception. This is often legitimate but is sometimes contrary to the spirit of the law, e.g. involving the exploitation of loopholes.

Importantly the corporate criminal offence of facilitation only applies to tax evasion. The third party must be found guilty of tax evasion before the Council can be found to have facilitated it.

3. Examples of Tax Evasion

It is not possible to give examples covering every possible scenario, however, some 'red flag' indicators are detailed below to give a flavour of the scope of the legislation:

- *You become aware, in the course of your work, that a third party has made or intends to make a false statement relating to tax; has failed to disclose income or gains to, or to register with, HMRC; has delivered or intends to deliver a false document relating to tax; or has set up or intends to set up a structure to try to hide income, gains or assets from a tax authority.*
- *You become aware, in the course of your work that a third party has deliberately failed to register for VAT (or the equivalent tax in any relevant non-UK jurisdiction) or failed to account for VAT.*
- *A third party requests payment in cash and/or refuses to provide an invoice or receipt for a payment made.*
- *You become aware, in the course of your work that a third party working as an employee asks to be treated as a self-employed contractor, but without any material changes to their working conditions.*

4. The Criminal Finances Act 2017

Under the Criminal Finances Act 2017, a separate criminal offence is automatically committed by a corporate entity where the tax evasion is facilitated by a person acting in the capacity of an "associated person" to that body. For the offence to be prosecuted, the associated person must

deliberately and dishonestly take action to facilitate the tax evasion by the taxpayer. If the associated person accidentally, ignorantly, or negligently facilitates the tax evasion, then the corporate offence will not have been committed. The Council does not have to have deliberately or dishonestly facilitated the tax evasion itself; it is the fact that the associated person has done so, creates the liability for the Council.

Specifically, employees, workers, agents and associates must not knowingly do anything that helps someone else evade tax.

It is a defence to the corporate criminal offence of facilitating tax evasion if the Council can prove that it has in place such prevention procedures as it is reasonable to expect in the circumstances. Government guidance suggests an appropriate set of prevention measures which gives due recognition to the following:

- risk assessment;
- the proportionality of risk-based prevention procedures;
- top level commitment;
- due diligence;
- communication (including training);
- monitoring and review.

The Council must ensure a policy on prevention is brought to the attention of all workers. This policy is, therefore, published on the intranet.

5. Penalties

As an employer, if the Council fails to prevent its employees, workers, agents or service providers facilitating tax evasion, the Council can face both criminal sanctions including an unlimited fine, and associated reputational damage. The Council must therefore take its legal responsibilities seriously.

6. Policy Statement – Tax Evasion

Lichfield District Council has a zero tolerance approach to all forms of tax evasion, whether under UK law or under the law of any foreign country. Employees of the Council, its agents and contractual associates must not undertake any transactions which:

- Cause the Council to commit a tax evasion offence; or
- Facilitate a tax evasion offence by a third party.

7. Objective of this policy

This policy provides a coherent and consistent framework to enable the Council's employees (and other "associated persons") to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees to identify and effectively report a potential breach.

The Council requires that all relevant persons:

- Act honestly and with integrity at all times and to safeguard the Council's resources for which they are responsible
- Comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities

8. Scope of this policy

This policy applies to all of the Council's activities. For partners, joint ventures and suppliers, it will seek to promote the adoption of policies consistent with the principles set out in this policy.

Responsibility to control the risk of tax evasion occurring resides at all levels of the organisation. It does not rest solely within assurance functions, but in all service areas and corporate functions.

This policy covers all workers, including all levels and grades, those permanently employed, temporary agency / casual employees, contractors, non-executives, agents, Members, volunteers and consultants.

9. The Council's commitment to action

The Council commits to:

- Setting out a clear anti-tax evasion facilitation policy and keeping it up to date
- Making all workers aware of their responsibilities to adhere strictly to this policy at all times
- Raising awareness of the risks of tax evasion with workers so that they can recognise and avoid occurrences of potential tax evasion by themselves and others
- Undertaking a risk assessment to identify those areas of the Council's business where risk is considered to be highest

- Targeted training of individuals and service areas where the perceived risk is higher
- Promoting good ethical behaviour by employees in all of its forms
- Encouraging its workers to be vigilant and to report any suspicions of tax evasion, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- Investigating instances of alleged tax evasion
- Referring investigations to the Police where it is appropriate to do so
- Taking firm and vigorous action against any individual(s) involved in tax evasion, or the facilitation of it
- Providing information to all employees on how to report breaches and suspected breaches of this policy
- Including appropriate clauses in contracts to prevent tax evasion.

The Council seeks to maintain relevant procedures, including top-level commitment to tackling tax evasion and effective communication, including training. Heads of Service have an additional responsibility (beyond that of the employees own) for ensuring this policy is communicated effectively to employees and frequently refreshed throughout their department along with other good practice regarding ethical behaviour.

10. Tax Evasion is not tolerated

It is unacceptable to:

- Engage in any form of facilitating tax evasion (including foreign tax evasion);
- Aid, abet, counsel or procure the commission of a tax evasion offence by another person;
- Fail to promptly report any request from any third party to facilitate the fraudulent evasion of tax by another person;
- Engage in any other activity that might lead to a breach of this policy;
- Threaten or retaliate against another individual who has refused to commit a tax evasion offence or who has raised concerns under this policy;

- Commit an offence under the law of any part of the UK consisting of being knowingly concerned in, or taking steps with a view to, the fraudulent evasion of tax.

11. Staff responsibilities

The prevention, detection and reporting of all forms of financial irregularity, including suspected tax evasion, are the responsibility of all those working for the organisation or under its control (“associated persons”). All workers are required to avoid activity that breaches this policy.

As individuals you must:

- Ensure that you read, understand and comply with this policy.
- Raise concerns as soon as possible if you believe or suspect that a conflict with this policy has occurred, or may occur in the future.

As well as the possibility of civil legal action and criminal prosecution, workers that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct or other sanctions available based on their contract or appointment

12. Raising a concern

The Council is committed to ensuring that there is a safe, reliable, and confidential way of reporting any suspicious activity, and wants each and every worker to know how they can raise concerns.

All have a responsibility to help detect, prevent and report instances of tax evasion. If you have a concern regarding a suspected instance of tax evasion, please speak up – your information and assistance will help. The sooner it is brought to attention, the sooner it can be resolved.

There are multiple channels to help raise concerns. Please refer to the Council’s Whistleblowing Policy and determine the favoured course of action. Preferably the disclosure will be made and resolved internally (e.g. to a line manager or head of service). Secondly, where such disclosure would not be appropriate, concerns can be raised with the Shared Head of Audit. Raising concerns in these ways may be more likely to be considered reasonable than making disclosures publicly (e.g. to the media).

Concerns can be raised anonymously. In the event that an incident of suspected wrong doing is reported, the Council will act as soon as possible to evaluate the situation. It has clearly defined procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in an

investigation of this kind. This is easier and quicker if concerns raised are not anonymous.

Workers who raise concerns or report wrongdoing could understandably be worried about the repercussions. The Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken. The Public Interest Disclosure Act 1998 (PIDA) protects individuals who make certain disclosures of information in the public interest. Our Whistleblowing Policy complies with PIDA. The Council is committed to ensuring nobody suffers detrimental treatment through the reporting of a concern in good faith.

13. Other relevant policies

Other relevant policies include:

- Counter Fraud and Corruption Policy Statement, Strategy & Guidance Notes.
- Whistleblowing Policy.

14. Useful links

- [Criminal Finances Act 2017, Part 3 – Corporate Offences of Failure to Prevent Facilitation of Tax Evasion](#)
- [HM Revenue & Customs](#)

15. Policy review

The Head of Finance & Procurement and the Council's Audit & Member Standards Committee will ensure the continuous review and amendment of this policy document, to ensure that it remains compliant with good practice and legislative requirements.

Responsible Officer: Head of Finance & Procurement

Next Review date: November 2023

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2021/22

Item	22 July 2021	22 Sept 2021	11 Nov 2021	3 Feb 2022	20 April 2022	Deferred Reason
FINANCE						
Annual Governance Statement					√	
Annual Treasury Management Report	√					
Mid-Year Treasury Management Report			√			
Accounting Policies and Estimation Uncertainty					√	
Statement of Accounts		√				
Treasury Management Statement and Prudential Indicators				√		
Audit & Member Standards Committee Practical Guidance				*√		*Only relevant if there is updates to guidance so may not be needed
CIPFA Financial Management Code*						*Only relevant if there is updates to guidance so may not be needed
CIPFA Resilience Index	√					
Local Audit Update			√			
Pension Accounting			√*			*To be circulated as a briefing paper
Overview of the Council's Constitution in respect of Financial Procedure Rules		√				
INTERNAL AUDIT						
Chair of the Audit Committee's Annual Report to Council					√	
Annual Report for Internal Audit (including year-end progress report)					√	
Internal Audit Plan, Charter & Protocol 2022/23					√	

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2021/22

Internal Audit Progress Report	√		√	√	√	
Quality Assurance and Improvement Programme /Public Sector Internal Audit Standards	√					
Risk Management Update	√		√	√	√	
Counter Fraud Update Report including Counter Fraud & Corruption/Whistleblowing/Anti-Money Laundering/ Prevention of Tax Evasion Policies			√			
Governance & Performance						
Annual report on Exceptions and Exemptions to Procedure Rules 20/21				√		
GDPR/Data Protection Policy				√		
Annual Report of the Monitoring Officer - Complaints				√		
The Annual letter for Lichfield District Council from the Local Government Ombudsman				√		
RIPA reports policy and monitoring	√					
Review of the Effectiveness of the Audit & Member Standards Committee					√	
Terms of Reference						
EXTERNAL AUDITOR						
Audit Findings Report for Lichfield District Council 2020/2021		√				
The Annual Audit letter for Lichfield District Council				√		
Certification Work for Lichfield District Council for Year Ended 31 March 2020				√		

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2021/22

Audit Plan (including Planned Audit Fee 2021/22)					√	
Informing the Audit Risk Assessment - Lichfield District Council					√	
Audit Committee LDC Progress Report and Update – Year Ended 31 March 2022				√		
Private meeting with the Internal and External Auditors		√				

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