

Public Document Pack

Date of meeting Monday, 14th November, 2011
Time 7.00 pm
Venue Committee Room 1. Civic Offices, Merrial Street,
Newcastle-under-Lyme, Staffs ST5 2AG
Contact Peter Whalan (Tel No 01782 742226)

Audit and Risk Committee

AGENDA

PART 1– OPEN AGENDA

1 DECLARATIONS OF INTEREST

To receive Declarations of Interest from Members on items included in the agenda

2 MINUTES OF PREVIOUS MEETINGS (Pages 1 - 4)

To consider the minutes of the previous meeting held on 26 September 2011.

3 Apologies for Absence

4 Treasury Management Half Yearly Report 2011/12 (Pages 5 - 12)

5 Health and Safety Half Yearly Progress Report (Pages 13 - 18)

6 Corporate Risk Management Report for the Period July to September 2011 (Pages 19 - 36)

7 ANTI CORRUPTION FRAMEWORK

To receive a presentation on the Council's Anti Corruption Framework

8 Updates to the Council's Anti-Fraud and Corruption Framework (Pages 37 - 64)

9 Adoption of Internal Audit Fundamental Recommendations and Summary of Assurance (Pages 65 - 80)

10 Internal Audit Progress Report (Pages 81 - 90)

11 URGENT BUSINESS

To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

Members: Councillors D Richards (Chairman), S Blair (Vice-Chair), Boden, Loades, Waring and Snell

Members of the Council: If you identify any personal training / development requirements

from the items included in this agenda or through issues raised during the meeting, please bring them to the attention of the Committee Clerk at the close of the meeting'

Officers will be in attendance prior to the meeting for informal discussions on agenda items.

AUDIT AND RISK COMMITTEE

26 September 2011

Present:- Councillor D J Richards – in the Chair

Councillors Blair, Boden and Waring

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Loades and Snell.

2. MINUTES OF PREVIOUS MEETINGS

Resolved:- That the minutes of the meetings of this Committee held on 5 and 28 July 2011 be approved as correct records.

3. FUTURE TRAINING FOR COMMITTEE MEMBERS

Prior to the commencement of the formal business for the evening, the Chair sought approval for training sessions to be incorporated as items on the agendas for future meetings, thereby departing from the current practice of holding sessions immediately before each meeting which some Members found difficult to attend due to work and other commitments.

Members agreed that in future, training for Committee members be arranged as detailed above with the chosen topics being linked to items included in the Committee's agreed work plan for each meeting with training on fraud and the emerging Bribery Act be given at the next meeting of the Committee.

4. PRESENTATION - STOKE-ON-TRENT AND STAFFORDSHIRE LOCAL ENTERPRISE PARTNERSHIP

The Council's Executive Director – Regeneration and Planning gave a presentation on the work of the Stoke-on-Trent and Staffordshire Local Enterprise Partnership (LEP) that had been in existence for 12 months.

The LEP provided a solid local focus for economic regeneration, representing local businesses in pushing for a better business deal for the area.

The LEP was forging partnerships between business, the public sector, community enterprises and other partners including higher and further education to deliver economic growth and success by attracting substantial inward investment and improving skills development locally.

Resolved:- That the information be received.

5. STATEMENT OF ACCOUNTS 2010/11 AND EXTERNAL AUDITOR'S GOVERNANCE REPORT (217/12)

Reference was made to the Committee's previous discussions on this matter and consideration was given to a report asking it to:-

Audit and Risk Committee- 26/09/11

- (i) receive the 2010/11 Statement of Accounts for scrutiny and approval;
- (ii) receive the Audit Commission's Governance Report; and
- (iii) agree the Letter of Representation to the Auditor.

Copies of the earlier report to the Committee, the 2010/11 Statement of Accounts, the Annual Governance Report and proposed Letter of Representation were presented to the Committee as appendices to the officers' report.

Mr Jenkins of the Audit Commission updated Members on the issues arising from the Governance Report for 2010/11 indicating that the Statement of Accounts had, once again, been well presented and that the Council had in place good internal arrangements for securing financial resilience and challenging how it secured economy, efficiency and effectiveness.

Although a number of minor amendments to the Statement of Accounts had been agreed with the Audit Commission, reference was made to a further two amendments suggested by the Commission that, for the reasons outlined in the report, were not to be made.

- Resolved:-**
- (a) That the 2010/11 Statement of Accounts be received.
 - (b) That the Annual Governance Report for 2010/11 be received.
 - (c) That the Letter of Representation reflecting the decision not to accept two of the amendments suggested by the Audit Commission to the Statement of Accounts be approved for signature by the Council's Section 151 officer.

6. QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 APRIL TO 30 JUNE 2011

Consideration was given to a report on outstanding high risk recommendations and, where necessary, seeking the Committee's approval to the Executive Director's requested actions in respect of such recommendations and proposed target dates.

Members were reminded that high risk recommendations were those agreed with management that were key controls in providing assurance as to the efficiency and effectiveness of the system, service or process under review.

It was indicated that in the first quarter to June 30 there were 15 high risk recommendations due for review of which 8 were at their first follow up date. There were 7 recommendations that had received a first target date change and these had been referred separately to the Chair and Vice Chair of the Committee.

A copy of the Assurance Summary for June 2011 was attached as an appendix to the Committee report. In conclusion, it was indicated that three Directorates were showing Limited Assurance at the end of the first quarter, whilst Regeneration and Development Services had an Assurance Opinion of Substantial. Accordingly, there were no issues of concern in relation to any outstanding recommendations within any of the Directorates.

- Resolved:-** That the actions of the officers and levels of assurance be received.

7. INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 2011/12

The Committee received a report summarising the work undertaken by the Internal Audit Section during the period 1 April to 30 June 2011.

Up to the end of June 2011, 713 recommendations had been made of which 613 had been implemented (86%), the target being 96% by the year end.

Productivity at the end of quarter 1 was 81% which was higher than the target figure of 74%.

Resolved:- That the information be received.

8. CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD APRIL TO JUNE 2011

A report was submitted detailing progress made by the Council in enhancing and embedding risk management for the above period including progress made in managing the identified corporate risks.

It was indicated that the Council currently reviewed its extreme risks at least monthly and its high risks at least quarterly with the last review being reported to the Committee in April 2011.

Details of the Council's most significant risks were highlighted together with the newly identified risks. It was indicated that further progress had been made towards mitigating these risks during quarter 1 in a variety of areas which had resulted in some risks moving closer to being reclassified or downgraded.

In accordance with an earlier resolution of the Committee, the officers' report included a section on horizon scanning that set out a list of 'risks on the horizon'. It was indicated that although not exhaustive, the list did highlight issues that could potentially affect the Council and its practices in the coming months/years although some of them were beyond the Council's control.

Members agreed that the list provided useful information and asked that possible risks associated with the expected enactment of the Localism Bill and other emerging legislation be added to it, together with the potential risks associated with the Stoke-on-Trent and Staffs Local Enterprise Partnership (LEP).

Resolved:- (a) That the progress made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Register be noted.

(b) That the new risks identified between April to June 2011 as set out in the appendix to the officers' report be noted.

(c) That the risk profile for the Stoke-on-Trent and Staffordshire Local Enterprise Partnership be considered at the next meeting of this Committee.

(d) That the horizon scanning risks listed in the officers' report as well as risks relating to the Localism Bill, other emerging legislation and the LEP be borne in mind when making decisions on reports submitted to Committees and the effect it may have on the future of the Council.

D J RICHARDS
Chair

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TREASURY MANAGEMENT HALF YEARLY REPORT 2011/12

Submitted by: Head of Finance

Portfolio: Resources and Efficiency

Ward(s) affected: All Indirectly

Purpose of the Report

To receive the Treasury Management Half Yearly Report for 2011/12 and to review the Treasury Management activity for this period.

Recommendation

That the Treasury Management Half Yearly Report for 2011/12 be received.

Reasons

The CIPFA Code of Practice on Treasury Management (revised in November 2009) recommends that Members should be informed on Treasury Management activities at least twice a year. It was resolved that the Audit and Risk Committee would monitor and oversee the delivery of the Treasury Management Strategy through the receipt of a half yearly Treasury Management Report.

1. Background

- 1.1 The Council adopted the CIPFA Code of Practice on Treasury Management on 24 February 2010.
- 1.2 This report therefore ensures that this Council is embracing Best Practice in accordance with CIPFA's recommendations in the CIPFA Code of Practice.
- 1.3 Treasury Management operations are carried out in accordance with policies laid down in the currently approved Treasury Management Policy Statement, backed up by approved Treasury Management Practices and Schedules thereto, and the Annual Treasury Management Strategy Report.

2. Issues

- 2.1 The Treasury Management Half Yearly Report for 2011/12 is attached as an Appendix. The economic background and economic forecast provided in the report is as provided by the Council's Treasury Management Advisors, Sector Treasury Services.

2.2 Heritable Bank

The original investment with Heritable Bank was £2,500,000. Nine dividends have been received so far from administrators Ernst and Young:

Date:	Dividend Received:
30 July 2009	£403,250
18 December 2009	£317,649
30 March 2010	£155,396
16 July 2010	£157,437
18 October 2010	£103,815
14 January 2011	£118,358
19 April 2011	£156,863
15 July 2011	£101,810
20 October 2011	£104,919
Total	£1,619,497

On 28 July 2011, Administrators Ernst and Young have confirmed a revised estimate of a base case return of between 86% and 90% (in comparison to 79% and 85% base case return estimated on 28 January 2010).

2.3 Investments outstanding as at 30 September 2011 are detailed in Annex A in the Appendix to the Report.

3. **Legal and Statutory Implications**

3.1 See Background for details.

4. **Financial and Resource Implications**

There are no specific financial implications arising from the report.

5. **Major Risks**

5.1 Treasury management is a major area of risk for the Council in that large amounts of money are dealt with on a daily basis and there are a number of limits and indicators, which must be complied with.

5.2 The overriding consideration in determining where to place the Council's surplus funds is to safeguard the Council's capital. Within this constraint the aim is to maximise the return on capital.

5.3 Operational procedures, coupled with monitoring arrangements, are in place to minimise the risk of departures from the approved strategy.

6. **List of Appendices**

6.1 Appendix A and Annex - Treasury Management Half Yearly Report 2011/12.

7. **Background Papers**

CIPFA Treasury Management Code of Practice (revised November 2009);
Council's Treasury Management Policy Statement,
Local Government Act 2003,
Local Authorities (Capital Finance and Accounting) (England) Regulations 2003,
Guidance on Local Authority Investments issued by the Department for Communities and
Local Government (revised March 2010).
Ernst & Young Progress Reports (28 January 2010 and 28 July 2011)

TREASURY MANAGEMENT HALF YEARLY REPORT - 2011/2012

1. Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

As a consequence 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.”

2. Introduction

The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 24 February 2010.

The primary requirements of the Code are as follows:

- (1) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
- (2) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- (3) Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, and an Annual Report (stewardship report) covering activities during the previous year. In addition, the production of a **Mid-Year Review Report** for scrutiny by Members. For this Council the delegated body to review treasury management and receive the Mid-Year Review Report is the Audit and Risk Committee.
- (4) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices. For this Council the delegated body is the Cabinet (for implementing) and the Audit and Risk Committee (for monitoring). Delegation by the Council for the execution and administration of treasury management decisions. For this Council this is delegated to the Executive Director (Resources and Support Services).
- (5) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is The Transformation and Resources Overview and Scrutiny Committee.
- (6) The Mid-year Review Report to members is intended to provide a mid-year update of the treasury management strategy and performance for the period April –September of the financial year.

This mid year report has been prepared in compliance with CIPFA’s Code of Practice, and covers the following:

- An economic update for the first six months of 2011/12
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2011/12

3. Economic Update – as provided by the Council's Treasury Management Advisors (Sector Treasury Services Ltd)

3.1 Global economy

The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the €440bn bail out fund in September has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.

This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy.

Growth prospects in the US, UK and the euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

3.2 UK economy

Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.1% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

The announcement by the MPC on 6 October of a second round of quantitative easing of £75bn emphasised how seriously the MPC now views recession as being a much bigger concern than inflation. Although inflation remains stubbornly high, the Monetary Policy Committee's expectation of future falls resulting in an undershoot of its 2% target opened the way for this new round of QE.

International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PwLB borrowing rates to low levels.

3.3 Outlook for the next six months of 2011/12

There remain huge uncertainties in economic forecasts due to the following major difficulties:

- the increase in risk that the UK, US and EU could fall into recession
- the likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial

markets and the global and UK economies

- the degree to which government austerity programmes will dampen economic growth;
- the potential for further quantitative easing, and the timing of this in both the UK and US
- the speed of recovery of banks' profitability and balance sheet imbalances and the risk of substantial losses being incurred on EU sovereign debt
- We expect low growth in the UK to continue, with a low Bank Rate to continue for at least 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.
- The expected longer run trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2012.

3.4 Sector's Interest Rate Forecast (as at 07/10/11)

	NOW	Dec11	Mar12	Jun12	Sep12	Dec12	Mar13	Jun13	Sep13	Dec13	Mar14	Jun14	Sep14	Dec14	Mar15
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.25	2.50
PWLB															
5yr	2.30	2.30	2.30	2.30	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.10	3.30	3.35	3.70
10yr	3.30	3.30	3.30	3.30	3.40	3.40	3.50	3.60	3.70	3.80	4.00	4.20	4.40	4.60	4.80
25yr	4.20	4.20	4.20	4.20	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.20
50yr	4.30	4.30	4.30	4.30	4.40	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.20	5.30

4 Treasury Management Strategy Statement

The Treasury Management Strategy Statement (TMSS) for 2011/12 was approved by Full Council on 23 February 2011. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity

The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector Treasury Services Ltd.

Investments during the first six months of the 2011/12 financial year have been in line with the strategy, and there have been no deviations from the strategy.

As outlined in Section 3 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 23 February 2011 is still fit for purpose in the current economic climate.

On 8 September 2011 Sector advised all clients to keep fixed investments short dated i.e. less than three months with the exception of semi-nationalised institutions which include the Halifax Bank of Scotland (Lloyds Banking Group) and the Royal Bank of Scotland with whom deposits can still be placed for a period of up to twelve months. Our investment portfolio as at this date already complied with the above recommendation.

On 7 October 2011 Sector issued a newsflash to confirm that Moody's Investors Service had downgraded the ratings of 12 UK financial institutions, concluding its review of systemic support assumptions from the UK

government for these institutions. Moody's has not implemented these cuts because it believes there has been a market deterioration in the financial strength of the banking system or the UK government, but rather because it believes the government has re-evaluated its role in supporting banking institutions. Moody's believes that the government is likely to continue to provide some level of support to systemically important financial institutions, however, it is more likely now to allow smaller institutions to fail if they become financially troubled. As at the time of writing this report Sector Treasury Services have confirmed that this has not affected their announcement on 8 September 2011.

5 Investment Portfolio 2011/12

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

The Council held £12m of investments as at 30 September 2011 and had an average level of funds available for investment purposes in the first 2 quarters of 2011/12 of £16m. The investment portfolio yield for the first six months of the year is 1.01% against a target of 1.00%. The Council's budgeted investment return for 2011/12 is £218,000. As at the end of the first 2 quarters of 2011/12 £112,000 of interest has been earned.

A full list of investments held as at 30 September 2011 is shown in Annex A.

6 Borrowing Position 2011/12

It is not currently intended to borrow to finance capital investment. The only borrowing envisaged by the 2011/12 Treasury Management Strategy is temporary borrowing to cover short-term cash flow deficits. In fact no borrowing has taken place for the first half of the financial year.

APPENDIX A

Investments held as at 30 September 2011:

INVESTMENTS OUTSTANDING WEEK ENDING 30/09/2011

<u>DATE INVESTED</u>	<u>NAME OF BORROWER</u>	<u>PRINCIPAL (£)</u>	<u>DATE</u>	<u>NO. OF DAYS</u>
03/08/2011	HALIFAX BANK OF SCOTLAND (Lloyds Banking Group)	1,250,000	03/11/2011	92
03/08/2011	SANTANDER UK	1,000,000	03/10/2011	61
07/09/2011	HALIFAX BANK OF SCOTLAND (Lloyds Banking Group)	4,000,000	07/12/2011	91
		6,250,000		
	SANTANDER BUSINESS RESERVE ACCOUNT	1,250,000		
	ROYAL BANK OF SCOTLAND 30 DAY NOTICE ACCOUNT	3,000,000		
	HALIFAX BANK OF SCOTLAND (Lloyds Banking Group) Deposit Account	1,750,000		
	TOTAL INVESTMENTS	12,250,000		
	HERITABLE BANK INVESTMENT			
15/09/2008	HERITABLE BANK (Landsbanki)	985,422	14/09/2009	

(Please note that payments of £403,250, £317,649, £155,396, £157,437, £103,815, £118,358, £156,863, £101,810 have been received from the Heritable Bank administrators (Ernst and Young) by 30/09/11. A ninth dividend of £104,919 has also been received on 20/10/11 reducing the balance to **£880,503**.)

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HEALTH AND SAFETY HALF-YEARLY UPDATE REPORT

Submitted by: Jane Kent, Corporate Health and Safety Officer

Portfolio: Resources and Efficiency

Ward(s) affected: None

Purpose of the Report

To inform Members of issues and trends regarding health and safety at the council.

Recommendation

That the report be noted.

1. **Background**

1.1 Attached as an Appendix is the fifth health and safety annual report submitted to the council. It covers the period April to September 2011.

2. **Legal and Statutory Implications**

2.1 The council is required to comply with all relevant Health and Safety legislation.

3. **Equality Impact Assessment**

3.1 Our health and safety policy and procedures apply equally to all employees. Training is available to all employees as required.

4. **Financial and Resource Implications**

4.1 The majority of health and safety training courses are carried out in-house by the Corporate Health and Safety Officer. On occasions, external providers are required to conduct specialist training courses. The cost of this is met from within the existing Corporate Training budget.

5. **Risks**

5.1 Failure to adopt best practice health and safety standards could result in wastage of council resources and the provision of an inefficient service.

6. **Issues**

6.1 There are no particular trends or emerging themes in comparison to previous years.

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Newcastle-under-Lyme Borough Council

HEALTH AND SAFETY HALF-YEARLY REPORT APRIL – SEPTEMBER 2011

1. INTRODUCTION

- 1.1 This is a short report giving a brief outline of progress in health and safety matters during the half year from April to September 2011. It forms part of the Health and Safety Annual Report 2011/12 which will be reported to the Committee in June 2012.

2. POLICIES AND GUIDANCE

- 2.1 The Workplace No Smoking Policy was updated and presented for approval at the Corporate Health and Safety Committee meeting on 13 September 2011.

3. TARGET 100

- 3.1 Target 100 is the safety management system which the Council uses to manage and record health and safety policies, procedures, assess risk and organise routine assessments and tasks for the management and control of Health and Safety across the Council. This also provides practical Health and Safety advice and guidance to comply with the law. This was introduced in late 2010 and its use continues to be developed throughout the Council.
- 3.2 The Target 100 system providers undertake monthly independent audits on the Councils use of the system and score the performance of Health and Safety management. The monthly system usage audit reports are presented at, and monitored by, the Corporate Health and Safety Committee.
- 3.3 Training for system users continued with a further four courses during the first half of the year. It is not anticipated that any further training will be required in the immediate future.

4. HEALTH AND SAFETY TRAINING

- 4.1 In addition to the above Target 100 training, the following health and safety training has been completed –
- Basic Health and Safety Refresher – 18 further courses
 - Corporate Induction – 3 courses
 - Skills Update for First Aiders – July 2011
 - Display Screen Equipment User Training – August 2011
- 4.2 Further training courses to be completed during the remainder of the year will include a final Refresher course for the few employees outstanding from

earlier courses, and in early 2012 the annual training programme for Streetscene employees.

5. ACCIDENT REPORTS

- 5.1 Between April and September 15 work-related accidents were reported, one of which was reportable to the HSE as a Major Injury (the individual broke a bone in his foot).
- 5.2 Additionally, two dangerous occurrences were reported, as follows –
- Part of a ceiling outside the Civil Enforcement Officers' room in Civic Offices collapsed, due to the weight of construction rubble which had not been cleared when the toilets in the Council Suite were remodelled some years ago.
 - A vision panel with attached beading fell out of the door between the staffroom and kitchen at Jubilee Pool. On investigation, this could only have happened by the panel being violently hit or pushed out. The investigation is continuing.
- 5.3 Four verbal abuse/violence reports were received, all of them incidents of abusive or threatening behaviour towards staff.

6. HEALTH AND SAFETY INSPECTIONS

- 6.1 The Corporate Health and Safety Officer, as part of their annual work plan, undertakes routine inspections of Council premises to identify and advise on any Health & Safety matters within the workplace. The following workplace inspections have been carried out between April and September –
- Park pavilions
 - Bradwell Crematorium
 - Kidsgrove Customer Service Centre
 - Midway Car Park
 - Civic Offices
 - St. George's Chambers
- 6.2 The Corporate Health and Safety Committee members also undertake inspections of Council premises to identify any Health and Safety matters, in order to remedy or alter the matters identified. Members of the committee carried out the following inspections –
- Jubilee Baths
 - Guildhall
- 6.3 Following all of the above inspections, reports were sent to the premises manager or other responsible officer outlining the findings and advising on any necessary corrective action.

7. KNOTTON DEPOT

- 7.1 The Knutton Lane Health and Safety Committee held meetings on 6 June and 6 September 2011.
- 7.2 Projects in hand arising from the meetings include –
- Installation of the few remaining signs from the traffic improvement plan
 - The preparation of round-specific risk assessments for Collection Services
 - A policy and schedule for winter gritting of council premises
 - Provision of hepatitis B vaccinations as outlined in section 8 below
- 7.3 Work on the depot site improvement plan has continued following the separation of the new fire station from the depot site and is now almost complete apart from the installation of signs as noted in 7.2 above.
- 7.4 There are ongoing problems with traffic management on Knutton Lane, due to drivers using the depot entrance and exit gates as pull-ins while they drop off students attending Newcastle College. Concerns have been raised with the college and the police but as yet no solution has been found. The college have acknowledged the problem and have agreed to advise and inform students of the designated drop off point.

8. HEPATITIS B VACCINATION PROGRAMME

- 8.1 The hepatitis B vaccination programme which was about to commence at the close of the 2010/11 annual report has progressed during the first half of the year.
- 8.2 In May letters were sent out with the payslips to all employees who had been identified as being at risk of contact with the hepatitis B virus due to their work activities. 61% of those circulated accepted the offer of vaccination.
- 8.3 Draft letters were prepared giving instructions to these employees as to what action they should now take, and at the September meeting of the Corporate Health and Safety Committee it was agreed that these letters should be sent out with the October payslips.

9. CORPORATE HEALTH AND SAFETY COMMITTEE

- 9.1 The Corporate Health and Safety Committee held two meetings during the period, on 7 June and 13 September 2011.
- 9.2 Projects in hand arising from the meetings include –
- The ongoing programme of workplace inspections
 - Continuing to drive forward the use of Target 100, as outlined in section 3 above

- Review of the council's general health and safety policy (due at the December meeting)
- The introduction of a Use of Violent Warning Markers policy and database maintenance programme

10. FORTHCOMING LEGISLATION/HSE GUIDANCE

- 10.1 The proposed amendment to the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (the extension from 3 days to 7 days of the absence period which triggers the accident report to the Health and Safety Executive) has been approved and will become law in April 2012.
- 10.2 In August 2011 the Health and Safety Executive issued a consultative document on their proposals for recovering costs incurred when visiting organisations. The consultation period closes on 14 October 2011 and the Head of Environmental Health Services will be responding on behalf of the council.

11. WORK PLAN 2011/12

- 11.1 The Corporate Health and Safety Officer's work plan for 2011/12 is continuing with weekly meetings with the Head of Environmental Health Services to update, monitor and discuss progress.

M J Kent
Corporate Health and Safety Officer
October 2011

Agenda Item 6

CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD July to September 2011

Submitted by: Head of Business Improvement and Partnerships

Portfolio: Customer Services and Transformation

Ward(s) affected: All

Purpose of the Report

To provide an update to Members of the progress made by the Council in enhancing and embedding risk management for the period July to September 2011, including progress made in managing the identified corporate risks.

Recommendations

The Committee is asked to:-

- (a) Scrutinise the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers where applicable.**
- (b) Note the new risks that have been identified between July to September 2011.**
- (c) Identify, as appropriate, risk profiles to be scrutinised in more detail as part of your responsibility at the next meeting.**
- (d) Note the horizon scanning risks listed to bear in mind when making decisions on reports submitted to committees and the effect it may have on the future of the council.**

Reasons

The risk management process previously adopted by the council has been reviewed to incorporate changes in the way the council works and to provide continuity and streamlined reporting of risks to the necessary stages so that it becomes further embedded at each level of the authority. This will further develop the identification of key risks that potentially threaten the delivery of the corporate priorities. The new strategy will provide a formal and proportionate framework to manage these identified risks and thus reduce the council's exposure.

To assist the council in its corporate ambition of being an excellent council by helping deliver effective corporate governance, this proactive approach also helps demonstrate good risk management in terms of evidencing that effective risk management is further embedded with the corporate business processes.

1. Background

- 1.1 The council monitors and manages all its risks through the various risk profiles contained within GRACE (Governance Risk and Control Environment) – the council's software for recording and managing risk.

The council currently reviews its High Red 9 risks at least monthly and its Medium Amber risks at least quarterly.

The last review of these risks was reported to your Committee in September 2011.

Risk owners are challenged by the Risk Champions in respect of controls, further actions, ratings and emerging risks and challenge reasons for inclusion or non-inclusion and amendment of these.

Projects are managed to a high level in relation to risk and are reviewed in accordance with the risk management strategy – monthly.

2. **Issues**

2.1 **Strategic, Operational, Project and Partnership Risk Registers (Appendices)**

The Council regularly reviews and refreshes its risk registers in accordance with the risk management strategy. This is co-ordinated by the Strategic Risk Champion who works closely with the Directors, Operational Risk Champions and the Risk Owners.

At the last meeting members were informed that the next report would show the new ratings against the risks. The risk map below shows the descriptions of the ratings, for ease of use.

L I K E L I H O O D	High	7 Amber	8 Amber	9 High Red
	Medium	4 Green	5 Amber	6 Amber
	Low	1 Green	2 Green	3 Amber
		Low	Medium	High
IMPACT				

After the review of the risks had taken place, the following risks have been reduced – through good risk management by your officers, and by the re-rating progress.

- Maintenance expenditure on the Midway car park has reduced from an extreme risk in the old rating system to a medium amber 6 risk in the new rating system.
- The retail-led development of the Ryecroft is proceeding and is now a medium amber 3.
- The risk relating to the planning permission for Jubilee2 has been re-rated from a high risk on the old system to a low green 2 – the project is due for completion/handover during December 2011.

These risks will be removed from the next quarter’s report.

Appendix A now highlights the Council’s most significant risks, with the risks that fall into the top line of the ratings only, being reported.

In addition, Members will see that Appendix A includes the ‘old’ register complete with the ‘old’ ratings for each risk. On this version of the ‘old’ register, Members will note that ratings have also been included under each risk using the ‘new’ system. This information has been included so as to allow Members to note how ratings have changed following the changeover from the ‘old’ to the ‘new’ system.

2.2 Horizon Scanning

At the last meeting it was requested that a list of legislative developments were provided, either upcoming or current.

Below is a selected list of prospective legislation currently going through Parliament that could have an impact on the council. The list is not exhaustive, but represents a selection of the major pieces of proposed legislation currently under debate prior to Royal Assent

An outline of the proposed changes in each of these Bills and the potential impact on the Borough Council are attached at **Appendix B**.

- Health and Social Care Bill 2011
- Localism Bill 2011
- Police Reform and Social Responsibility 2011
- Motor Insurance Regulation Bill 2011

Members are asked to nominate any further areas of legislation they might wish to consider at a future meeting and to consider whether they wish to receive further information on the Bills listed here.

2.3 Local Enterprise Partnership

At the last meeting a request was made regarding the LEP risks and who maintained the risk register. Below is a statement from the Executive Director of Regeneration and Development regarding the status of the LEP body.

The Staffs and Stoke on Trent LEP is a formal, but unincorporated, partnership that has no powers and no resources (either funding or staffing). It is intentionally private sector led with limited support being provided by Local Authorities, principally the two first tier Councils (Stoke on Trent City Council and Staffordshire County Council). It has a governance structure that includes a Board and a range of sub-groups, and clear terms of reference. This Council's Leader is a Board member, representing the interests of the District Councils in the north of the County and officers from the Economic Regeneration team provide support for some of the Board's sub-groups. Apart from maintaining a 'register of private interests', there is no formal risk management procedure at this stage and it is not known whether any such arrangement is planned.

In these circumstances it is considered desirable that the Borough Council should prepare and maintain an up-to-date Risk Log to protect this Authority's interests. Accordingly a risk profile has been prepared for your consideration and is attached at **Appendix C**.

3. Outcomes Linked to Corporate and Sustainable Community Priorities

- 3.1 Good risk management is key to the overall delivery of Council and local improvement priorities.

4. Legal and Statutory Implications

- 4.1 The Accounts and Audit Regulations 2003 as amended in 2006, state that:

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control, which facilitates the effective exercise of that body's functions and which includes arrangement for the management of risk"

5. **Equality Impact Assessment**

5.1 There are no differential equality impact issues in relation to this report.

6. **Financial and Resource Implications**

6.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.

7. **List of Appendices**

Appendix A
Appendix B
Appendix C

8. **Background Papers**

None

		High 9 risks Medium 7 & 8 risks Risks to be deleted from next 1/4 profile							
		New risks							
Appendix A									
Risks and Action Plan									
Risk Identified	Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 24/10/2011	as at March 11	as at June 11	as at Sept 11	
1	Reputational damage	Chief Executive	NONE	Strategic	Although this is identified as a risk, reputation damage is normally a consequence of other risks that have occurred. There are numerous controls in place in this profile, however if this did occur, the impact and likelihood of it happening has resulted in the High Red 9 rating			High 9	
2	Potential Claims growth	Chief Executive	Revise operating procedures to ensure they are more robust to defend claims whilst taking into account financial limitations	Jan-12	Strategic	Insurance renewal process currently being undertaken and the claims received are being reviewed to identify what areas seem to be receiving the most claims, in an attempt to change the way the sections work, thereby reducing if possible the number of claims in these areas.			High 9

Appendix X									
Risks and Action Plan Risk Identified	Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 24/10/2011	as at March 11	as at June 11	as at Sept 11	
3	ICT system failure	ICT services	Build disaster recovery facility at Kidsgrove Town Hall - hardware and resilient link to Civic Offices to be put in place and then replication of critical software.	Dec-11	Operational	The centre is built as far as we can, until there is agreement as to which are the major systems that will require replication. Once that is agreed, we will then determine the replication capacity to ensure we are able to carry on with the systems at a relatively short notice. It also needs to be noted that the DR site was supposed to include the whole of Kidsgrove Town Hall. This is now not the case, so we will only be able to provide ICT systems, not staff, at the Centre.	-	Extreme	High 9
4	Overall budget realisation fails	Resource & Support Services	NONE - this risk is outside of the council's control		Strategic	Numberous controls in place to deal with this internally such as monthly budget reports, MTFS continually reviewed, contingency fund available, realistic increases included in base figures			High 9

Appendix X									
Risks and Action Plan	Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
Risk Identified		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 24/10/2011	as at March 11	as at June 11	as at Sept 11	
5	Breach of Data Protection Action	Resource & Support Services	NONE		Strategic	This risk is currently being controlled - various training sessions have taken place with all staff, guidelines are available, data protection and information security training has taken place, however the overall impact and likelihood ratings have remained high.			High 9
6	Bad debts reduce the council's income	Resource & Support Services	NONE		Strategic	This risk is being controlled through continuous monitoring and a bad debts provision			Medium 8
7	Failure to achieve service cost savings in 2012/13 and 2013/14	Recycling Strategy	Cabinet approval is required to extend the current contract for 3 years to each of the suppliers	Nov-11	Project	Cabinet report submitted to gain approval			Medium 8
8	Medium risk recommendations not being implemented	Audit	Continual monitoring and reminders given to officers, however an escalation process is used in the worst scenarios		Operational				Medium 7
9	Low risk recommendations not being implemented	Audit	Continual monitoring and reminders given to officers, however an escalation process is used in the worst scenarios		Operational				Medium 7
10	Possible receipt of malicious package at the Civic Offices	Customer Services	NONE		Operational	The post opening procedures are kept up to date, however the risk is a high impact, low likelihood			Medium 7

Appendix X									
Risks and Action Plan	Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating	
Risk Identified		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 24/10/2011	as at March 11	as at June 11	as at Sept 11	
11	Failure to identify a suitable primary authority business partner	PAS Project	Contact with businesses taking place, liaison with SCC to become a partner, undertake separate meetings with businesses to discuss	Dec-11	Project	PAS scheme approved by Cabinet 19/10/11, so further actions will be started			Medium 7
1	Due to the nature of the project at the Midway Car Park, there is a risk of increased maintenance expenditure after 20 years of the current repairs as the life expectancy of the parts not currently being repaired will reduce	Midway Car Park - 25 year plan	There is a need to build a contingency into the financial plans of the council to enable these works to be undertaken. Also a planned inspection regime will be designed to take into account any defects/faults that could be repaired for the short term	Jun-11	Project	Works continuing on the Midway following a 6 month break	Extreme	Extreme	Medium 6
2	A risk has been identified regarding the failure to go ahead with the retail-led development of the Ryecroft	Town Centre Strategic Acquisition	There is a need to complete the refresh of the town centre strategic options appraisal, and to look at the business case regarding the future of the Civic Offices	Nov-11	Operational	Work ongoing	Extreme	Extreme	Medium 3

Risks and Action Plan Risk Identified	Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Status	
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 24/10/2011	as at March 11	as at June 11	as at Sept 11	
3	A risk has been identified in respect of critical information being wrongly destroyed, not kept or can't be found	Managing Information Risks	Procedure manuals are to be produced to run alongside the Managing Information policies	Dec-12	Operational	Awaiting for approval of Managing Information policies	Extreme	High	Medium 3
4	Failure to secure a development partner to deliver the retail-led development of the Ryecroft	Town Centre Strategic Acquisition	Business case to be prepared along with active pursual of development partner.	Dec-11	Operational	Target date for obtaining development partner is now Nov/Dec 11 due to involvement of Staffs CC as partners and the tendering process for external advisors to be able to build business case	Extreme	High	Medium 3
5	Failure to realise a market return on the council's capital investment	Town Centre Strategic Acquisition	A programme to be produced to procure a development partner and to commission a specialist to design and procure any necessary works of improvement	Mar-12	Operational	as above	High	High	Medium 5
6	Short term impact on town centre retail businesses	Town Centre Strategic Acquisition	Implementation of town centre street market improvement programme, encourage development of town centre business-led partnership, and actively pursue designation of Newcastle as a business improvement district.	Jun-12	Operational	No change from last report - Target date of street market upgrade amended to integrate with the lead-in time of the Hassall Street closure works and public consultation completed. Informal partnership with Business community established.	High	High	Medium 3

Risks and Action Plan Risk Identified	Profile	Action Required to Address Risk in order to reduce the risk	Target Date for action completion	Risk Category Strategic, Operational, Project	Current position / progress as at 24/10/2011	Status as at March 11	Status as at June 11	Current Status as at Sept 11	
7	A risk has been identified regarding the potential increase in the number of insurance claims in relation to the Midway Car Park if the works are not carried out	Midway Car Park - 25 year plan	No further actions have been identified for this risk, as it will incorporate a number of other further actions throughout the risk profile for the project relating to the maintenance/repair of the car park		Project	Phase 1 of the works complete. Phase 2 due to be commenced in March 11.	High	High	Medium 5
8	A risk has been identified in respect of the fabric of the St Giles & St Georges School building deteriorating.	Refurbishment of St Giles & St Georges	Trying to pool resources to enable the best possible scheme, and to establish a lease with the successful organisation to enable benefits to be brought to the community	Sept-11	Project	Prospective tenants undertaking architectural and conditions studies to establish preferred design/uses of the building as well as establishing more precise scheme sales.	High	High	Medium 5
9	A risk that as been identified in relation to the relocation of the market to Lower High Street is in respect of the possibility of flooding in that area resulting in financial implications and reputation damage	Relocation of Market	Review the drainage design plan once development is due to start to ensure that it is still fit for purpose	Jun-12	Project	Outcome of public consultation process to capture any necessary and possible further design revisions.	High	High	Medium 6

Risks and Action Plan		Profile	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Status
Risk Identified			in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 24/10/2011	as at March 11	as at June 11	as at Sept 11
10	There is a risk that the project would fail to get planning permission to build the Health & Wellbeing Centre	Jubilee2	Planning permission was agreed in relation to the build of Jubilee2, however the further action will be to discharge all the conditions that were put in place with this agreement. Once carried out - which will be throughout the build of the centre - the likelihood of permission changing should reduce to a minimum level	Dec-11	Project	Construction is now underway on the site - conditions are being met where required. Monthly project meetings with the contractor to ensure progress aligned with agreed programme including compliance with planning conditions.	High	High	Low 2
11	Insufficient finance to realise/implement the Carbon Management Programme	Energy Efficiency, Climate Change Strategy and Carbon Management Plan	None identified		Project/Operational		High	High	Medium 6
12	Carbon Trust Programme Board fail to deliver on the Carbon Management Programme	Energy Efficiency, Climate Change Strategy and Carbon Management Plan	None identified		Project/Operational	Risk is still live, however there is new action to identify resources to carry out the delivery of the government targets, which has to be delivered annually	High	High	Medium 5

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Health and Social Care Bill 2011

The Bill proposes to create an independent NHS Board, promote patient choice, and to reduce NHS administration costs.

Key areas

- Establishes an independent NHS Board to allocate resources and provide commissioning guidance.
- Increases GPs' powers to commission services on behalf of their patients.
- Strengthens the role of the Care Quality Commission.
- Develops Monitor, the body that currently regulates NHS foundation trusts, into an economic regulator to oversee aspects of access and competition in the NHS.
- Cuts the number of health bodies to help meet the Government's commitment to cut NHS administration costs by a third, including abolishing Primary Care Trusts and Strategic Health Authorities.

Potential Impact on the Council

- Abolition of the PCTs and SHAs offers potential for Councils to develop additional areas of working.
- Partnership working will be potentially affected, including the development of key relationships with Clinical Commissioning Boards.

Localism Bill

The Bill will devolve greater powers to councils and neighbourhoods and give local communities more control over housing and planning decisions.

Key areas

The provisions relating to councils include:

- Giving councils a general power of competence.
- Allowing councils to choose to return to the committee system of governance and allowing for referendums for elected mayors in certain authorities.
- Abolishing the Standards Board regime and the model code of conduct, and introducing local accountability and a criminal offence of deliberate failure to declare a personal interest in a matter.
- Giving residents the power to instigate local referendums on any local issue and the power to veto excessive council tax increases
- Allowing councils more discretion over business rate relief.
- Providing new powers for local communities around, for example, the right to challenge local authorities over their services.

The housing provisions will:

- Allow local authorities to discharge their duties to homeless people by using private rented accommodation

- Give local authorities the power to limit who can apply for social housing within their areas.
- Abolish the Tenant Services Authority and provides for a transfer of functions to the Homes and Communities Agency.
- Amend the way in which a social tenant can make a complaint about their landlord.
- Improve the ability of social tenants to move to different areas.

The planning and regeneration provisions will:

- Abolish Regional Spatial Strategies.
- Abolish the Infrastructure Planning Commission and return to a position where the Secretary of State takes the final decision on major infrastructure proposals of national importance.
- Amend the Community Infrastructure Levy (CIL), which allows councils to charge developers to pay for infrastructure. Some of the revenue will be available for the local community.
- Provide for neighbourhood plans, which would be approved if they received 50% of the votes cast in a referendum.
- Provide for neighbourhood development orders to allow communities to approve development without requiring normal planning consent.

Potential Impact on the Council

- The wide range of provisions in the Bill will – if enacted – have a variety of different impacts on the Council, its partners and local communities.
- In terms of planning, for example, the provisions set out will potentially have a significant impact on the planning applications process.
- The amendments to the CIL could result in further revenue for the local community.
- Housing changes proposed may result in local councils having a greater say over social housing.
- A range of new powers for communities could potentially allow them to challenge local authorities in terms of how services are delivered.

Police Reform and Social Responsibility Bill

The Bill covers five distinct policy areas: police accountability and governance; alcohol licensing; the regulation of protests around Parliament Square; misuse of drugs; and the issue of arrest warrants in respect of private prosecutions for universal jurisdiction offences.

Key areas

- Replaces police authorities with directly elected Police and Crime Commissioners, with the aim of improving police accountability.
- Amends and supplements the Licensing Act 2003 with the intention of 'rebalancing' it in favour of local authorities, the police and local communities.

- Enables the Home Secretary to temporarily ban drugs for up to a year, and removes the statutory requirement for the Advisory Council on the Misuse of Drugs to include members with experience in specified activities.

Potential Impact on the Council

- Police and Crime Commissioners – will have responsibility for Staffordshire and Stoke-on-Trent for four years (although nothing is confirmed at present).
- The Commissioners are likely to receive ownership over a number of funding streams and this could impact on where money goes in community safety terms.

Motor Insurance Regulation Bill 2011

The Bill has been drafted with proposals to reform the regulation and operation of the market in motor insurance, and specifically, to ban the payment of referral fees; to establish new standards relating to the evidence required and damages payable for whiplash; to reform the Pre-Action Protocol for Personal Injury Claims in Road Traffic Accidents; to set requirements in respect of risk pricing for personal injury claims; and for connected purposes.

Key Areas

- To make it a criminal offence to solicit, offer or pay for any personal injury claim arising from a road traffic accident (RTA).
- To require 'clear objective' evidence to establish a claim in connection with whiplash.
- To reduce fixed fees for injury claims under the current pre action protocol for low value injury claims arising from RTAs to £600 (half its current value).
- To prohibit insurers from isolating risk on the basis of a geographic area smaller than a region.

Potential Impact on the Council

- Costs may be reduced on litigation - low value claims would be dealt with more quickly and cheaply.
- Whiplash injuries are on the increase now from RTAs and it is rarely clear whether the injury occurred prior to this accident or not.
- The council does not pay an excess amount for personal injury in a motor claim, but the costs are taken into account against each claim, so the increase in insurance premiums could reflect the increase in claims.
- Fraudulent claims could increase and this may drive the costs up.

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Local Enterprise Partnership

02/11/11

Risk Identified	Description	Potential Consequences	Impact	Likelihood	Risk Rating	Control Measure	Final Impact	Final Likelihood	Final Risk Rating	Further Action Required	Owner	Target Date
Risk Count: 4												
Failure to adequately influence the Local Economic Partnership to adopt NBC Priorities	Failure to adequately influence the Local Economic Partnership to adopt Newcastle Borough Councils Priorities	NBC is marginalised and attracts little investment as a result of the LEP.	2	2	5	Active involvement of Council Officers within relevant LEP task groups Representation of Council Leader on the board	2	2	5	Consult LEP on NBC's emerging new Economic Development Strategy	Clifton, Neale (Executive Director - Regeneration & Development)	31/12/11
Failure by LEP to make any real significant impact	Failure by LEP to make any real significant impact in changing the economic prospects of the area	Reputational damage to all organisations including this Council which are involved in the LEP. Reputational damage to North Staffs generally conveying the message that we don't get things done here resulting in adverse publicity.	3	2	6	Investing Council resources (ie time of key members and staff) into ensuring LEPs success Alignment of NBC services, where possible and appropriate.	3	2	6			
NBC unable or unwilling to meet LEP expectations in terms of enabling functions	NBC unable or unwilling to meet LEP expectations in terms of enabling functions.	Reputational damage. Reduced potential benefits to the Borough's residents and/or businesses.	2	2	5	Active and ongoing involvement of key members and officers. Pro-active management of risk profile. Ongoing review of NBC service in light of LEP expectations.	2	2	5			
Potential ineffective use of officer time used in servicing the LEP	Potential ineffective use of officer time used in servicing the LEP which would need to be drawn from other Council-specific duties	Poor use of resources. Potential impact on "the day job".	1	2	4	Investing time based on judgement of cost/benefit Optimise use of existing officer and member groups to address LEP business.	1	2	4			

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UPDATES TO THE COUNCILS ANTI FRAUD & CORRUPTION FRAMEWORK

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

Theft, fraud, corruption and bribery are all criminal offences; the council is committed to the highest standards of integrity and will not tolerate them in any form. By having an anti fraud and anti corruption framework in place this demonstrates our zero approach to tolerance, it is important that the existing framework is constantly reviewed and updated to take into account new legislation, procedures and best practice.

Recommendations

That the Anti-Fraud and Anti-Corruption Framework, the Whistleblowing Policy and the Fraud Response Plan be approved in their updated forms

Reasons

The existing Anti Fraud and Anti Corruption framework has been reviewed and updated to take into account the new Bribery Act legislation which came into effect on the 1 July 2011, in addition the policies have been benchmarked against a number of policies obtained from other authorities across the West Midlands.

1. Background

- 1.1 The National Fraud Authority has recently reported that Fraud costs this country an estimated £30 billion, this equates to over £621 per adult per year. These figures which were reported for the first time in January 2010 were more than double the originally estimated figure of £13 billion. The report also went onto say that it is the public sector that is hardest hit at a cost of £17.4 billion (57%). The cost to businesses was £9.3 billion (31%) followed by the public at £3.3 billion (12%).
- 1.2 The policies that this Council has in place demonstrate our commitment to the prevention and detection of Fraud and Corruption and to ensure the highest possible standards of openness, probity and accountability. We encourage people with serious concerns about any aspect of the Council's work to come forward and voice those concerns. The Whistleblowing Policy is intended to encourage and enable people with concerns about a potential fraud or corruption, in any aspect of the Council's work, to raise these with the Council rather than overlooking a problem or raising them with external bodies first.
- 1.3 The Anti- Fraud and Anti-Corruption Framework, the Whistleblowing Policy and Fraud Response Plan are approved annually as part of the Council's Constitution.
- 1.4 The prevention of fraud and protection of the public purse is everyone's business and it is important that all staff know how to recognise a fraud, how to prevent it and more importantly what to do if they suspect they have come across a fraud.
- 1.5 The Anti-Fraud and Anti-Corruption Framework, Whistleblowing Policy and Fraud Response Plan are a range of policies in place that are designed to limit as far as possible the

opportunities to commit fraudulent acts, enable such acts to be detected at an early stage and then deal with any subsequent investigations in a prompt, thorough and professional manner.

2. **Issues**

2.1 The Council is committed to protecting public funds and ensuring that all Council activities are carried out in accordance with the principles of openness, honesty and integrity. These documents demonstrate that it proactively shows a commitment to deterring fraud and corruption and this is actively promoted throughout the organisation.

2.2 In order to demonstrate this commitment the Council has an annual subscription with Public Concern at Work an independent legal charity with over 10 years experience of running a confidential helpline for employees and members. Public Concern at Work has given practical, confidential advice on over 2500 whistleblowing concerns. Their approach is that any concerns that an employee or member has can be raised openly and that the organisation then has an opportunity to investigate and address the concern.

2.3 A Fraud Awareness Guide is available for all Managers; this guide outlines the Borough Council's commitment to the protection of public funds and the necessity for harnessing resources in order to minimise losses arising from fraudulent conduct. The guide gives details of;

- The identification of the types of fraud,
- How fraud occurs,
- Examples of behaviour that might indicate fraud,
- Indicators of potential fraud in a system,
- Advice to management and staff re: fraud and corruption, and
- Reporting of conduct that may be fraudulent

Within the guide is also a Self Assessment checklist for managers to complete for their own service area which will enable them to undertake an assessment of any key areas of risk within their own area.

2.4 As part of the Council's on going commitment to raising Fraud Awareness an on-line training package was purchased and made available to staff via the Council's intranet. This training was rolled out to staff in December 2010. At present completing the training is voluntary, though the Audit Manager is currently looking at ways that this could be made compulsory for all staff. In addition other means of raising awareness are currently being reviewed in order that we can ensure that the Councils commitment to deterring fraud and corruption is maintained.

3. **Options Considered**

3.1 To review and adopt these documents ensures and demonstrates that the Council will act with integrity and responsibility in the management and spending of the Publics money.

3.2 Not to adopt these policies would leave the Council open to criticism of not being committed to maintaining high standards in the avoidance and detection of fraud and corruption.

4. **Proposal**

4.1 That the Anti- Fraud & Anti-Corruption Framework shown as **Appendix A** the Whistleblowing Policy shown as **Appendix B** and the Fraud Response Plan shown as

Appendix C be approved in their revised forms

5. **Reasons for Preferred Solution**

5.1 As option 3.1 above.

6. **Outcomes Linked to Sustainable Community and Corporate Priorities**

6.1 The strategies demonstrate that the Council is committed to ensuring the best use of resources and enable the prevention and detection of fraud and corruption at the earliest opportunity, therefore contributing to its Corporate Priority of achieving excellence.

7. **Legal and Statutory Implications**

This report raises no new legal or statutory implications.

8. **Equality Impact Assessment**

There are no differential equality impact issues identified from the proposal.

9. **Financial and Resource Implications**

9.1 The cost of an annual subscription to Public Concern at work is £250 per annum plus ten pence per employee, which based on 600 employees makes the total subscription, cost £310.

10. **Major Risks**

10.1 The risk of not having these strategies in place would mean that staff has no guidance on what to do in the event that they may suspect that fraud or corruption is being committed. This in turn may hamper any investigation required to yield a satisfactory conclusion.

10.2 The existence of these policies mean that staff are informed and given guidance on what actions they should take if they suspect that a fraud is being committed

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Approval of Council Constitution

14. **List of Appendices**

Appendix A - Anti-Fraud and Anti-Corruption Framework

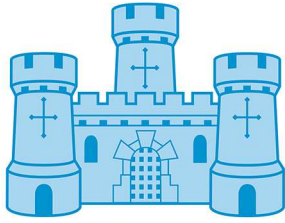
Appendix B - Whistleblowing Policy

Appendix C - Fraud Response Plan

15. **Background Papers**

Internal Audit Files

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

ANTI-FRAUD & ANTI-CORRUPTION FRAMEWORK

October 2011

NEWCASTLE UNDER LYME BOROUGH COUNCIL**ANTI-FRAUD AND ANTI-CORRUPTION
FRAMEWORK****CONTENTS**

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ANTI-FRAUD AND ANTI-CORRUPTION FRAMEWORK

1.0 INTRODUCTION

Theft, fraud, corruption and bribery are criminal offences. Newcastle Borough Council is committed to protect public funds and ensure that all Council activities are carried out in accordance with the principles of openness, honesty and integrity. The Council has a zero tolerance of such offences and offenders.

In carrying out its functions and responsibilities the Council is fully committed to deterring theft, fraud, corruption and bribery whether it is attempted on or from within the Council; and is committed to an effective anti-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.

2.0 OUR POLICY

Newcastle Borough Council does not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor will it accept bribes or improper inducements, or allow employees or elected members to do so.

Using a third party as a conduit to channel bribes to others is also a criminal offence. The Council does not, and will not, engage indirectly in or otherwise encourage bribery, nor does it wish to be associated with any organisation that does or has done so. Specifically, this extends to our agents, suppliers, contractors and partner organisations, whether such criminal conduct is associated with business on the Council's behalf or not.

Where there is evidence of theft, fraud, corruption and bribery, the Council will investigate the matter promptly, and will take all appropriate actions to deal with the perpetrators.

This includes, but is not confined to, taking disciplinary action against employees and elected members, and pursuing criminal prosecution on all possible occasions. The Council will not be deterred by threats of adverse publicity or to persons or property, and will publicise cases of successful legal action against perpetrators.

This policy can only be varied with the collective written agreement of the Chief Executive, the Section 151 Officer and the Monitoring Officer.

The Council and all elected members and employees will comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates.

All employees and elected members must follow the policy, and do everything they can to support and promote it. In doing so, they may find the Nolan Principles a valuable aid – see Appendix A.

Different rules and procedures apply to benefits fraud.

There are also specific provisions for money laundering, because of the legal requirement to report this to the Serious and Organised Crime Agency in a closely-defined way.

3.0 OUR STRATEGY

The Council's strategy for implementing its policy consists of five elements:

1 Prevention:

Rules and procedures that make it hard for wrongdoing to take place;

An open, honest culture (explicitly based on the Nolan Principles: see Appendix A) which encourages good behaviours and discourages bad practice;

2 Detection:

Systems that include strong internal checks;

Staff who are alert to the possibility of wrongdoing, and know how to respond to it to minimise losses and maximise the chance of effective action against the perpetrators;

A whistleblowing procedure that allows employees and others to report concerns about the Council;

3 Investigation:

A fraud response plan that sets out how the Council will address any suspected fraud professionally, fairly, efficiently and effectively;

4 Recovery:

The Council will recover losses from perpetrators where possible, and inform insurers under any relevant policy.

5 Retribution:

Procedures to act promptly and effectively to deal with all perpetrators

4.0 EXPECTED BEHAVIOUR

Members and employees must lead by example, acting with integrity at all times and following all legal requirements, rules, procedures and good practice. The Nolan Principles (Appendix A) provide an excellent structure for all actions.

Members and employees must report suspected fraud, corruption or other irregularity **immediately** to the Audit Manager. The only exception is benefits fraud, which they should report to the Benefits Fraud Officer

The Council expects all individuals and organisations (e.g. suppliers, contractors, service providers) with whom it comes into contact will act with integrity in all

dealings with the Council. It will consider what actions are appropriate where they fail to do so, including cancelling contracts.

5.0 CULTURE

All managers must promote an environment in which employees know and understand that dishonest acts will be detected and investigated. They must therefore:

- Always behave in line with the Nolan Principles.
- Participate in in-house training covering fraud, fraud detection and fraud prevention.
- Ensure staff understand that internal controls are designed and intended to prevent and detect fraud.
- Encourage staff to report suspected theft, fraud, corruption or money laundering directly to those responsible for investigation.
- Provide employees with an environment in which they can report suspicions of wrongdoing without fear of retribution.

The Internal Audit and Human Resources Sections will provide support to achieve this.

6.0 IDENTIFYING PROBLEMS

The essence of many theft, fraud, corruption and bribery issues is that no-one recognises them happening. And it can be difficult to be vigilant and observant while being a good and supportive colleague.

In the best organisations, there is a very open culture, in which every employee, at every level, welcomes challenge and curiosity. The most junior staff can ask the most senior why they are doing things in a particular way, and the senior colleague willingly explains because this encourages engagement and learning throughout the organisation.

Appendix 2 gives a number of common fraud indicators. None of them prove wrongdoing – though all are cause for managerial concern. An employee who never takes a holiday may be concealing fraud: but, equally, they may be struggling with parts of their job, and desperately need support.

Therefore, managers finding any of these behaviours should be concerned, and should probe the issues – but they should not assume that fraud or corruption are involved. There may simply be problems to work on and resolve.

Again, in the best organisations, managers treasure their employees, and work hard to support them and enable them to do their jobs and develop themselves to their fullest potential.

7.0 REPORTING SUSPICIONS

If any employee suspects that theft, fraud, corruption or bribery are happening within the Council, or in any activity where the Council has a leading role or responsibility, they should report their suspicions, either to their line manager or through the Council's Whistleblowing Procedure.

Managers should report all such cases to the Audit Manager, and accept advice

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on the steps to take over the suspicions in accordance with the fraud response plan.

8.0 INVESTIGATION

All investigations will be carried out in accordance with the Fraud Response Plan, unless they relate to Benefits fraud or money laundering, in which case these will be dealt with in accordance the specific guidance that relates specifically to these areas of work.

9.0 IMPLEMENTING THIS FRAMEWORK

The Chief Executive is ultimately responsible for preventing and detecting theft, fraud, and corruption.

The Corporate Governance Working Group, led by the Section 151 Officer is responsible for developing, reviewing and maintaining an anti-fraud and corruption policy, and for advising on effective internal controls to prevent wrongdoing.

The Chief Executive, Executive Directors and Heads of Service must ensure that all staff follow this strategy, supported by the Council's Internal Audit and Human Resources functions.

The Audit Manager will report on compliance to the Audit and Risk Committee.

All managers are responsible for preventing and detecting fraud. They must, with support from Internal Audit and Human Resources, ensure that they operate effective mechanisms in their area of control to:

- Prevent theft, fraud and corruption
- Promote employee awareness (All staff have a responsibility to prevent, detect and report on any fraud or suspected fraud)
- Assess the risk of fraud
- Take prompt action in line with the Fraud Response Plan when they suspect or are alerted to possible theft, fraud or corruption

There are a number of policies already in place within the Council for preventing, detecting, managing and reporting theft, fraud and corrupt conduct; these include but are not limited to:

- Codes of Conduct for employees and members
- Standing Orders
- Financial Regulations
- Registers of Interests, Gifts and Hospitality
- Disciplinary Rules and Procedures
- The Whistle-blowing Policy
- Fraud Response Plan
- Procurement Strategy
- Risk Management Strategy
- Recruitment procedures (pre-employment vetting, references, etc)
- Anti Money Laundering Policy
- Information Security Management Policies

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Copies of all the policies listed above are available on the Councils intranet under the A-Z of strategies and policies.

10 REVIEW AND DEVELOPMENT OF THIS FRAMEWORK

It is important to keep this framework up-to-date with developments in the law and professional practice. The Audit Manager will therefore coordinate at least an annual review, and report this to the Audit and Risk Committee.

Should any urgent need arise that requires updates to the existing framework then, this will be conducted promptly rather than at the year end.

Appendix A – Nolan Principles

The seven principles of public life;

Selflessness

Holders of public office should act solely 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 seek to 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.

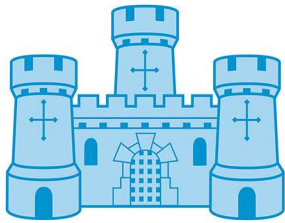
These principles apply to all aspects of public life. The Nolan Committee set them out for the benefit of all who serve the public in any way.

Appendix B – Possible indicators of Fraud

Listed below are a number of common fraud indicators. None of them prove wrongdoing – though all are cause for managerial concern;

- unusual employee behaviour (e.g. a supervisor who opens all incoming mail, refusal to comply with normal rules and practices, fails to take leave, managers by-passing subordinates, subordinates by-passing managers, living beyond means, regular long hours working, job dissatisfaction/ unhappy employee, secretiveness or defensiveness),
- Key documents missing (e.g. invoices, contracts),
- Inadequate or no segregation of duties,
- Absence of controls and audit trails,
- Inadequate monitoring to ensure that controls work as intended (periodic testing and evaluation),
- Excessive variations to budgets or contracts,
- Bank and ledger reconciliations are not maintained or cannot be balanced,
- Excessive movements of cash or transactions between accounts,
- Numerous adjustments or exceptions,
- duplicate payments or large payments to individuals,
- Unauthorised changes to systems or work practices,
- lack of rotation of duties,
- Policies not being followed,
- Post Office boxes as shipping addresses,
- Lowest tenders or quotes passed over with minimal explanation recorded,
- splitting up requirements to get under small purchase requirements or to avoid prescribed levels of review or approval,
- Vague specifications,
- Excessive hours worked by key staff, and
- lack of common sense controls such as changing passwords frequently, requiring two signatures on cheques or restricting access to sensitive areas.

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

WHISTLEBLOWING POLICY

October 2011

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NEWCASTLE UNDER LYME BOROUGH COUNCIL**WHISTLEBLOWING POLICY****CONTENTS**

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WHISTLEBLOWING POLICY

1. WHAT TO DO IF YOU SUSPECT FRAUD OR CORRUPTION

Newcastle Borough Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment it encourages employees and others working with us to raise any concerns they may have about any aspect of the Council's work and come forward and voice those concerns.

We recognise that individuals will sometimes want to express their concerns in confidence.

We would rather be made aware of a problem and deal with it than allow it to lie and become worse.

Council employees and others can raise serious concerns within the Council without fear of reprisal or victimisation. This is usually preferable to any external route.

This policy applies to all employees, agency workers and contractors working on Council premises (for example, cleaners, builders and drivers). It also covers suppliers and those providing services under a contract with the Council in their own premises.

2. AIMS AND SCOPE OF THE POLICY

2.1 This policy aims to:

- provide avenues for you to raise concerns and receive feedback on any action taken,
- allow you to take the matter further if you are dissatisfied with the Council's response, and
- reassure you that you will be protected from reprisals or victimisation for whistle blowing.

2.2 There are existing procedures in place to enable you to lodge a grievance relating to your concerns. That concern may be about something which:-

- is unlawful,
- is against the Council's Standing Orders, Financial Regulations or other policies,
- falls below established standards or practices, or
- amounts to improper conduct.

2.3 This policy supports the Councils Anti-Fraud and Anti Corruption Framework.

3 SAFEGUARDS

3.1 HARASSMENT OR VICTIMISATION

The Council recognises that a decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for the malpractice. The Council will not tolerate harassment or victimisation and will take action to protect you when you raise a concern.

3.2 CONFIDENTIALITY

The Council will treat all concerns in confidence, and if you wish to remain anonymous we will make every effort to keep your identity confidential. However, in certain cases, we may not be able to deal with an issue unless you are prepared to be a witness.

3.3 ANONYMOUS ALLEGATIONS

This policy encourages you to put your name to an allegation. Concerns expressed anonymously are much less powerful, but they will be considered in an appropriate manner.

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.

4.0 NOTIFYING A RESPONSIBLE PERSON OF YOUR CONCERNS

4.1 You can raise any concerns initially with Internal Audit on 01782 742122. Correspondence should be addressed to the Audit Manager, Newcastle under Lyme Borough Council, Civic Offices, Newcastle under Lyme, Staffordshire, ST5 2AG and marked 'private and confidential'. Concerns may also be sent to 'whistleblowing@newcastle-staffs.gov.uk'.

4.2 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 with an Auditor. The Auditor notified of individuals concerns must record those concerns taking a statement where they feel it appropriate.

4.3 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.

4.4 Disclosures may lead to disciplinary procedures and criminal investigations.

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5.0 RESPONDING TO YOUR CONCERNS

5.1 The Council will, where possible, protect the identity of a notifying individual and not reveal their source at any time during the investigation

5.2 The action taken by the Council will depend on the nature of the concern. The matters raised may:-

- be investigated internally,
- be referred to the Police,
- be referred to the external auditor, or
- form the subject of an independent investigation.

5.3 In order to protect individuals and the Council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations which fall within the scope of specific procedures (for example suspected housing benefit fraud) will normally be referred for consideration under those procedures.

5.4 Some concerns may be resolved by agreed action without the need for an investigation.

5.5 Within 10 working days of a concern being received, the Council will write to you:-

- acknowledging that the concern has been received,
- indicating how it proposes 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, and
- telling you whether further investigations will take place, and if not, why not.

5.6 The amount of contact between the officers considering the issues and you, will depend upon the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, further information will be sought from you.

5.7 The Council may ask you to attend a meeting to explore the issues surrounding the concern raised.

5.8 The Council will take steps to minimise any difficulties that you may experience as a result of raising a concern

5.9 The Council accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, you will receive information about the outcomes of any investigations.

6.0 HOW THE MATTER CAN BE TAKEN FURTHER

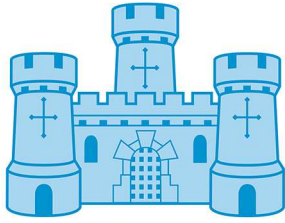
6.1 This policy is intended to provide you with an avenue to raise concerns with the Council. The Council hopes that you will have confidence in using the Whistle-blowing procedure, however, if you are not, and if you feel it is right to take the matter outside the Council, the following are possible contact points:-

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- the District Auditor, Audit Commission, 2nd Floor, No. 1 Friarsgate, 1011 Stratford Road, Solihull, West Midlands, B90 4EB, or the Police.
- Public concern at work, 0207 404 6609 are a registered charity set up to give free independent advice to anyone who may have concerns. They have qualified legal staff to give help and advice.

7.0 THE RESPONSIBLE OFFICER

The Monitoring Officer has overall responsibility for the maintenance and operation of this policy. A record will be maintained of all concerns raised together with the outcomes (but in a form which does not endanger your confidentiality) and will report as necessary to the Council.



NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

FRAUD RESPONSE PLAN

OCTOBER 2011

1. Introduction

- 1.1 The Fraud Response Plan defines the way that Newcastle Borough Council applies its various policies and procedures to suspected theft, fraud and corruption.
- 1.2 It fits in with various other documents, most notably the Policy and procedure on theft, fraud, corruption and bribery.
- 1.3 The procedures for dealing with suspected money laundering are different from other problems – see the Money Laundering policy and procedure for the necessary actions.
- 1.4 Different rules also apply to Benefits Fraud – see item 2.4 below.
- 1.5 The aim of this Plan is to provide a toolkit for dealing with problems, and rapid access to expert advice. This fraud response plan guides managers on how to react to suspicions of fraud, theft, corruption and bribery.
- 1.6 Additionally, it gives an outline of how investigations will be progressed, and managers' possible role in this. The latter part is intended to give a feel for how matters will progress to give confidence in the process. It is not a D-I-Y guide to fraud investigation!
- 1.7 Any suspected frauds at Newcastle Borough Council should be reported to the **Audit Manager** at the earliest opportunity.

2. Purpose of the Fraud Response Plan

- 2.1 The Fraud Response Plan is designed to ensure timely and effective action in the event of suspected fraud to:
 - minimise fraud by taking prompt action
 - prevent further losses where fraud has occurred
 - manage consequences for other staff, including sudden changes in workload, altered duties and adverse staff reactions to investigation work
 - maximise recovery of losses
 - identify the perpetrators and maximise the success of any disciplinary and legal action taken
 - ensure the accuracy and integrity of evidence for successful disciplinary and court action
 - manage any adverse publicity for the organisation
 - maximise positive publicity when frauds are discovered and dealt with effectively
 - identify lessons to be learned to improve fraud management
 - ensure a fair and consistent response to suspected frauds
 - deter others from fraud that they may be contemplating

The dealing with a suspected fraud

- 2.2 Senior managers have a primary responsibility for preventing, detecting and investigating.

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- 2.3 However, it is always vital that evidence is preserved and suspicions are not aroused, and **the first action must always be to contact the Audit Manager (ext. 2122 or 01782 742122) for advice and support.**

This will allow the Audit Manager to:

- provide initial advice on investigation process and procedure;
 - collate the information with all other known issues, which may suggest specific approaches to investigation;
 - jointly with Human Resources, decide on actions needed in relation to any employee potentially involved (such as suspension to protect evidence), and agree these with the head of service;
 - log the event in the Council's Fraud Register
 - report appropriately to Chief Executive, Section 151 Officer, the Monitoring Officer and Executive Management Team.
- 2.4 The only exception to this is where the matter is clearly related to the benefits system. In such cases, refer the matter direct to the Benefits Fraud section, who will handle the whole case.
- 2.5 If the Audit Manager identifies that a suspicion raised under this procedure may relate to money laundering, the Audit Manager will take the necessary actions under the Anti-money laundering policy and procedure, and advise the manager accordingly.

Initial enquiries

- 2.6 Where it is appropriate to do so, the Audit Manager may advise the manager to make discreet initial enquiries promptly to determine if there actually does appear to be an irregularity, provided that;
- they can do so **without alerting the perpetrator** to the investigation; and
 - they have sufficient experience to do so.

During this initial enquiry the manager should:

- determine the factors that gave rise to the suspicion
 - examine the factors to determine whether a genuine mistake has been made or whether an irregularity has occurred
 - make a written record of the alleged irregularity (access to this document should be restricted e.g. not held in an 'open area' of the network)
 - secure any relevant documentation/records (if this can be done without alerting the perpetrator)
- 2.7 The manager **should not** interview staff at this stage.

Scope of the investigation

- 2.8 The manager, Human Resources and the Audit Manager will agree the way forward, in consultation with the Section 151 Officer, the Monitoring Officer and the head of service.

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- 2.9 They will consider whether to involve other agencies at this point (e.g. Police, HM Revenue & Customs, Audit Commission, the Department for Work and Pensions, the National Anti-Fraud Network, the Serious and Organised Crime Agency, and other councils). Such contact will be through the Audit Manager, at least initially.
- 2.10 The Internal Audit Team will usually conduct all fraud investigations. However, where the Audit Manager is confident that an investigation can be undertaken by the service (i.e. staff have the experience and ability to complete the investigation successfully, and are clearly not involved in the irregularity) the Audit Manager will provide advice and guidance to the nominated Investigating Officer.
- 2.11 The Audit Manager will consult the relevant people to determine the next steps. The exact format is fluid – it is sometimes appropriate to convene a meeting, and on other occasions it will be sensible to hold a series of one-to-one meetings or 'phone calls.

As a minimum, consultations will involve:

- the manager
- the Section 151 Officer
- the Head of Human Resources
- the Head of Service

Additionally, they may consult:

- the police
- the Chief Executive
- the Head of Communications
- Her Majesty's Revenues and Customs
- The District Auditor
- any other relevant person or body

Often, the initial consultations will define the list of further consultees, and the list will remain fluid and subject to revision as the investigation develops.

The consultations will include specific consideration of whether it is necessary to suspend one or more employees to protect evidence, colleagues or assets.

Conducting the investigation

- 2.12 Whilst conducting the investigation, the Audit Manager will ensure:-
- The investigation is completed promptly.
 - compliance with legislation on interviewing (Police and Criminal Evidence Act, PACE) and surveillance (Regulation of Investigatory Powers Act, RIPA). However, it is not normally necessary, even when there may be a criminal offence, to conduct interviews under PACE rules. The police can re-interview witnesses and suspects later on in the process.
 - All evidence is recorded, ensuring that it is sound and adequately supported (see further guidance below).
 - written records of all fact-finding meetings are retained.
 - Any Email correspondence relating to the investigation is discreet and use an agreed 'case name' rather than real names or locations. All sensitive

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attachments should be password protected (or, preferably, not emailed). Emails will be protectively marked *Protect – Staff*

- All evidence is held and stored securely, with appropriate restriction to access (both manual and electronic documentation) (see further guidance below).
- confidentiality and discretion is maintained throughout, information will only be shared on a “need to know” basis. In particular, be mindful that senior officers may need to hear disciplinary cases, and therefore should not know details of cases.
- Where appropriate, contact other enforcement agencies e.g. Police, HM Revenue & Customs. This should be always enacted via Internal Audit as they have established lines of communication and referral protocols.
- Investigators must not accept any offer of repayment of money or resignation at any stage, as this could prejudice the investigation. Any such offers should, however, be recorded in interview notes, and passed on to the head of service for consideration (in conjunction with the HR Manager).

- 2.13 The Council has the right to suspend any employee involved pending the outcome of an investigation. Suspension does not imply guilt but suspension can prevent the removal or destruction of vital evidence. When suspects are not suspended, supervision will usually need to be increased. Advice will always be sought from Human Resources on suspensions and any subsequent disciplinary action.
- 2.14 The Internal Audit Manager will report losses to the Council’s Insurance Team at the earliest stage.
- 2.15 Some organisations always delay internal disciplinary procedures pending police action on criminal offences, and dismiss employees after a court case. Explicitly, Newcastle Borough Council will pursue disciplinary matters at once, in order to remove wrongdoers from the payroll as rapidly as is possible using proper process.
- 2.16 This is because we cannot afford to pay people to sit at home and be investigated over an extended period.
- 2.17 Additionally, the Council recognises that many theft, fraud, corruption and bribery matters will involve clear gross misconduct matters which will not constitute prosecutable crimes, because of the definition of crimes under relevant acts, and because of levels of evidence.

Key objectives at this stage;

- 2.18 Prevent further losses.
- 2.19 Secure evidence of the fraud to allow the Council to pursue successful disciplinary action and prosecution.
- 2.20 Assess the likely extent of losses.
- 2.21 Recover funds where possible.

Next steps

- 2.22 Report the results of the initial enquiry to Internal Audit. They may give further advice on more work needed, or other actions to be taken. As before, this may be in consultation with a variety of other employees and external agencies.
- 2.23 Give Internal Audit the evidence that you have collected and tell them what you have already done (e.g. suspended employees, changed procedures or impounded IT equipment).
- 2.24 Internal Audit or the police may carry out further investigations, if the case is more complex than it appeared at first.

3. Evidence

It is essential that evidence is preserved and retained securely, the following steps should be followed;

- Remove all relevant original documents and store them securely. Record the date of removal, any noteworthy circumstances, and where they are stored. Replace documents needed for everyday use (e.g. till rolls and receipt books) with new ones to prevent unnecessary disruption to services. **Original documents and certified copies** provide the best evidence
- For computer systems, consider access rights, and change or suspend access to preserve evidence. (See below for more on ICT evidence.)
- In all cases, take care not to compromise evidence by doing or allowing anything that may deface or alter the evidence, particularly in ways that may alter the evidential value (such as punching filing holes that chop out a date or signature).
- You must also take care that evidence is always secure, so that there is no opportunity for damage or changes. This is known as preserving the chain of evidence. If there is a break, such as leaving a document out on a desk unattended, it could compromise a prosecution.
- Where you have to use a copy, endorse it as a copy and, if possible, certify it (i.e. sign and date on the back) as a true copy of the original, preferably by the person who took the copy from the original source document. Use of copies is increasingly common with document management systems, where documents are scanned and then destroyed.
- Minimise handling of documents to protect forensic evidence, such as fingerprints. Put them in clear plastic wallets to protect them, and to avoid the need to punch filing holes in them. This avoids the possibility of damaging key pieces of evidence.
- **Information held on IT equipment** provides evidence of the records at a particular time and may demonstrate that a fraud has been committed. It is important that the IT equipment is secured as soon as possible. Please contact the **Audit Manager** for advice in relation to this. Any printouts of data and exception reports can be useful, so should be retained, these together with hard copies should be timed, dated and signed by the investigator.

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- Suspend suspects and prevent their access to Council buildings, remove their access rights to IT networks and systems and change all relevant passwords, PIN numbers etc.
- **Physical evidence** is necessary when the investigation arises from an apparent discrepancy in cash, stores or other assets. A physical count of the cash, stores or assets is necessary to record the actual value of the cash/stores present at a fixed point in time.
- All **cash** held by the person should be counted at the same time (to prevent the same cash being presented more than once to cover a shortage). The cash count should include a detailed analysis of cash by denomination and any cheques, receipts and IOUs. The count should be checked by two people and the results signed and dated by both.
- Ask the employee under investigation if there is any more cash (e.g. at their home) and check this immediately to prevent subsequent reinstatement.
- All **stocks and stores** need to be counted if there is a suspicion of theft of assets. A full stock check, including opening all boxes to ensure they contain the goods they are supposed to, should be undertaken. Stock totals should be signed and dated by two investigators. If there are similar stores in other locations controlled by the suspect, then these need to be checked simultaneously to avoid stocks being moved between different stores to hide discrepancies.
- **Observation and surveillance** can be used to identify exactly what is happening to physical assets (e.g. stores being loaded into private cars). **Seek guidance from Internal Audit before any surveillance**, who will also consult the Council's Legal service. Specific surveillance must be proportionate, and authorised under the Regulations of Investigatory Powers Act 2000 (RIPA).
- Relevant **CCTV footage** may be available. In addition, if any form of access system is in use, it may establish who was where and when.
- If videos are to be used in evidence they should have the date and time continuously displayed. For the same reasons as for IT equipment, preserve the original tape intact as evidence for possible use in court and disciplinary hearings. Make a copy of the video and only view the copy during the investigation.

4. Lack of evidence

- 4.1 The Council will not investigate allegations that are unsupported by evidence.
- 4.2 This is because pursuing vague, mischievous or malicious allegations of theft, fraud, corruption and bribery would waste time on unnecessary and unfocussed investigations, and could lead to suspension of innocent staff, undermining corporate culture and morale.

5. Review outcomes

- 5.1 The Audit Manager will meet regularly with managers to review progress and determine further actions needed. Consultation with other officers will be undertaken as and when this is necessary. They will report progress to all relevant officers.

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- 5.2 The Council's policy is to refer theft, fraud or corruption to the police for investigation and prosecution whenever possible. However, it's important to remember that the evidence for a successful prosecution must prove a case beyond all reasonable doubt, while disciplinary cases (including dismissal for gross misconduct) are decided on the balance of probabilities.
- 5.3 The Audit Manager will consult the Section 151 Officer, the Monitoring Officer, Head of Service, and the Human Resources Manager to determine whether any matter should be referred to the Police for criminal investigation.
- 5.4 The Head of Service must remedy control weaknesses identified during the course of an investigation. Internal Audit will provide advice and support on effective controls, and will ultimately include these in a report (though implementation should not be delayed until the report is issued!)
- 5.5 The Audit Manager will cascade general points, issues and advice wider across the Council.
- 5.6 Internal Audit will record all final outcomes on the theft, fraud, corruption and bribery register. This information informs future prevention strategies, and is used in reporting fraud and corruption at the Council.
- 5.7 In all cases the Council's insurers should be informed of actual losses as soon as these have been firmly established. It is sensible to keep External Audit informed. Media and Communications will be kept informed that publicity can be properly managed.

6. Recover losses

- 6.1 There are a variety of methods which can be used to recover losses. Methods used depend upon the extent of the losses, the seriousness of the fraud/corruption and whether the response is disciplinary action, legal action or both.
- 6.2 If the case is going to court, the Council can seek a compensation order.
- 6.3 Some cases will be covered by the Council's fidelity guarantee insurance.
- 6.4 The question should not be **whether** the Council can recover the loss, but **how** it will do so.

7. Contact numbers

Internal Audit – 01782 742122
Public Concern at Work – 0207 404 6609

**QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT FUNDAMENTAL
RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JULY TO 30 SEPTEMBER 2011**

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

To report on any outstanding high risk recommendations to the Audit and Risk Committee on a quarterly basis and where necessary to request Members' approval to the Executive Directors requested actions in respect of the recommendations and proposed target dates.

To provide Members with an assurance opinion on internal controls over Council Services.

Recommendation

That the action of your officers and levels of assurance be noted.

Reasons

High risk recommendations are those agreed with management that are key controls in providing assurance as to the efficiency and effectiveness of the system, service or process under review. By agreeing to prolong target dates, Members are accepting the risk of not implementing the control. Delayed implementation of such controls should be challenged to identify reasons behind this and solutions to the delay. Delays may be a result of external or internal influences, lack of resources or inertia. Such delays in the implementation of recommendations will affect the assurance opinion provided on each Service.

1. **Background**

- 1.1 High risk recommendations are those where action is considered imperative to ensure that the authority is not exposed to high risks and to do this it needs to be implemented within 1 month of the recommendation being agreed with managers.
- 1.2 Recommendations are reported to committee on an exception basis, i.e. reports where high risk recommendations have been followed up with Managers on more than two occasions are brought to the attention of Members. In addition the Chair and Vice Chair receive exception reports quarterly where high risk recommendations have been followed up with Managers after the initial implementation date has expired.
- 1.3 With the production of the Annual Governance Statement in conjunction with the Statement of Accounts the follow up and implementation of recommendations is increasingly important, since they provide both officers and Members with assurance as to the effectiveness of key internal control.
- 1.4 Assurance is provided on an annual basis as part of the Annual Report on the Internal Audit Service. It is now also provided to each Executive Director on a monthly basis, based on the number of recommendations that have been implemented, and where the target date has been changed more than twice on either medium or high risk recommendations.

2. **Issues**

- 2.1 In the second quarter there were twenty two high risk recommendations due for review, eleven of these were at their first follow up date and therefore no further action is required at this stage. There were four recommendations that had received a first target date change and these were referred separately to the Chair and Vice Chair of the Committee. However there were seven recommendations that had received two target date changes, details of this recommendation can be found at **Appendix B**
- 2.2 A copy of the Assurance Summary for September 2011 can be found at **Appendix A**.
- 2.3 Three Directorates are showing Limited Assurance at the end of the second quarter, whilst the Chief Executives Directorate have an Assurance Opinion of Substantial. Given these results at the end of the second quarter there are no issues or concerns in relation to any outstanding recommendations within any of the Directorates.

3. **Reasons for Preferred Solution**

- 3.1 Reasons for each Director proposal are specific to the actions required.

4. **Outcomes Linked to Sustainable Community and Corporate Priorities**

- 4.1 The systems, services and processes reviewed by Internal Audit link to and support the four priority themes of the Council, by reviewing these Audit is making the best use of the Council's resources and improving efficiency and this is further reinforced by managers as they implement the recommendations made.

5. **Legal and Statutory Implications**

- 5.1 The Accounts and Audit Regulations 2010 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices'.

6. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

7. **Financial and Resource Implications**

- 7.1 The majority of recommendations are met within existing resources; where additional resources are required these will form part of a separate report.

8. **Major Risks**

- 8.1 The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working properly. High Risk Recommendations identify areas where action is required in order to avoid exposure to risk. If managers fail to act upon fundamental audit recommendations assurance cannot be given on the adequacy of the systems of internal control.

9. **Key Decision Information**

Not applicable

10. **Earlier Cabinet/Committee Resolutions**

10.1 Where fundamental recommendations show a target date change; this identifies the number of times the recommendation has been referred back to Executive Management Team and to Members for consideration of the risks prior to agreeing an extended implementation date or other action.

11. **List of Appendices**

Appendix A - Audit Recommendations Summary of Assurance for September 2011
Appendix B - Outstanding High Risk Recommendations

12. **Background Papers**

Internal Audit PI and Assurances file

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Audit Recommendations
Summary of Assurance

September 2011

	Full	Substantial	Limited	Little
Chief Executives Directorate		√		
Resources and Support Services Directorate			√	
Operational Services Directorate			√	
Regeneration and Development Directorate			√	

Opinions are classified as;

Full	The Internal Audit did not reveal any control weaknesses based on the samples at the time of the audit	94% - 100%
Substantial	The Internal Audit identified areas that required necessary action to avoid exposure to significant risk	70% - 93% or target changed > 2 on medium risk recommendations
Limited	The Internal Audit identified areas where it was imperative to act to avoid exposure to risk	50% - 69% or target changed > 2 on high risk recommendations
Little	The Internal Audit identified very little evidence of key controls being in place or a repetition of evidence that known action has not taken place to avoid exposure to high risk i.e.: as identified in previous audits. This exposes the Council to high risks that should have been managed.	Below 50%

Full assurance can be given where the Council achieves 95% of all recommendations implemented as the agreed performance measure for 2010/11.

Where target dates for the implementation of recommendations are changed or renegotiated we cannot give our full assurance. If the ongoing risk was considered as;

High Risk: (action that is considered imperative to ensure that the authority is not exposed to high risks; (Implemented within 1 month))

Medium Risk: (action that is considered necessary to avoid exposure to significant risks: (Implemented within 3 months))

By changing the date the risk is not being managed and therefore you may wish to seek additional assurance as to the security of the controls in place.

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Audit and Risk Committee

Quarter 2 11/12

Outstanding High Risk Recommendations where Target Date Changed Twice or More

Resources and Support Services					
Audit Area	Recommendation agreed with Managers	Last Target Date	No of Times the Target has Changed	Executive Director Proposal	Recommendations
<p>Data Protection and Software Licencing</p> <p>Notification System</p>	<p>3.3.5/6/7/8 – Steps should be taken to establish an internal notification system for 'systems' holding 'personal data'. Such a process should provide all information to enable compilation of the necessary notification documents. This system would also be used to review/renew the Authority's notifications with the Information Commissioners Officer (Resp: Head of Human Resources)</p>	<p>30.09.11</p>	<p>4</p>	<p>23.12.09 – Work on the establishment of an information 'asset register' is currently being undertaken by Bentley Jennison who have requested an extension to their project completion date. Target date amended to 31.05.10.</p> <p>11.06.10 Head of HR advised: 23.12.09 Research undertaken to date has not identified a suitable statement for approval. Target date amended to 31.05.10.</p> <p>11.06.10 Head of HR advised: Insufficient capacity to complete. Request target date extended to enable matter to be dealt with by Audit Technician/Information Assurance Officer when in post as agreed by Information Security Group on 04.05.10.</p>	<p>Target date be revised to 31.03.12</p>

Resources and Support Services

Audit Area	Recommendation agreed with Managers	Last Target Date	No of Times the Target has Changed	Executive Director Proposal	Recommendations
				<p>Audit Manager advised: A draft information asset register has been received, currently awaiting final report from RSM Tenon, this will also be picked up as part of the role of Audit Technician/Information Assurance Officer.</p> <p>08.11.10 Audit Manager advised to revise target date to 31.03.11.</p> <p>06.04.11 Request target date is revised to 30.09.11.</p> <p>24.10.11 – Work is still continuing with regards to this area of work. This links to various programmes of work that are currently on going across the council, it is anticipated that a system will be in place by the end of the financial year.</p>	

Resources and Support Services

Audit Area	Recommendation agreed with Managers	Last Target Date	No of Times the Target has Changed	Executive Director Proposal	Recommendations
Business Continuity	The ICT disaster recovery plan should be finalised as soon as possible.	31.08.11	4	<p>27.07.10 – Progress has been made with Disaster Recovery site up and running. Data duplication across link. Work to test plan has halted due to lack of resources. Plan to resume work during August.</p> <p>06.01.11 – No response to memo of 07.12.10. Target date changed to 31.01.11.</p> <p>14.01.11 will be reported to Audit and Risk Committee 31.01.11.</p> <p>14.01.11 – Head of ICT Services stated the ICT plan has been finalised but this is dependant upon the completion of the BIA's and the corporate BCP which are currently being progressed by Heads of Service and at EMT. EMT has approved the infrastructure for the disaster recovery telephony for Kidsgrove. Once this has been installed the testing will be undertaken. Request target date change to 31.07.11.</p> <p>10.08.11 – No response to email of 06.06.11 re: outstanding recommendations. Target date moved to 31.08.11.</p> <p>24/10/11 Network & telephony links to Disaster Recover site complete and tested. Data Replication has been tested and is in place. Following on from collation of the BIA s from all service areas, business critical systems will need to be identified to ensure availability in the event of a disaster – awaiting</p>	Target date be revised to 31.01.12

				decision before can progress.. A major programme of work to ensure that the ICT Disaster Recovery Plan is fit for purpose is now being undertaken . Completion by end January 2012	
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Resources and Support Services

Audit Area	Recommendation agreed with Managers	Last Target Date	No of Times the Target has Changed	Executive Director Proposal	Recommendations
Business Continuity	Testing of proposed ICT arrangements should be completed as soon as possible.	31.08.11	4	<p>27.07.10 – Progress has been made with Disaster Recovery site up and running. Data duplication across link. Work to test plan has halted due to lack of resources. Plan to resume work during August.</p> <p>06.01.11 – No response to memo of 07.12.10. Target date changed to 31.01.11.</p> <p>14.01.11 – Will be reported to Audit and Risk Committee 31.01.11.</p> <p>14.01.11 – Head of ICT Services reported that a lack of resources has resulted in delays to this recommendation being progressed. This is also linked to the recommendation where there is a dependency on the installation of telephony before plans can be fully tested. Request target date change to 31.07.11.</p> <p>10.08.11 – No response to email of 06.06.11 re: outstanding recommendations. Target date moved to 31.08.11.</p> <p>24/10/11 Telephony installed, all links in place and tested. Awaiting decision on business critical systems to be replicated due to server capacity at the site, A major programme of work to ensure that the ICT Disaster Recovery Plan is fit for purpose is now being undertaken . Completion by end January 2012.</p>	Target date be revised to 31.01.12

Resources and Support Services

Audit Area	Recommendation agreed with Managers	Last Target Date	No of Times the Target has Changed	Executive Director Proposal	Recommendations
<p>HouseKeeping/Data Management</p> <p>Policies should be documented</p>	<p>Housekeeping and Data Management policies/procedures should be documented. Policies should be presented to Senior Management for approval. These should cover the following areas:</p> <ul style="list-style-type: none"> • Housekeeping (Backups, Restores and Restart/Shutdown) • Archiving • Capacity and Performance • Data Management including Storage • Data Retention/Disposal • Data Classification • Data Limits <p>Policies should be subject to periodic reviews which should be evidenced.</p>	<p>31.08.11</p>	<p>3</p>	<p>Housekeeping will rectified within 3 months.</p> <p>Due to resourcing issues and current workload the rest will take longer to achieve.</p> <p>06.01.11 – No response to memo of 07.12.10. Target date changed to 31.01.11.</p> <p>14.01.11 – Work still in progress due to workload and resource issues request to extend target date to June 2011.</p> <p>10.08.11 – No response to e-mail of 06.06.11 re outstanding recommendations. Target date moved to 31.08.11.</p> <p>24/10/11 Policies that have corporate implications now follow strict process: submitted to H of C&ICT Services, checks made, submission to Information Security Group.. Some specific polices, such as Retention & Disposal, are being developed as part of transformation projects.</p> <p>Internal ICT polices are submitted for approval to the H of C&ICT Services</p>	<p>Recommendation can be closed</p>

Resources and Support Services

Audit Area	Recommendation agreed with Managers	Last Target Date	No of Times the Target has Changed	Executive Director Proposal	Recommendations
HouseKeeping/Data Management	Management should be implemented password protection/encryption for backup media.	31.08.11	4	<p>Will investigate options and costs.</p> <p>06.01.11 – No response to memo of 07.12.10. Target date changed to 31.01.11.</p> <p>14.01.11 – Head of ICT requested target date change to September 2011 – research is still ongoing in relation to this – target date changed to 30.06.11 as per agreement at Audit and Risk Committee.</p> <p>10.08.11 – No response to email of 06.06.11 re outstanding recommendations. Target date moved to 31.08.11.</p> <p>24/10/11 Backup Media - this will form part of the Backup Hardware Replacement paper to be submitted to Capital Review Group in Nov 11 for approval.</p>	Target date be revised to 31.12.11

Regeneration and Development

Audit Area	Recommendation agreed with Managers	Last Target Date	No of Times the Target has Changed	Executive Director Proposal	Recommendations
<p>Public Buildings Maintenance</p> <p>Window Cleaning Contract to be set up</p>	<p>The three subcontractor files for lift maintenance, window cleaning and boiler maintenance should be provided to Internal Audit for review. A new window cleaning contract should be entered into.</p>	<p>30.09.11</p>	<p>2</p>	<p>Files have been provided. The contract for window cleaning has expired. Agreed that a new contract will be entered into.</p> <p>06.01.11 – No response to memo of 07.12.10, therefore target date changed to 31.01.11</p> <p>26.01.11 – Request target change to 30.09.11 – EMT have agreed a restructuring of the department and when the Facilities Manager is in post this will be carried out.</p> <p>16.02.11 – Some progress has recently been made with the window cleaning contract/arrangements:</p> <p>A schedule of properties has been compiled detailed addresses and the frequencies of cleans. A competitive</p> <p>Contract notice will be issued by 25th February, 2011. Interested companies will be invited to submit applications by 25th March, 2011. Order placed for work to commence 9th May, 2011.</p> <p>Estimated value of works £10,000 per annum.</p> <p>26/10/11 – The Head of Assets reported that a new Facilities Manager will commence work Monday the 31st of October.</p> <p>The revision of the contract will be one of the priorities given to him along with other matters; consequently I anticipate it will be placed early in 2012.</p>	<p>That the target date be revised to 29.02.12</p>

<p>Depot – Establishment Audit</p> <p>Security Contract</p>	<p>An agreement should be put in place with Security Services Ltd. In respect of services provided at the Depot including prices, service levels, start/end dates, default terms etc. A tender exercise should be undertaken to secure a contract which incorporates the security arrangements across all Council sections.</p>	<p>30.09.11</p>	<p>2</p>	<p>A tender exercise will be undertaken in respect of securing a security contract across all sections of the Council.</p> <p>06.01.11 – No response to memo of 07.12.10, therefore target date changed to 31.01.11</p> <p>26.01.11 – Head of Assets, Engineering Manager, Acting Facility Manager and Head of Operations are to meet in early February to discuss review/renewal of security/fire and CCTV contracts. To enable a full procurement exercise to be undertaken it is requested that the target date be extended until 30.09.11.</p> <p>26/10/11 – The Head of Assets reported that a new Facilities Manager will commence work Monday the 31st of October. The revision of the contract will be one of the priorities given to him along with other matters; consequently I anticipate it will be placed early in 2012.</p>	<p>That the target date be revised to 29.02.12</p>
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INTERNAL AUDIT PROGRESS REPORT – QUARTER 2 2011/12

Submitted by: **Audit Manager**

Portfolio **Resources and Efficiency**

Ward(s) affected **All**

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1 July to 30 September 2011. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendation

That Members consider any issues that they may wish to raise with Cabinet and, or Executive Directors.

Reasons

The role of Internal Audit is key to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

1. Background

1.1 The Internal Audit Plan for 2011/12 allows for 491 days of audit work.

1.2 This is the second progress report of the current financial year presented to the Committee and the areas that it will cover are as follows:-

- Actual against planned performance for the first quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 50% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 25% in the second quarter. Achievement of the 25% is dependent on a full complement of staff from 1 April, fully qualified and trained to complete work with minimum supervision. A full 50% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

2. **Issues**

2.1 **Performance Indicators**

The indicators reported below relate to the end of the second quarter (September 2011).

2.2 **Number of Recommendations Implemented**

At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified.

Up to the end of September 2011 557 recommendations had been made of which 412 have been implemented, 74%, the target is 96% by the year end. Due to a low percentage of recommendations having been implemented during the second quarter, the Audit Team will be undertaking a series of follow up reviews with managers to ascertain reasons why recommendations have not been implemented.

2.3 **Percentage of clients who are satisfied or very satisfied with the service provided**

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2010/11 is 86%.

Seven satisfaction surveys were returned during the second quarter, the average for these was 85%.

Progress made against the plan.

This is measured using three indicators:-

- **Audit staff utilisation rate:** This indicator demonstrates whether staffing resources are being used to complete non audit duties. Audit duties are chargeable to clients and can include audit reviews, special investigations, consultancy and contributing to corporate initiatives in terms of providing controls advice. Non audit and therefore non productive time covers aspects such as administration, training and leave. The target for productive time is 74%

Productivity at the end of quarter 2 is 78%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 30% of the planned audits had been completed by the end of quarter 2.
- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 29% of the operational audit plan had also been completed against an expectation of 25%.

2.4 **Audit reviews completed and final reports issued between 1 July and 30 September 2011**

On completion of the audit reviews an opinion can be given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Well Controlled	Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (vfm)
Adequately controlled	There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
Less than adequately controlled	Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.
Poorly controlled	Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money.

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1 July 2011. The attached appendix provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Resources & Support Services		
Bank Account & Reconciliation Arrangements	Well controlled	B
Creditors – Key controls	Well controlled	A
Grants, Concessions & External Funding	Adequately Controlled	B
Operational Services		
Recycling & Waste Services	Adequately Controlled	B
Regeneration and Development		
Section 106	Less than Adequately controlled	B
Kidsgrove Ski Centre	Well Controlled	A
Newcastle and Stoke-on-Trent Employment Land Review	Well Controlled	A
Corporate Reviews		
Gifts Hospitality & Private Works	Adequately controlled	A
Performance Management	Adequately controlled	A
Information Assurance**	No opinion	A

** this was work undertaken in relation to Information Security Briefings that were mandatory sessions presented to staff

Risk categories relate to the risk to the Council achieving its objectives if the area under review is not performing and identify the frequency of the audit. An 'A' risk area requires a review of its key controls on an annual basis or as the need for an audit arises for example, in the case of contracts coming to an end final account audits are required and completed. A 'B' risk area is reviewed twice during a three year programme and a 'C' risk every three years.

'Risk' can be defined as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that may arise, and to the potential failure to reach desired outcomes. Management compliance with agreed action plans will ensure that risks are addressed.

2.5 **Consultancy and non audit projects**

During quarter 2 the Audit Team has spent a total of 50 days undertaking a number of special projects at the request of other Directorates.

3. **Options Considered**

3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.

3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

4. **Proposal**

4.1 In agreeing to audit reports, management acknowledge the issues raised and risks identified from the review and therefore accept the recommendations that have been made.

5. **Reasons for Preferred Solution**

5.1 By implementing the recommendations, the exposure to risk is minimised and achievement of the Council's objectives maximised. The completion of the audit reviews provide evidence on which assurance of the Council's systems and internal controls can be provided.

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.

6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7. **Legal and Statutory Implications**

7.1 The Accounts and Audit Regulations 2010 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8. **Equality Impact Assessment**

8.1 There are no differential equality impact issues identified from this proposal.

9. **Financial and Resource Implications**

9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed. This in turn will reduce the risk of financial losses.

9.2 The service is currently on target to be provided within budget.

10. **Major Risks**

10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.

10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.

10.3 If the risks identified are not addressed through the implementation of agreed recommendations, achievement of the Council's objectives will be affected.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Agreement of the Internal Audit Plan for 2011/12 (Audit and Risk Committee 31 January 2011).

13. **List of Appendices**

Internal Audit Plan 2011/12: Progress to the end of Quarter 2 – 2011/12.

14. **Background Papers**

Internal Audit Plan & PI's File (GA004/11).
APACE files 2011/12

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Internal Audit Plan 2011/12**Progress to the End of Quarter 2 – 2011/12****Resources and Support Services Directorate**

The following areas have been completed in quarter 2

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Bank Account & Reconciliation Arrangements	B	Well Controlled	0	0	1	1
Creditors – Key controls	A	Well controlled	0	0	0	0
Grants, Concessions & External Funding	B	Adequately Controlled	1	1	1	3

The main issues arising from the above audits can be summarised as follows;

Bank Account & Reconciliation Arrangements

This review examined the arrangements in place for reconciling the council's bank account and ensuring that there are adequate controls in place to ensure that all the council's income and expenditure can be accurately accounted for. The arrangements in place were found to be well controlled and no major issues or concerns identified. Just one recommendation was made and this related to ensuring that the list of users for the system was updated.

Creditors – Key Controls

This was a 5 day review that examined the key controls identified within the Creditors system. The main controls were identified as, ensuring that orders can only be raised by authorised officers, verifying invoices received to orders raised and ensuring that regular reconciliations are undertaken in relation to the creditors system. From a review of these controls no major issues were identified.

Grants Concessions & External Funding

As part of this audit we examine the systems and processes in place to ensure that all monies received and granted by the council is correctly accounted for. In addition this also includes ensuring that where any external funding is received this is spent in accordance with the terms and conditions of the grant given. The main issues that arose from this audit related to a review of the role of the grants co-ordinator due to the fact that the number and types of grants now received by the organisation had reduced considerably over the last few years.

Operational Services Directorate**Areas completed in Quarter 2 of the 2011/12 Audit Plan**

The following areas have been completed in quarter 2;

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Recycling & Waste Services	B	Adequately controlled	2	9	1	12

The main issues arising from the above audits can be summarised as follows;

Recycling & Waste Services

This audit was a combined review that looked at both Recycling and Refuse Collection and looked at the procedures and processes that were operating across the whole service area. A number of recommendations were made in relation to this service area these included;

- Completing the work that was required in respect of the Waste Transfer Station
- Implementing a formal stock control system for the wheelie and recycling bins
- Ensuring that all stock is held securely
- Updating the policy and procedure manuals for the service area, and
- Reviewing the current arrangements in place in respect of the 'Bring-Sites' that are located throughout the Borough.

Regeneration & Development Services**Areas completed in Quarter 2 of the 2011/12 Audit Plan**

The following areas have been completed in quarter 2;

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Section 106 Agreements	B	Less than Adequately controlled	4	4	1	9

The main issues arising from the above audits can be summarised as follows;

Section 106 Agreements

This was the first audit review conducted in respect of Section 106 agreements, the objectives of the review were to ensure that there were adequate procedures in place to document and record monies received from these arrangements and that procedures were in accordance with Standing Orders and Financial Regulations. It was identified that at present there was no central record of what Section 106 agreements were in place and therefore no easy way of identifying whether monies had been received etc.

Recommendations were therefore made in relation to establishing a database and setting up

formal procedures to ensure that monies received can be identified and traced within Agresso the council's financial information system.

In accordance with Financial Regulations all final payments made against a contract need to be verified by Internal Audit before payment can be made. During quarter 2 the following final payments have been audited

Contract Name	Contractor	Value of Work	Audit Findings
Kidsgrove Ski Centre	Sandy & Co	£132,962	No problems identified, contract delivered within budget
Newcastle and Stoke-on-Trent Employment Land Review	Scott Wilson	£37,105	No problems identified, contract delivered within budget

Corporate Reviews

These are audit reviews that cut across all Service Areas, as such Audit Briefs go out to all Executive Directors, Corporate and Service Managers and reporting is done on an individual service level in order to retain confidentiality of the issues identified.

Areas completed in Quarter 2 of the 2011/12 Audit Plan

The following areas have been completed in quarter 2

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Gifts Hospitality & Private Works	A	Adequately controlled	0	2	0	2
Performance Management	A	Adequately controlled	0	7	3	10
Information Assurance	A	No Opinion <i>* Information Security Briefings</i>	0	0	0	0

The main issues arising from the above audits can be summarised as follows;

Gifts Hospitality & Private Works

This is an annual review which is completed on behalf of the Audit Commission as part of the managed audit. There were no areas of concern that arose from this review, recommendations that were made related to the requirement to remind staff of their obligations in respect of the receipt of gifts and hospitality and registering of any outside interests as set out in the Employee Code of Conduct.

Performance Management

The audit of performance management in this respect covers the auditing of the Performance Indicators prior to ensure that all indicators produced are accurate and reflect the performance of the services areas to which they relate, main issues that arose from this audit are summarised below;

- All performance indicators should be completed and forwarded to the Performance Officer prior to the specified deadline;
- All performance indicators should be supported by working papers, and
- All performance indicators should be signed off by the officer responsible for collecting and collating the data.

Information Assurance

Together with other members of the Information Security Group, the Audit Manager has been involved in presenting a series of briefings to all staff on Information Security. In total 11 sessions were presented which covered more than 300 staff from across the council. Further sessions have been arranged over the forthcoming month to capture those staff that were previously unable to attend the earlier sessions. The sessions which incorporated the use of DVD's and presentations on the new Information Security Management Policies, Protective Marking and the Use of Social Media were all designed to raise awareness and to reinforce the key message that the security of the information held within this organisation is the responsibility of everyone.

Note on recommendations

Recommendations fall into one of three categories;

- High (H):** *action that is considered imperative to ensure that the authority is not exposed to high risks;*
- Medium (M):** *action that is considered necessary to avoid exposure to significant risks;*
- Low (L):** *action that is considered desirable and which should result in enhanced control or better value for money.*