

Audit and Risk Committee

12 December 2016

Time 2.00 pm **Public Meeting?** YES **Type of meeting** Regulatory

Venue Committee Room 3 - Civic Centre, St Peter's Square, Wolverhampton WV1 1SH

Membership

Chair Cllr Craig Collingswood (Lab)

Vice-chair Cllr Christine Mills (Con)

Labour

Cllr Harbans Bagri
Cllr Mary Bateman
Cllr Philip Bateman
Cllr Jasbir Jaspal
Cllr Martin Waite

Conservative

Cllr Andrew Wynne

Independent Member

Mr Mike Ager
Mr Terry Day

Quorum for this meeting is two Councillors.

Information for the Public

If you have any queries about this meeting, please contact the democratic support team:

Contact Dereck Francis

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Some items are discussed in private because of their confidential or commercial nature. These reports are not available to the public.

Agenda

Part 1 – items open to the press and public

MEETING BUSINESS ITEMS

- | <i>Item No.</i> | <i>Title</i> |
|-----------------|--|
| 1 | Apologies for absence |
| 2 | Declaration of interests |
| 3 | Minutes of previous meetings - 19 September 2016 (Pages 5 - 12)
[For approval] |
| 4 | Matters arising
[To consider any matters arising from the minutes] |

DECISION ITEMS

- | | |
|----|--|
| 5 | Annual Audit Letter for City of Wolverhampton Council (Pages 13 - 34)
[To note the Annual Audit Letter from the Council's External Auditors] |
| 6 | Strategic Risk Register and Strategic Assurance Map (Pages 35 - 62)
[To receive the latest summary of the Council's risk register] |
| 7 | Internal Audit Update - Quarter Two (Pages 63 - 70)
[To note the contents of the latest Internal Audit update] |
| 8 | Audit Services - Counter Fraud Update (Pages 71 - 128)
[To receive the latest Internal Audit Counter Fraud update] |
| 9 | Annual Governance Statement Action Plan Update (Pages 129 - 136)
[To note progress made in addressing the key improvement areas identified in the 2015/16 annual governance action plan] |
| 10 | Payment Transparency (Pages 137 - 140)
[To note the Council's current position with regards to the publication of all its expenditure] |
| 11 | Audit and Risk Committee Knowledge and Skills Framework (Pages 141 - 150)
[To consider the results of the self-assessment exercise] |
| 12 | Exclusion of the Press and Public
[To pass the following resolution: |

That in accordance with Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information on the grounds shown below]

Part 2 - exempt items, closed to press and public

<i>Item No.</i>	<i>Title</i>	<i>Grounds for Exemption</i>
13	Audit Investigations Update (Pages 151 - 154) [To note the current position on audit investigations]	Information relating to any individual. Information which is likely to reveal the identity of an individual. Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (1, 2, 3)

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Audit and Risk Committee

Minutes - 19 September 2016

Attendance

Members of the Audit and Risk Committee

Cllr Craig Collingswood (Chair)
Cllr Christine Mills (Vice-Chair)
Cllr Harbans Bagri
Cllr Jasbir Jaspal
Cllr Martin Waite
Cllr Andrew Wynne
Mike Ager (Independent Member)

Employees

Robert Baldwin	Lead Lawyer
Peter Farrow	Head of Audit
Dereck Francis	Democratic Support Officer
Angela McKeever	Head of Skills
Claire Nye	Chief Accountant
Hayley Reid	Senior Auditor
Mark Taylor	Director of Finance
Mark Wilkes	Client Lead Auditor
Isobel Woods	Head of Enterprise

External Auditors – Gant Thornton

Mark Stock
Nicola Coombe
David Roper

Part 1 – items open to the press and public

Item No. *Title*

- 1 Apologies for absence**
Apologies for absence were submitted on behalf of Cllrs Mary Bateman and Phil Bateman and Terry Day (Independent Member).
- 2 Declaration of interests**
Mike Ager, Independent Member declared a non-pecuniary personal interest in item 9 (Internal Audit Update – Quarter 1) in so far as it relates to Coppice Performing Arts School where he is a Governor.

Cllr Christine Mills also declared a non-pecuniary personal interest in item 9 in so far as it relates to a secondary pupil referral unit where she is a member.

3 **Minutes of the previous meeting - 4 July 2016**

Resolved:

1. That Minute 5 (External Audit Update) be corrected by the substitution of the name 'Nicola' for the name 'Emma'.
2. That subject to 1 above, the minutes of the previous meeting held on 4 July 2016 be approved as a correct record and signed by the Chair.

4 **Matters arising**

Referring to Minute 9 (Annual Internal Audit Report 2015/16), and in response to a request for an update Peter Farrow, Head of Audit reported that they would be undertaking a new audit at Coppice Performing Arts School commencing on 1 October 2016.

With reference to Minute 17 (Audit Investigations Update) Cllr Martin Waite, requested an update at the next meeting on whether the council could lock down prepaid debit cards issued to employees in order to restrict where they could be used.

5 **Annual report to those charged with Governance (ISA 260)**

Mark Stock from Grant Thornton, the Council's External Auditor presented their annual report to the Committee on the key audit findings from the Council for the year ended 31 March 2016. In doing so he informed the Committee that audit was substantially complete although they were finalising procedures in respect of a small number of areas. He anticipated that an unqualified audit opinion would be provided in respect of the Council's financial statements. He advised that a number of adjustments had been made to the Council's accounts through the audit but they did not impact on the level of resources available to the Council. Based on their value for money review, they were satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. It therefore intended to issue an unqualified value for money conclusion.

Cllr Andrew Wynne asked the External Auditors whether they were sufficiently comfortable with the robustness of the processes and plans the Council had in place to address its budget deficit. In response Grant Thornton reported that it had looked at the Council's track record and how it had performed during 2015/16, the processes for setting the 2016/17 budget and if the Council had processes in place to produce plans for future years. It would not be without challenge but with the Council's track record and the plans in place the Auditors were comfortable.

Mike Ager, Independent Member requested an update on the Auditors recommendation that going forward 'the Council consider the capacity of its finance team'. He also commented that he would have expected to have seen the management response to the Auditors recommendations which the Committee could monitor. Mark Taylor, Director of Finance reported that the Council had recognised the issue of staff resources within its Finance Team and it had been actively recruiting to posts. The Council had recruited to one of the vacant posts within the team and would be looking to review its resources to provide additional capacity within the team to deal with the Council's competing demands on the team. He

assured the Committee that there would be full staff resources in place for the audit of next year's accounts. Claire Nye, Chief Accountant added that the action plan to the audit findings and recommendations would be completed within the month. She undertook to circulate the completed action plan to the Committee. The Chair asked that the Committee receive an update report on the implementation of the action plan to a meeting in the new year.

Referring to the Auditors recommendation that 'the Director of Governance reiterate to members the importance of keeping their register of interests up to date....', the Chair also stressed the importance for all Councillors to keep their register of interests up-to-date and to update them as and when circumstances change. Robert Baldwin, Lead Lawyer, Delivery reported all members had received an e-mail to remind them of their responsibilities in his area. He also reiterated the measures previously reported to the Committee by the Director of Governance to remind members of their responsibilities and to support them to keep their records up to date. The facility existed for members to complete/amend their register of interests form online at any time. The form now referred to directorships and other trusteeships. New Councillors also received specific briefings on their responsibilities during their induction meetings.

Resolved:

1. That the 2015/16 report to those charged with governance from the Council's External Auditors Grant Thornton be noted.
2. That the completed management action plan to the Audit Findings for the Council's Statement of Accounts 2015/16 be circulated to the Committee.
3. That updates on the implementation of the action plan be submitted to future meetings of the Committee in the New Year.

6 **Audited Statement of Accounts 2015/16**

Mark Taylor, Director of Finance presented the report on the audit of the 2015/16 Statement of Accounts.

The Chair asked whether the provision for Equal Pay within the statement of accounts was sufficient and whether the Council was getting nearer to concluding the process. Mark Taylor, Director of Finance reported that he hoped that by the 2016/17 audited statement of accounts that the Council would be able to be more clearer about the provision and include a nearer figure in the accounts. He added that the Council was monitoring and managing the issue tightly and that the provision was prudent.

Responding to the Chair's question on the level of reserves the Council held and whether they were sufficient given the savings the Council needed to deliver, Claire Nye, Chief Accountant assured the Committee that the provision for reserves were sufficient. The Council had looked at all reserves to determine whether they are appropriate. She outlined the sums set aside within each of the reserves and reported that they were continually reviewed throughout the year. She also confirmed that the Council's Confident, Capable Council Scrutiny Panel would continue to scrutinise the reserves and their appropriateness.

Resolved:

1. That the formal publication of the 2015/16 Statement of Accounts, as required by the Accounts and Audit Regulations 2011, which require publication by 30 September be approved.
2. That authority be delegated to the Chair of the Audit and Risk Committee to agree subsequent changes to the Statement of Accounts in consultation with the Director of Finance should there be any audit adjustments.
3. That it be noted that the Council's External Auditors intend to issue an unqualified opinion on the Statement of Accounts 2015/16, subject to the outcomes of remaining elements of audit work.
4. That it be noted that the External Auditors have identified no material errors which are expected to remain unadjusted in the amended Statement of Accounts.

7 **Internal Audit Charter - Annual Review**

Peter Farrow Head of Audit, presented for review and approval the internal audit Charter. The charter was first introduced and approved by the Audit Committee in September 2013.

Cllr Martin Waite commented that with council's outsourcing more services, he suspected that the external service providers might not be as forthcoming as internal services when receiving demands for information and explanations as Audit Committees consider necessary to fulfil their responsibilities. He asked how Audit Services would reflect this new world where services are outsourced and how the local authority could ensure it obtained value for money and ensure that fraud was not taking place. The Head of Audit reported that this was an additional layer of complexity. For some new arrangements, the Council would seek to negotiate that the Local Authority had certain levels of information and access to the internal audit teams of the providers of the outsourced services. Internal Audit was managing this at the moment. With the long-established arrangements with providers Wolverhampton Homes and the West Midlands Pensions Fund the arrangements were reasonably straight forward.

Cllr Martin Waite also asked how the local authority would be able to detect fraudulent activity or manage the fallout of any fraud relating to any of its outsourced services. The Head of Audit reported that the Council would make sure that it had a strong assurance framework in place to manage the area the council was responsible for.

The Chair referred to the recent training session for Audit and Risk Committee members with External Auditors, Grant Thornton. He suggested that it would be good for the Committee to meet with the Auditors in private once a year to discuss any. The Head of Audit commented that it was good practice to meet with them in private at least once a year and subject to the wishes of the Committee a meeting would be scheduled. The Chair agreed and suggested that the private meeting with the Auditors be scheduled alongside a programmed meeting of the Committee.

Resolved:

1. That the Internal Audit Charter as approved by the Audit Committee in September 2013 and as now amended to reflect the introduction of a Mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing be approved.
2. That a private meeting with Grant Thornton be scheduled alongside a programmed meeting of the Committee.

8 **Strategic risk register and strategic assurance map**

Peter Farrow Head of Audit outlined the salient points of the report on the key risks the Council faced and how it could gain assurance that the risks are being mitigated. Angela McKeever, Head of Skills and Isobel Woods, Head of Enterprise were also in attendance at the meeting for this item and they gave a brief overview in respect of strategic risk 2 - skills for work and how the risk was being managed.

Members of the Committee welcomed the report particularly the proposals aimed at skilling young people; the involvement of schools and plans to make them more aware of what apprenticeships can offer young people; the Council acting as a broker with commercial organisations and people seeking work, particularly older people who might not have the skills or are struggling to make the changes from the old economy to the new economy; action to target young people who might need extra supports with their English and mathematics and in conveying the messages to schools regarding attainment in English and mathematics being critical to their future to future life chances.

The Head of Skills and Head of Enterprise responded to the Committee's questions and observations on the above points and also respond to the Committee's questions on whether funding for this particular area of activity was time-limited; the percentage of funding that was targeted through the voluntary sector; engagement with business; the strong emphasis on interview skills/employability progress; the risk; whether all the 1500 jobs were filled at the jobs fair; and on the marketing of the Jobsbox.

The Chair reported that given the recent Local Government Association Finance Peer Review recommendations regarding the medium term financial strategy (MTFS) he requested a presentation on the MTFS to a future meeting.

Resolved:

1. That the strategic risk register at Appendix A to the report be noted.
2. That the reduction in the assessment of the following risks be noted:
 - Risk 14 – School Improvement.
 - Risk 15 – Emergency Planning.
3. That the amendment to the risk descriptor for risk 4 – Medium Term Financial Strategy in order to reflect the findings of the recent LGA Finance Peer Review be noted.
4. That it be noted that the Council is considering the implications of Brexit. Grant Thornton would be facilitating a session with the senior leadership team to discuss any risks, opportunities and mitigations arising from Brexit. Any new

risks that require inclusion in the strategic risk register or any changes to the assessment of the current risks would be reported to a future Audit and Risk Committee meeting.

5. That the main sources of assurance available to the Council against its strategic risks be noted.
6. That a more detailed report on how the Council is managing the risks around the Medium Term Financial Strategy be brought to the next meeting.

9 **Internal Audit update - quarter one**

Peter Farrow, Head of Audit presented the update report on progress made against the 2016/17 audit plan and on recent audit work that had been completed.

The Chair questioned the number of 'substantial' level of assurance reports that had been issued and how this compared to previous years. The Head of Audit reported that the results from the schools the Audit team visited were better than in previous years.

Resolved:

That the contents of the report be noted.

10 **Audit Services - Counter Fraud update**

Mark Wilkes, Client Lead Auditor, outlined the salient points of the latest update on current counter fraud activities undertaken by Audit Services. He particularly highlighted that information related to fraud and corruption being extensively revised on the Council's website and also reported on the whistleblowing policy review.

The Committee discussed the results from the latest National Fraud Initiative data matching exercise.

The Chair asked whether there had been an increase in the number of concerns raised since the article on the Council's whistleblowing policy in City People (published on 13 July 2016). The Client Lead Auditor advised that he had not seen a marked increase in issues raised and it was consistent with the usual steady flow.

Cllr Martin Waite asked whether the Audit team monitored the continued employment status of employees who raised issues through the whistleblowing policy so they and others could be assured that there would be no repercussions in job prospects as a result to reporting an issue. The Head of Audit reported that he was unaware of any such issues arising and reported that the service will look to receive feedback from whistleblowers on how they felt the issue they reported had been dealt with. He undertook to present that information to the Committee.

Resolved:

That the contents of the latest Audit Services Counter Fraud Services update be noted.

11 **Payment Transparency**

Peter Farrow, Head of Audit updated the Committee with the current position regarding the Council's publication of all its expenditure activity since the last meeting of the Committee. Since the last report to the Committee in July 2016 there had been no requests for information from the public (as an 'armchair auditor').

Resolved:

That the Council's current position with regards to the publication of all its expenditure be noted.

12 **CIPFA Audit Committee update - issue 20**

The Committee received, for information, the latest of regular briefings issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for audit committee members in public sector bodies.

Resolved:

That the contents of the latest CIPFA Audit Committee Update, Issue 20 – CIPFA survey on Audit Committees 2016 be received and noted.

13 **Audit and Risk Committee - Knowledge and skills framework**

Peter Farrow, Head of Audit asked members of the Committee to complete a self-assessment exercise form on knowledge and skills as part of stage two of the Committee's self-assessment process.

Resolved:

That a report on the results of the self assessment exercise be submitted to the next meeting of the Committee.

14 **Exclusion of the press and public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act.

15 **Audit investigations update**

Mark Wilkes, Client Lead Auditor presented the update report on current audit investigations.

During the ensuing discussion and in response to questions raised the Client Lead Auditor reported that there were currently 6/7 on-going audit investigations and that the p-cards referred to in the p-card audit investigation were not contactless enabled but required a pin number.

Resolved:

1. That the update on the audit investigations be noted.
2. That an update on any action taken in relation to the findings from the p-card audit investigation be submitted to the next meeting.

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Audit and Risk Committee

12 December 2016

Report title	Annual Audit Letter	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Accountable director	Mark Taylor, Finance	
Originating service	Strategic Finance	
Accountable employee(s)	Claire Nye Tel Email	Chief Accountant 01902 550478 Claire.Nye@wolverhampton.gov.uk
Report to be/has been considered by	None	

Recommendations for noting:

The Committee is asked to note:

1. The 2015/16 Annual Audit Letter from the Council's External Auditors, Grant Thornton

1.0 Purpose

- 1.1 To update members of the committee on the Annual Audit Letter from Grant Thornton for 2015/16.

2.0 Background

- 2.1 The Annual Audit Letter summarises the key findings arising from the work that Grant Thornton carried out at the Council for the year ended 31 March 2016.
- 2.2 Grant Thornton have already reported the detailed findings from their audit work to the Council's Audit and Risk Committee as those charged with governance in their Audit Findings Report on 19 September 2016.

3.0 Financial implications

- 3.1 The Annual Audit Letter from the External Auditors, is an important element of the accountability and transparency of the Council's finances.
[CN/05122016/A]

4.0 Legal implications

- 4.1 The Accounts and Audit Regulations 2015 require the 2015/16 Statement of Accounts be produced in accordance with proper practice. This is exemplified by the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are approved by 30 June 2016 and published by 30 September 2016. The Annual Audit Letter is a key part of this process.
[TS/05122016/D]

5.0 Equalities implications

- 5.1 There are no equality implications arising from this report

6.0 Environmental implications

- 6.1 There are no environmental implications arising from this report.

7.0 Human resources implications

- 7.1 There are no human resource implications arising from this report.

9.0 Corporate landlord implications

- 8.1 There are no implications for the council's property portfolio arising from this report

9.0 Schedule of background papers

- 10.1 Audit Findings Report – City of Wolverhampton Council Year ended 31 March 2016



The Annual Audit Letter for City of Wolverhampton Council

Year ended 31 March 2016

October 2016

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Mark Stocks
Partner

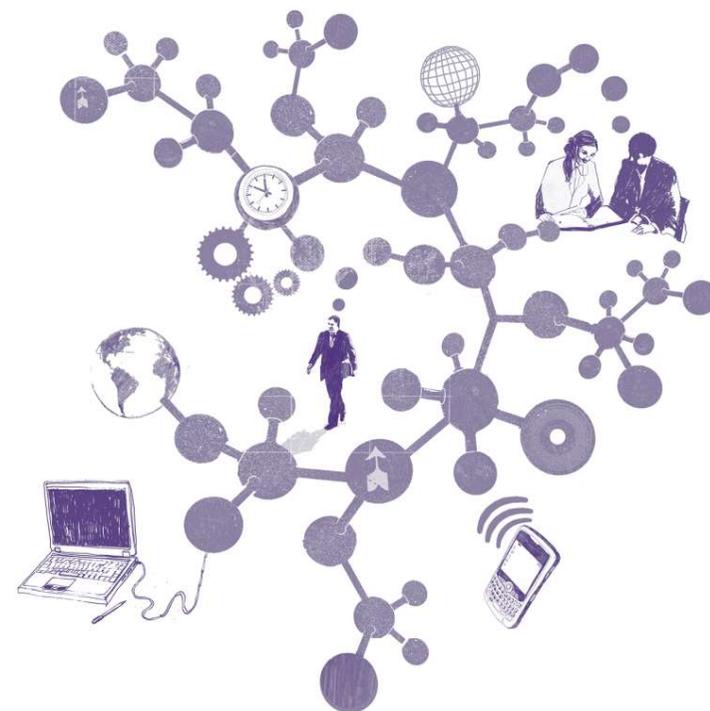
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A Reports issued and fees

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at City of Wolverhampton Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 19 September 2016, with a final version provided to Councillor Craig Collingswood as Chair of the Audit and Risk Committee on 27 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Whole of government accounts

We completed work on the Council/Authority's consolidation return following guidance issued by the NAO and issued an unqualified report on 20 October 2016.

Certificate

Now that the Whole of government accounts work is complete we will issue our certificate to certify that we have completed the audit of the accounts of the City of Wolverhampton Council in accordance with the requirements of the Code.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We have also engaged with the Council to undertake HCA compliance work and are in discussions to certify the Council's Pooling of Capital Receipts return.

We will report the results of this work to the Audit and Risk Committee in our Annual Certification Letter.

Other work completed

We have been appointed by the Council to act as an independent reviewer on income generation. This is based on our established knowledge transfer method whereby we have provided critical challenge and support to date and during the course of the project. This work is currently underway.

We have provided training to the Council's Audit and Risk Committee in conjunction with the Head of Internal Audit. Further, we are facilitating an interactive training session in November in partnership with the Council, with the aim of delivering training and a networking opportunity to Audit Committee members from across the Midlands.

Working with the Council

We would like to take this opportunity to record our appreciation for the assistance provided by the Finance Team and other staff during our audit. We look forward to working with them over the coming year.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £13.359m, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash and cash equivalents, disclosures of officers' remuneration, disclosure of auditors' remuneration, and related party transactions.

We set a lower threshold of £667k, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>As part of our audit work we considered the risk factors set out in ISA240 and the nature of the revenue streams at City of Wolverhampton Council and we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including City of Wolverhampton Council Council, mean that all forms of fraud are seen as unacceptable. <p>We did not identify any issues to report in relation to this risk</p>
<p>Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Discussed with management the rationale and evidence to support key accounting estimates and judgements • review of accounting estimates, judgements and decisions made by management • Testing of journal entries • review of unusual significant transactions <p>We did not identify any issues to report in relation to this risk</p>
<p>Accounting for PFI schemes The Council has three current PFI schemes which we will be auditing for the first time in 2015/16. A new PFI school will also become operational during 2015/16 and will be accounted for on balance sheet. PFI schemes represent a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • We gained an understanding of the PFI schemes including the contract and operators financial close model • We tested the inputs into the Councils accounting model to ensure they are consistent with the operators model, using the work of our specialist. • We ensured that accounting entries in the financial statements are consistent with the accounting model. <p>We assessed the inputs from the Operator's models to produce an audit estimate for each disclosure within the financial statements. We then compared this with the Council's figures for its accounting estimate. The total future payments disclosed for all PFI schemes are in line with the audit estimates. We did however identify some differences between our estimates and the Council's estimates, which were reported in our Audit Findings Report. We have accepted the Council's estimate, as the degree of variation is not material, given the nature of the schemes and the basis of the estimate.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have::</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value <p>In 2015/16 the Council have had valuations on a number of assets</p> <ul style="list-style-type: none"> • Council dwellings • Assets selected as part of the on-going 5 year revaluation programme • Assets where significant work has been undertaken • Review of assets not valued to ensure the carrying value and current/fair value are not materially different at the balance sheet date <p>The valuations carried out as part of the on-going 5 year revaluation cycle are desk top valuations. Our discussions with the valuer confirmed that desk top valuations are undertaken rather than site visits. As site visits are not undertaken the Council will need to ensure that the valuer is informed of any changes in condition of properties.</p> <p>Changes in accounting standards applying to the 2015-16 financial statements required surplus assets and investment properties to be valued under IFRS 13 Fair Value Measurements. Under the code operational assets are valued at current value. Our initial review of the valuer's reports found that this had not been consistently reflected. With management's agreement we contacted the Council's valuer and discussed the valuation process.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Group accounts The Council prepares consolidated accounts for Wolverhampton Homes. This will be the first year of our audit of the consolidated accounts.</p> <p>The Council is considering setting up companies in the energy and house building sectors which will need to be considered against the Group standards .</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> assured ourselves over the material accuracy of Wolverhampton Homes financial statements as reflected in the group financial statements identified the controls put in place by management over the consolidation process. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of misstatement and ensure that all required disclosures are made <p>We identified from review of the Council's consolidation workpaper that the formulae being used to calculate the entries for elimination on consolidation were incorrect. This resulted in Housing Services income and expenditure being overstated by £98m in the group CIES and debtors and creditors being overstated by £9.4m. The financial statements were corrected in this regard.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out. undertaken procedures to confirm the reasonableness of the actuarial assumptions made. reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report in relation to this risk</p>
<p>Welfare Expenditure Welfare benefit expenditure improperly computed.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle and undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Undertook discovery testing on a sample of welfare benefit expenditure <p>We did not identify any issues to report in relation to this risk.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Operating expenses Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Performed cut-off testing • Tested a sample of creditors balances • Tested a sample of operating expenditure transactions <p>We did not identify any issues to report in relation to this risk</p>
<p>Employee remuneration Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Review and testing of employee remuneration liabilities • Reconciliation of total payroll costs to the general ledger • Performed trend analysis of monthly payroll information • Tested employee remuneration expenditure • Tested senior officer emoluments and exit packages <p>We identified that:</p> <p>The Council do not routinely undertake a reconciliation between the payroll system and the general ledger. We carried out a reconciliation between the gross to net pay report provided by payroll and identified for gross pay, a difference of £0.8m between the ledger and the payroll system.</p> <p>The Council's payroll department acts as an agent for a number of external organisations and undertakes the payroll function on a monthly basis. As the Council is acting as agent, entries in relation to this payroll should be excluded from the CIES. This amounted to £7.6m in 2015/16. Both gross income and expenditure were reduced within the accounts to reflect the removal of this agency spend.</p> <p>Refer to our Audit Findings Report for full details of findings in respect of Employee Remuneration.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Property, Plant and Equipment</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • We obtained the fixed asset register and agreed this to the notes in the financial statements • We performed sample testing on the movements in property plant and equipment during the year • Compared the disclosures against the requirements of the Code to ensure compliance <p>These are the most significant issues that were identified:</p> <p>The difference in the 1 April 2015 value between the 2015/16 report and the 2014/15 report and the accounts was £34m. The Council provided a reconciliation and were able to identify the assets within the report that this related to and were able to confirm that the fixed asset register had not changed. This is an issue in the reporting systems and requires resolution by the Council. A recommendation was therefore raised in this regard.</p> <p>We identified a further difference between the fixed asset register and closing balances (31 March 2016) for gross book value and accumulated depreciation of £9.8m. The finance team have reconciled the register and the accounts. The gross book value and accumulated depreciation figures in the accounts have been reduced by £9.8m to correct for this error. The Net book value of assets has not changed.</p> <p>We made several disclosure changes.</p> <p>Refer to our Audit Findings Report for full details of findings in respect of Property, Plant and Equipment.</p>
<p>Grant Revenues</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • We obtained a schedule of all grants that includes total amount of the grant and the amount deferred, and agreed it to the general ledger • We performed sample testing of grant revenues • Compared the disclosures against the requirements of the Code to ensure compliance <p>We identified improvements to be made in relation to disclosures within two notes of the financial statements. Additionally we found that the accounting treatment of an overspend of Dedicated Schools Grant was incorrect meaning that the income within the CIES was overstated by £1.9m.</p> <p>Refer to our Audit Findings Report for full details of findings in respect of Grant Revenues.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

Our audit took longer than anticipated and we made a number of amendments to the financial statements. We still met the statutory timetable for completion of the audit and noted that none of the amendments have significantly altered the reported financial resources of the Council.

The Council's finance team have worked constructively with us and have prioritised the audit within the capacity available to them. We note that at times the team has had limited capacity to manage all of the competing demands on its time.

Due to the additional time and resources we have needed to input into the audit we have raised an additional fee for our work.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Risk Committee on 19 September 2016.

The audit team and the finance team have identified £13.1m adjustments affecting the Group and Council's financial statements in 2015/16 and £29.0m in the 2014/15 comparatives (details are recorded in our Audit Findings Report). These, change are primarily driven by the prior period adjustments, grants, and changes made to Property, Plant and Equipment.

The draft financial statements for the year ended 31 March 2016 recorded net expenditure for the group of £30.7m; the audited financial statements show net expenditure of £17.6m. For the prior year comparatives the draft accounts

recorded net expenditure for the group of £151.8m; the audited financial statements show net expenditure of £180.8m.

Of these adjustments two impact on the resources available to the Council. The first relates to a £2m reduction in school reserves following the incorrect recognition of Dedicated Schools Grant. The overspend against budget of £2m was agreed by the Schools Forum, and is to be recouped when the Council receives the DSG in the 2016/17 financial year. The second is an unadjusted misstatement relating to the equal pay provision which, on the basis of the information available to us, is overstated by £4.3m.

In addition to the key audit risks reported above, we identified the following issues/adjustments during our audit:

- Amendments; we made a significant number of adjustments to the financial statements and disclosure notes. These do not impact the level of resources available to the Council
- Finance team capacity; the finance team have limited capacity to manage all of the competing demands on its time
- Accounts preparation; The draft financial statements presented for audit on 30 June were subsequently amended and a revised set of draft financial statements provided to us on 6 July, to take into account two Prior Period Adjustments
- Property valuations; the Finance Team were delayed in their year end processes through late receipt of valuation reports. This meant they were unable to make the required amendments to the fixed asset register on a timely basis. We raised a recommendation in our Audit Findings Report for the finance team to seek a greater involvement in the valuation process such that they become the driving force behind what valuations are undertaken and by when.

Audit of the accounts

- Grants; significant reworking of the grants note was required. Additionally, a further prior period adjustment was identified during the course of the audit by both the Finance Team and the audit team in respect of capital grants unapplied
- Fixed asset register; the reports generated from the fixed asset register system produced inconsistent outputs and did not agree with the opening balances brought forward from the 2014-15 financial statements. The Finance Team had to invest significant time manually reconciling any differences arising. We therefore raised a recommendation within our Audit Findings Report for the Council to investigate the reporting function of its fixed asset register system to resolve the issues that have led to the reconciling differences between the register and the general ledger this year
- Payroll control accounts; The Council does not routinely undertake a reconciliation of the payroll control accounts from the ledger to payroll systems. We therefore needed to perform our own reconciliation procedures. We raised a recommendation within our Audit Findings Report for the Council to implement a routine reconciliation/review process.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not had to exercise any of these powers.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in the tables overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Key findings

We set out below, and on the following pages, our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Medium Term financial resilience The Council has historically managed its finances well, achieving financial targets and is on course to underspend against its 2015/16 budget. Nevertheless, the scale and pace of change for local government will affect future projections, particularly following announcements from the Comprehensive Spending Review, Autumn Statement 2015 and then more recently the provisional Local Government Finance Settlement 2016/17 published in December 2015.</p>	<p>We reviewed the Council's arrangements for identifying, agreeing and monitoring its financial sustainability and operational plans, and for communicating key findings to the Cabinet and Audit and Risk Committee. We reviewed the Council's updated medium term financial plan and monthly financial monitoring reports and assessed the assumptions used. We:</p> <ul style="list-style-type: none"> • reviewed reporting of in-year financial position and forecast outturn. • considered progress made with 2016/17 financial plans and assessed the key assumptions included in it. • Identified progress with developing a deliverable medium term financial plan 	<p>The performance of the Council is reported on a quarterly basis either to the Cabinet – Performance Committee, or Cabinet – Resources Committee as appropriate. These papers are made available to all members as well as the public, as they are published on the Council's management information system.</p> <p>The revenue outturn position for 2015/16 is a net underspend of £9.4 million against the net budget requirement of £224.9 million. This includes a significant overachievement within the Children and Young People service of £3.4 million due to transformation work leading to early achievement of budget proposals. This is offset by an underspend of £2.2 million within the Disability & Mental Health service.</p> <p>Meeting with key officers and review of the 2016/17 budget has established that the Council has firm plans in place for 2016/17 and 2017/18 budgets and are also considering 2018/19 and 2019/20. This includes holding "Review, Challenge and Progress" to ensure people are challenged on their plans appropriately to ensure they hold up to scrutiny and are robust. Services are being encouraged to think widely about initiatives in the areas of finance, commerciality, digital transformation, assets, structures, working with the Combined Authority, Understanding of Risk, and Future Thinking. This encompasses: "What does 'good' look like in your service and how can this be achieved going forward? How can you work more collaboratively – internally and externally?" Services are being encouraged to "use this opportunity to think innovatively, creatively and explore all opportunities and ideas for future delivery."</p> <p>For each budget year the Council publish short reports on each savings proposal on its website. The most recent round of savings for 16-17 were published in October 2015 and are split between Savings, Redesign and Income generation proposals, and Financial Transactions and Base Budget Revisions. This contains 43 separate proposals for savings with any finance and human resources implications detailed as necessary. There will be a similar publication in October for the proposals taken to Cabinet in July 2016. £21.9 million of budget reduction and income targets have been identified for 2017/18. A further £0.3 million has yet to be identified.</p> <p>The Council sought an LGA Finance Peer Review during the year, which is a process through which the peers use their experience and knowledge of local government to reflect on the work of the Council and provide feedback as critical friends. The review process considered Financial leadership, financial strategy, planning and forecasting, decision-making, financial outcomes and partnership & innovation. The review concluded in its feedback presentation that "The Council has made major progress in its aim to achieve financial stability. There is strong leadership, prudent financial management and clear evidence of innovation. It is now timely to reflect on and refine the Financial Strategy so it further enables and supports the delivery of the ambitions of the City."</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Schools effectiveness and attainment The OFSTED focus school inspection (June 2014) stated what the regulator considered to be "unacceptable inspection outcomes" in that "Wolverhampton continues to have a higher proportion of pupils educated in schools that are not good than both the regional and national averages." At the time of the report, from the thirteen schools inspected, seven were graded good; five required improvement and one was judged to require special measures. There has been improvement from this position: it was reported to Audit and Risk Committee in March 2016 that eight schools were underperforming and 13 required improvement.</p>	<p>We reviewed the plans put in place by the Director of Education and his team to improve the performance of the schools during the year. We assessed evidence of the Council meeting the improvement targets that it has set itself. We reviewed the Council's plans for continuing to improve the levels of educational achievement for the City's young people.</p>	<p>In 2014 OFSTED focus schools inspection reported that the Council had "unacceptable inspection outcomes" and that there were a "higher proportion of pupils educated in schools that are not good than both the regional and national averages." Of 13 schools inspected, 7 were good, 5 required improvement and 1 was special measures. This equates to 54% being rated as good. At the time 63% of schools were judged to be good or better (primary and secondary combined).</p> <p>There has been significant improvement from this position in the last two years with 81% of primary and secondary schools now judged to be good or outstanding by OFSTED placing the City in line with national figures.</p> <p>The School Standards Annual Report 2015 explains the journey of improvement that the city's schools have been on over the past 2 years since the 2014 OFSTED inspection. The Council has set themselves a variety of targets; some stretch, some aspirational (such as 90% of schools to be good or better by September 2017). The Council report in their School Standards Annual Report that they remain substantially below the national average on the percentage of primary schools rated as good, (74% compared to 85% nationally). This has now increased further to 81% of primary schools and 82% of secondary schools at September 2016.</p> <p>The School Standards Corporate Plan objective for 2016 is to: "Challenge and support schools to provide the best education for children and young people". This is planned to be achieved through:</p> <ul style="list-style-type: none"> • Maintaining and building upon the effective working relationships with schools to facilitate the development of strong, local school to school support networks through a systems leadership and partnership working approach that involves all relevant stakeholders in the school improvement work across the City. • Implementing a robust and effective challenge and support programme to all schools across the City through a staged and differentiated approach based on a school's individual position, in order to hold them fully to account for school improvement. <p>81% of all schools (primary, secondary & special) are now considered to be good or better, as reported by Internal Audit as part of their review on the School Improvement and Governance Strategy, which was given "substantial assurance".</p> <p>The School Improvement Strategy notes that educational standards across the City are improving, as can be evidenced by Wolverhampton's movement within the league tables. However, this trend needs to be built upon to ensure continued trajectory of improvement and to improve the life chances of children in Wolverhampton. For example, figures released in August 2016 show that 58% of Wolverhampton students gained five or more A* to C- grades at GCSE, which places the City above National and Key Stage 2 figures</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Adults and Children's social care The revenue budget monitoring reports during the year noted predicted overspends of £1.7 million across Older People budgets and £1.4 million on Disability & Mental Health. As at the year-end Older People budgets were underspent by £63,000 due to receipt of Better Care Fund monies of £1.9m from the CCG, and the Disability & Mental Health budget was overspent by £2.2 million. The Children & Young People Directorate, were predicting an underspend of £1.2 million as at March 2016. As at the year-end this underspend has now increased to £3.4 million. As at the time of our planning discussions, the number of Looked After Children was 676 against a target of 540. This has reduced since our initial discussions to 654, as reported in the quarter four performance indicators in the Corporate Performance Report.</p>	<p>We reviewed the outturn in Adult's Social Care to understand the reasons for any continued overspends. We reviewed the actions that are being undertaken to control the level of overspend for future years as well as progress in addressing the red rated areas of performance in the Corporate Performance reports. We reviewed the actions being taken by the Council to control the numbers of Looked After Children.</p>	<p>Since we identified the financial risks in social care the Council has taken a number of actions to strengthen financial control. Revenue outturn for 2015/16 for Disability & Mental Health and Older People are £2.2 million overspent and £63,000 underspent respectively.</p> <p>In particular:</p> <ul style="list-style-type: none"> • Older People and Personalisation have been in receipt of £1.9 million from the CCG in respect of the Better Care Fund, due to the risk sharing agreement that is in place with Wolverhampton CCG . • Revenue outturn for 2015/16 in Children's and Young People was an underspend of £3.3m due to early achievement of budget reduction proposals as a result of the transformation work that has been undertaken. <p>Savings within the Children's directorate have been realised through undertaking a systematic review of its processes to identify how looked after children come into the system and what can be done to proactively intervene upstream to assist and offer help to the children and their families earlier.</p> <p>For 2016/17, overspends are predicted within Older People and Disability and Mental Health of £1.0m and £1.5m respectively. These are anticipated to be offset by underspends from elsewhere across the Council. Children & Young People continue to perform well financially. The directorate is forecasting an underspend of £2.0 million, primarily as a result of Looked After Children (£1.6 million underspend predicted) and a delay in recruiting to new posts within the Early Intervention Service (£0.2m).</p> <p>Budget holders are encouraged to monitor their budgets as a whole and not isolate savings. Budgets are reduced to reflect savings at a cost centre level from 1 April each financial year to ensure that they are embedded in budget monitoring. However, for those savings which are considered to be more challenging, like those within Adults, there are more detailed processes in place to monitor progress, eg transformation reports to the Adult Social Care Savings Board. In respect of Adult Disability, to assist with tracking the impact of targeting savings, a Care Costs Planning and Forecasting Tool has been created which uses real time care and support data, to create real time budget forecasts. The effect of changes in activity can therefore more easily be determined. The forecast tool for 2016/17 has been populated with the projected changes that would be delivered by planned changes to activity. If these projects deliver as planned the savings achieved during 2016/17 are projected to be £749k with the full year effect of these savings projected to be £971k. The MTFS target for 2016/17 is £971k.</p> <p>Work is ongoing in this area to control the expenditure but arrangements to plan and monitor savings and budgets appear satisfactory.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Strategic Asset Management The Council's 2014/15 Annual Governance Statement noted that following the transfer of Corporate Landlord to City Assets within the Place Directorate in January 2015 the opportunity was being taken to further evaluate many of the management, operational and governance arrangements put in place when the Corporate Landlord model was first established. This process was intended to further embed the Strategic Asset Management function and was intended to ultimately establish a Strategic Asset Management Plan.</p>	<p>We reviewed the action taken against the risks identified in the prior year's AGS with regard to asset management.</p>	<p>The Annual Governance Statement for 2015-16 notes that management, operational and governance arrangements are all being further evaluated. The Strategic Asset Plan is currently under development and is the key focus for the recently established assets team, for which a detailed structure is proposed to be developed with external advisors. However, this is likely to develop further to respond to outcomes of the service reviews.</p> <p>There are a number of service reviews being conducted, as referred to in the 2015-16 Annual Governance Statement, to ensure that the new service delivery is relevant and effective in supporting the Council's priorities and objectives. These service reviews are underway and due to be completed in year. The customer service review and report by business analyst of Projects and Works are nearing completion, although the latter will continue into the autumn as processes are improved.</p> <p>The customer service reviews of Assets and Facilities are programmed for autumn this year as well as a review into Workflow Management for all incoming work requests.</p> <p>We have established that the service development plan is being embedded, but further development of Asset Management is needed to ensure it has a longer term outlook. An early draft of the plan was obtained, but we noted that it will continue to be under review, to ensure it remains strategically as well as operationally focussed. Additionally, it will be informed by the customer-led and operational service reviews, as mentioned above, as well as being complemented by a piece of work being done in conjunction with CIPFA.</p> <p>The Council have enlisted the help of a consultant to help them develop a route map for the development of the Strategic Asset Plan. This is providing the Council with some areas of strategic and policy focus. In addition, the Council is also considering the findings from CIPFA's review of their Corporate Landlord model. The CIPFA report notes that "In general we support the direction the Council is moving towards and the comments within this report should therefore be set against this overall positive change process." They further note that the Council is already aware of a number of the issues that CIPFA raised and is already in the process of addressing them.</p> <p>While a "Strategic Asset Plan" document is not in place, the existence of a Corporate Landlord model (as well as the investment being made in the city's assets, eg i10, i11, and Civic Centre) demonstrates the Council's direction of travel in seeking to improve the coordination of property asset management activity in support of the Council's services and corporate objectives. There is a Corporate Landlord Board, which meets on a monthly basis, the purpose of which is to provide consistent leadership and governance to the management of the Council's land and property portfolio meeting. The Council are already in the process of revising the Board's terms of reference (which is in line with CIPFA's recommendations).</p> <p>Clearly, further work is needed in this area but the arrangements appear satisfactory.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Working with the Council

Working with you in 2016/17 Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with finance staff. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues. The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year. Our focus will be on:

- **An efficient audit** – the finance team and ourselves will be undertaking a debriefing session as soon as practicable to ensure that we all learn from this first year experience and agree detailed actions for the 2016/17 accounts production and audit, such that we can work together to ensure a more streamlined and efficient process for us all. continuing to deliver an efficient audit
- **Understanding your operational health** – to inform our value for money conclusion
- **Support outside of the audit** – our advisory team are in discussion with you on income generation

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Planned £	Actual fees £	2014/15 fees* £
Statutory audit of Council	189,428	224,271**	252,570
Housing Benefit Grant Certification	19,128	19,128	21,940
Total fees (excluding VAT)	208,556	243,399	274,510

* Predecessor auditor, pwc.

** includes additional audit fees of £34,843 for overruns due to the additional work involved in completing the audit

Fees for other services

Service	Fees £
Audit related services:	
• HCA Compliance Audit CASHH scheme	2,115
• Pooling of Housing Capital Receipts	2,000
Non-audit services relating to 2015-16 financial year	
• Cost Assurance	49,995
Total fees (excluding VAT)	54,110

Reports issued

Report	Date issued
Audit Plan	14 March 2016
Audit Findings Report	19 September 2016
Annual Audit Letter	October 2016



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Audit and Risk Committee

12 December 2016

Report title	Strategic Risk Register and Strategic Assurance Map	
Accountable director	Mark Taylor, Finance	
Originating service	Audit	
Accountable employee(s)	Peter Farrow	Head of Audit
	Tel	01902 554460
	Email	peter.farrow@wolverhampton.gov.uk
Report has been considered by	Strategic Executive Board	29 November 2016

Recommendations for noting:

The Committee is asked to note:

1. The strategic risk register at Appendix A.
2. The identification of a new risk - risk 21 in relation to the Transforming Adult Social Care (TASC) programme.
3. The reduction and transfer of risk 16 – Equal Pay from the strategic risk register to operational risk registers, reflecting the agreement with the Trade Unions on how to deal with second generation claims.
4. The reduction in the assessment of the following risks:
 - Risk 1 - Looked After Children (LAC), as a result of continued progress and the fall in LAC numbers.
 - Risk 3 – Information Governance, reflecting performance in this area.
 - Risk 8 – Business Continuity Management (BCM), due to the progress made against the Resilience Board work plan.
5. The Council has considered the implications of Brexit. Grant Thornton recently facilitated a session with the senior leadership team to discuss any risks, opportunities and mitigations arising from Brexit. It has been decided that no new risks require inclusion in

the strategic risk register at this time. The Council will continue to monitor the situation and any new risks or changes to the assessment of current risks will be reported to a future Audit and Risk Committee meeting.

6. Following consideration by SEB it has been agreed that risk 2 – Skills for Work and risk 10 – Economic Inclusion will be reviewed and combined to reflect the Council’s current priorities and work programmes within the Place Directorate.
7. The main sources of assurance available to the Council against its strategic risks at Appendix B.

1.0 Purpose

- 1.1 To keep members of the Audit and Risk Committee aware of the key risks the Council faces and how it can gain assurance that these risks are being mitigated.

2.0 Background

- 2.1 The Council is no different to any organisation and will always face risks in achieving its objectives. Sound risk management can be seen as the clear identification and management of such risks to an acceptable level.
- 2.2 The strategic risk register was last presented to the Committee in September 2016. Since this time we have met with the risk owners in order to review and update the risks.
- 2.3 The strategic risk register does not include all of the risks that the Council faces. It represents the most significant risks that could potentially impact on the achievement of the corporate priorities. Other risks are captured within operational, programme, project or partnership risk registers in line with the Council's corporate risk management framework and strategy.
- 2.4 A summary of the strategic risk register is included at Appendix A of this report which sets out the status of the risks as at November 2016. These risks are reviewed on an on-going basis and can be influenced by both external and internal factors and as such, may fluctuate over time.
- 2.5 Appendix C provides a summary of the Council's strategic assurance map which follows the three lines of defence model (shown below). The assurance map details where the Committee can gain assurance against the strategic risks. This too is a live document and is updated alongside the monitoring and reviewing of the strategic risk register.

The three lines of defence model:

First line	Second line	Third line
The first level of the control environment is the business operations which perform day to day risk management activity	Oversight functions such as Finance, HR and Risk Management set directions, define policy and provide assurance	Internal and external audit are the third line of defence, offering independent challenge to the levels of assurance provided by business operations and oversight functions

3.0 Progress, options, discussion

- 3.1 The strategic risk register will be updated as required, and presented at approximately quarterly intervals to the Committee. The Committee also takes the opportunity to 'call in' individual risks for further review from time to time. At the last meeting, the Committee requested risk 4 – Medium Term Financial Strategy to be called in for the December 2016 meeting. Details of this risk are attached at Appendix C.

4.0 Financial implications

- 4.1 There are no financial implications associated with the recommendations in this report as Councillors are only requested to note the strategic risk register summary. Financial implications may arise from the implementation of strategies employed to mitigate individual corporate risks, but these will be evaluated and reported separately if required. [GE/22112016/R]

5.0 Legal implications

- 5.1 Although there may be some legal implications arising from the implementation of the strategies employed to mitigate individual strategic risks, there are no direct legal implications arising from this report. [RB21112016/H]

6.0 Equalities implications

- 6.1 Although there may be equalities implications arising from the implementation of the strategies employed to mitigate individual strategic risks, there are no direct equalities implications arising from this report.

7.0 Environmental implications

- 7.1 Although there may be some environmental implications arising from the implementation of the strategies employed to mitigate individual strategic risks, there are no direct environmental implications arising from this report.

8.0 Human resources implications

- 8.1 Although there may be some human resource implications arising from the implementation of the strategies employed to mitigate individual strategic risks, there are no direct human resource implications arising from this report.

9.0 Corporate landlord implications

- 9.1 There are no corporate landlord implications arising from the recommendations made in this report.

10.0 Schedule of background papers

- 10.1 None



Appendix A – Strategic Risk Register @ November 2016



**Stronger
Economy**



**Stronger
Communities**



**Stronger
Organisation**

Red	2
Amber	1, 3, 4, 7, 8, 9, 10, 14, 15, 16, 21

The following are the reported strategic risks that are currently/ were previously assessed as high/medium (10 +) that the Council faces in delivering its corporate priorities

Risk ref	Risk title and description	Previous score (Aug 2016)	Direction of travel	Current score (Nov 2016)	Target score and date	Comment																																													
1 01/14	<p>Looked After Children (LAC) If the number of LAC is not reduced this may result in an increase in costs, budget overspends and an increased demand on children's services.</p> <p>Risk owner: Linda Sanders (Emma Bennett) Cabinet Member: Cllr Val Gibson</p> <table border="1"> <tr> <td rowspan="5">Likelihood</td> <td>5</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>3</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2</td> <td></td> <td></td> <td></td> <td>8</td> <td></td> </tr> <tr> <td>1</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td></td> <td colspan="5">Impact</td> </tr> </table>	Likelihood	5						4						3						2				8		1								1	2	3	4	5			Impact					10 Amber	↓	8 Amber	5 Amber March 2017	<p>Overseen and managed by the Transforming Children's Services Board, this risk continues to focus on reducing LAC, with the principles of supporting children to live safely with their families, ensuring only the right children come into care and when they do, permanency is secured without delay.</p> <p>LAC numbers and associated costs continue to fall; it is noted that the reduction is now more slowly than in previous periods. Savings for 2016/17 are in the process of being reviewed and agreed in conjunction with Strategic Finance. It is envisaged that for 2016/17 savings will be achieved through an overall reduction in LAC numbers and a reduction in the cost of current LAC placements. The measures in place to successfully manage this risk are as previously noted and include;</p> <ul style="list-style-type: none"> • Regular liaison with Strategic Finance to enable financial oversight of the budget. • Individual tracking and monitoring of all LAC. • The Resources Panel, who continue to review the most expensive placements. • A continued drive to recruit foster carers. The Council are working towards a target to recruit an additional 30 foster carers by the end of 2016. • Embedding of the Early Intervention and Prevention re-design to manage and decrease demand on more specialist services. <p>The reduction in this risk reflects continued progress in this area.</p>
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Risk ref	Risk title and description	Previous score (Aug 2016)	Direction of travel	Current score (Nov 2016)	Target score and date	Comment																																											
2 01/14	<p>Skills for Work</p> <p>If the city residents do not have the appropriate skills that employers require then they will be unable to access the jobs and opportunities available resulting in high rates of unemployment and increased demand on Council services.</p> <p>Risk owner: Tim Johnson (Keren Jones) Cabinet Member: Cllr John Reynolds</p> <table border="1"> <tr> <td rowspan="6">Likelihood</td> <td>5</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>3</td> <td></td> <td></td> <td></td> <td></td> <td>15</td> </tr> <tr> <td>2</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>1</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td colspan="5">Impact</td> </tr> </table>	Likelihood	5						4						3					15	2						1							1	2	3	4	5		Impact					15 Red		15 Red	10* Amber March 2017	<p>Work continues in response to the recommendations from the Skills and Employment Commission and as part of the delivery of the Skills and Employment action plan. Since last reported the following is noted:</p> <ul style="list-style-type: none"> • Consultation with local residents for 'Wolverhampton Workbox' has been completed. Funding for the Workbox was agreed by Cabinet Resources Panel on 1 November 2016, the on-line system is due to be launched later this year. • The jobs fair held during Business Week on 9 September 2016 was attended by 55 employers with approximately 1,500 vacancies on offer and attracted 2,000 attendees. Whilst outcomes are still being collated, feedback from those who attended was extremely positive. Special support was provided for BHS employees and the EU Impact programme signed up 60 unemployed people to 'job ready support'. • A successful Skills Dinner was held at Wolverhampton College during Business Week and brought together businesses and providers to hear from individuals who had transformed their lives through employment. • A 'Meet the Buyer' event which is linked to a number of key developments including the Westside Investment has taken place. A programme to provide employment support across the construction supply chain is now being developed. <p>A majority of the key actions within the Skills and Employment action plan are deliverable by March 2017 and the target score and date for this risk reflects this</p>
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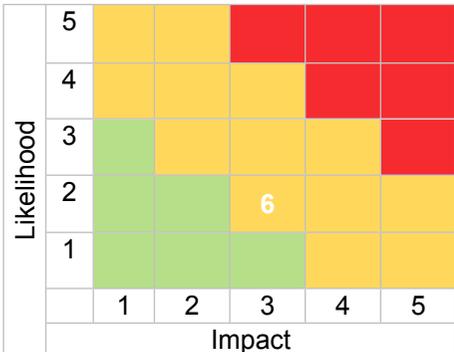
Risk ref	Risk title and description	Previous score (Aug 2016)	Direction of travel	Current score (Nov 2016)	Target score and date	Comment																																										
4 01/14	<p>Medium Term Financial Strategy</p> <p>If the Council does not manage the risks associated with the successful delivery of its medium term financial strategy including the continual review of the assumptions and projections of the strategy, the effective management of the key MTFS programmes and projects then this may exhaust reserves, result in the potential loss of democratic control and the inability of the Council to deliver essential services and discharge its statutory duties.</p> <p>Risk owner: Keith Ireland Cabinet Member: Cllr Andrew Johnson</p> <table border="1" style="margin-top: 10px;"> <tr> <td></td> <td>5</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>4</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Likelihood</td> <td>3</td> <td></td> <td></td> <td>12</td> <td></td> </tr> <tr> <td></td> <td>2</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>1</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td colspan="5" style="text-align: center;">Impact</td> </tr> </table>		5						4					Likelihood	3			12			2						1						1	2	3	4	5		Impact					12 Amber	➔	12 Amber	8* Amber On-going	See Appendix C for the update on this risk which will be presented to the Committee.
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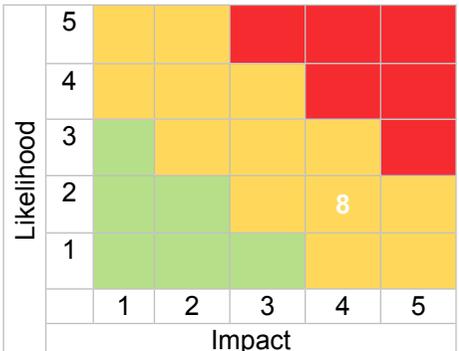
Risk ref	Risk title and description	Previous score (Aug 2016)	Direction of travel	Current score (Nov 2016)	Target score and date	Comment																																											
7 01/14	<p>Safeguarding</p> <p>If the Council's safeguarding procedures and quality assurance processes are not consistently and effectively implemented then it will fail to safeguard children and vulnerable adults and lead to reputational damage.</p> <p>Risk owner: Linda Sanders Cabinet Member: Cllr Val Gibson and Cllr Sandra Samuels</p> <table border="1"> <tr> <td rowspan="6">Likelihood</td> <td>5</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>3</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2</td> <td></td> <td></td> <td></td> <td></td> <td>10</td> </tr> <tr> <td>1</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td colspan="5">Impact</td> </tr> </table>	Likelihood	5						4						3						2					10	1							1	2	3	4	5		Impact					10 Amber		10 Amber	5 Amber Next Ofsted inspection	<p>This risk continues to be overseen by the children's and adult's local safeguarding boards. Since last reported, the following is noted:</p> <ul style="list-style-type: none"> A further review of the self-assessment has been undertaken for the Children's Safeguarding Board. At this time the board measures itself as good against Ofsted descriptors. Work is currently being undertaken to create a joint board infrastructure to provide support to the two discreet adult's and children's boards. This would eliminate any duplication of work and result in shared training, better communication and increased efficiency. Deprivation of Liberty Safeguards (DoLs) referrals and resulting assessments continue to be a challenge. Recruitment for four permanent assessors to clear the current backlog is underway. A backlog in this area reflects a national trend. According to figures obtained from the regional DoLs forum Wolverhampton's backlog is the second lowest of nine West Midland regional authorities. The joint Adult's and Children's Multi Agency Safeguarding Hub (MASH) is now operational and is the only MASH in the West Midlands police boundary that covers both adults and children. The Children's Safeguarding Board continues to oversee the work of the MASH and has included this area of work within the Safeguarding Board's data set. Awareness training around Child Sexual Exploitation (CSE) continues under a rolling programme. A mandatory e-learning training programme is available on the Learning Hub and must be completed by all employees. Further face to training is delivered where appropriate. The service have also driven the embedding of the children care home providers forum and led on championing Children Affected by Parental Imprisonment (CAPI) agenda. Following recent allegations within the media a meeting has been arranged with Sports England to discuss safeguarding in sport.
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Risk ref	Risk title and description	Previous score (Aug 2016)	Direction of travel	Current score (Nov 2016)	Target score and date	Comment																																											
10 01/14	<p>Economic Inclusion</p> <p>If the Council and its partners do not work effectively together to promote and enable growth then the risk of economic exclusion will materialise and demand for Council services will continue to increase.</p> <p>Risk owner: Tim Johnson (Keren Jones) Cabinet Member: Cllr John Reynolds</p> <table border="1"> <tr> <td rowspan="6">Likelihood</td> <td>5</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>3</td> <td></td> <td></td> <td>12</td> <td></td> <td></td> </tr> <tr> <td>2</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>1</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td colspan="5">Impact</td> </tr> </table>	Likelihood	5						4						3			12			2						1							1	2	3	4	5		Impact					12 Amber		12 Amber	8* Amber September 2017	<p>The measures to successfully manage this risk continue to be in place, since last reported the following is noted:</p> <ul style="list-style-type: none"> The first City Apprenticeships meeting has been held. The group have identified three priorities for 2016/17 which are; <ul style="list-style-type: none"> Marketing and communication to young people, employers and parents. Access, the development of pre-apprenticeship provision and improvement of basic skills to support entry to apprenticeships. Skills for growth, ensuring that the curriculum meets labour market demands and supports higher level growth. Job Brokerage, priorities have been agreed for 2016/17 and include; mapping provision and the customer journey into employment, developing a 360° assessment tool and the referral process. The youth offending pilot that is being developed in conjunction with West Midlands Police and local businesses. The pilot aims to address skills shortages in plant operations and create opportunities for offenders to gain paid work. A joint commission to deliver the Individual Placement Support model (IPS) between employment and health commissioning teams has now been agreed. This will see targeted provision for adults and young people with mental health barriers to employment and training opportunities. An action plan to address youth unemployment is in the process of being developed. The plan aims to create a step change in youth unemployment outcomes through the City Workbox, improved partnership working with health and education and to ensure the successful roll out of IMPACT and other related programmes. A One City Skills conference is due to take place at the end of November and will bring together all skills and employment providers across the city and engage them in the 'One City' approach to skills and employment. The conference will also provide an opportunity to launch the 'Workbox'.
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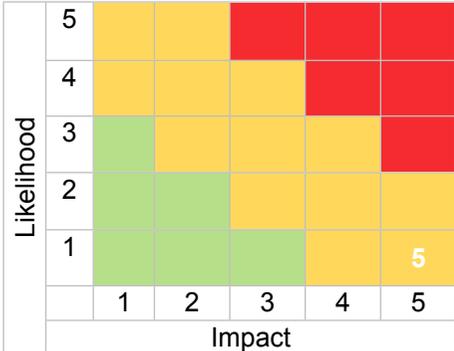
Risk ref	Risk title and description	Previous score (Aug 2016)	Direction of travel	Current score (Nov 2016)	Target score and date	Comment																																											
21 11/16	<p>Transforming Adult Social Care (TASC) programme</p> <p>If the Council does not have robust management and governance arrangements in place for the Transforming Adult Social Care Programme then it may be unable to effectively manage demand and deliver the targets of the significant savings challenge the service needs to make as part of the MTFs.</p> <p>Risk owner: Linda Sanders (David Watts) Cabinet Member: Cllr Sandra Samuels OBE</p> <table border="1"> <tr> <td rowspan="6">Likelihood</td> <td>5</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>3</td> <td></td> <td></td> <td>12</td> <td></td> <td></td> </tr> <tr> <td>2</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>1</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td colspan="5">Impact</td> </tr> </table>	Likelihood	5						4						3			12			2						1							1	2	3	4	5		Impact					N/A	N/A	12 Amber	8 Amber On-going	<p>The TASC programme was established in order to, meet savings targets set out in the MTFs, continue the realisation of key corporate outcomes and initiatives such as the Promoting Independence agenda and to continue embedding the duties and values that are detailed in the Care Act:</p> <p>The programme consists of five key project areas:</p> <ul style="list-style-type: none"> • Younger Adults Resettlement • Re-ablement and the use of Better Care Technologies • Personalisation • Community Offer • Integration <p>A strong programme and governance structure has been established and identified benefits are being closely monitored by the TASC Board and Cabinet Resources Panel through the MTFs. The Corporate Directorate is working closely with People to identify appropriate levels of resourcing required to support the transformation programme.</p> <p>The programme's key successes to date include;</p> <ul style="list-style-type: none"> • £2.3m of savings realised in 2016/17 as a result of the timely delivery of key elements of the Better Care Technologies, Strengthening Support at Home cabinet paper. • Implementation of a data viewer system which is resulting in unprecedented business intelligence that is able to link Health and Social Care information and identify key trends in customer pathways to inform targeted preventative working. • A pilot project to set up a 'Promoting Independence' social work team trialling new ways of working in regard to social work practice which is predicting savings in 2016/17 of £300,000. Carried forward as a full year effect in 2017/18 this is expected to realise total savings of around £1.0m. • Adult Disability and Mental Health Transformation initiatives have already resulted in nearly £1.0m of verified savings in 16/17.
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- The following are/were the medium and low (assessed at less than 10) strategic risks that the Council faces in delivering its corporate priorities.

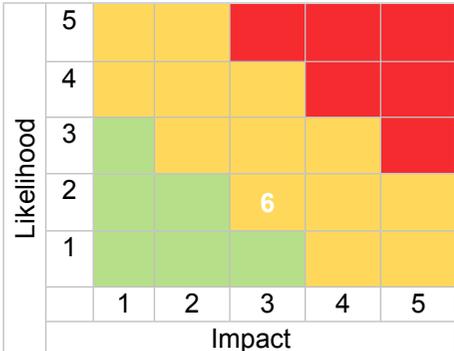
Risk ref	Risk title and description	Previous score (Sept 2016)	Direction of travel	Current score (Nov 2016)	Target score and date
3 01/14	<p>Information Governance (IG)</p> <p>If the Council does not put in place appropriate policies, procedures and technologies to ensure:</p> <ul style="list-style-type: none"> that the handling and protection of its data is undertaken in a secure manner and consistent with the provision of the Data Protection Act 1998; compliance with the Freedom of Information Act and Environmental Information Regulations <p>then it may be subject to regulatory action, financial penalties, reputational damage and the loss of confidential information.</p> <p>Risk owner: Kevin O' Keefe Cabinet Member: Cllr Milkinderpal Jaspal</p> 	8 Amber		6 Amber	4 Amber March 2017

Risk ref	Risk title and description	Previous score (Sept 2016)	Direction of travel	Current score (Nov 2016)	Target score and date																																																
8 01/14	<p>Business Continuity Management (BCM)</p> <p>Failure to develop, exercise and review plans and capabilities that seek to maintain the continuity of critical functions in the event of an emergency that disrupts the delivery of Council services.</p> <p>Risk owner: Linda Sanders (Ros Jervis) Cabinet Member: Cllr Paul Sweet</p>  <table border="1" data-bbox="235 486 694 837"> <tr><td></td><td>5</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>4</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>3</td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>2</td><td></td><td></td><td>8</td><td></td></tr> <tr><td></td><td>1</td><td></td><td></td><td></td><td></td></tr> <tr><td>Likelihood</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td></td><td colspan="5">Impact</td></tr> </table>		5						4						3						2			8			1					Likelihood							1	2	3	4	5		Impact					10 Amber		8 Amber	8* Amber
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9 01/14	<p>City Centre Regeneration</p> <p>If the city centre regeneration programme is not effectively managed in terms of project timings, costs and scope, then it will be unable to maximise opportunities including:</p> <ul style="list-style-type: none"> • the attraction of private sector investment • the creation of space to accommodate new businesses and economic growth • the enhancement and creation of visitor attractions • the creation of well paid employment • retention of skilled workers • the creation of residential opportunities • a functioning city centre offer that serves the residents of the City • increased prosperity and • a reduced demand on Council services <p>Risk owner: Tim Johnson Cabinet Member: Cllr John Reynolds</p> <table border="1" data-bbox="235 790 689 1141"> <tr> <td></td> <td>5</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>4</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>3</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>2</td> <td></td> <td></td> <td>8</td> <td></td> </tr> <tr> <td></td> <td>1</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Likelihood</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td colspan="5">Impact</td> </tr> </table>		5						4						3						2			8			1					Likelihood							1	2	3	4	5		Impact					8 Amber		8 Amber	8* Amber
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Risk ref	Risk title and description	Previous score (Sept 2016)	Direction of travel	Current score (Nov 2016)	Target score and date
14 01/14	<p>School Improvement</p> <p>If the Council does not provide effective support, challenge and appropriate intervention to raise standards in schools and school governance, then the Council and these schools are at risk of underperforming, receiving inadequate Ofsted judgements and a potential loss of control and influence.</p> <p>Risk owner: Julien Kramer Cabinet Member: Cllr Claire Darke</p> 	5 Amber		5 Amber	5* Amber

Risk ref	Risk title and description	Previous score (Sept 2016)	Direction of travel	Current score (Nov 2016)	Target score and date																																													
15 01/14	<p>Emergency Planning</p> <p>Failure to develop, exercise and review plans and capabilities for preventing, reducing, controlling or mitigating the effects of emergencies in both the response and recovery phases of major a incident.</p> <p>Risk owner: Linda Sanders (Ros Jervis) Cabinet Member: Cllr Roger Lawrence and Cllr Paul Sweet</p> <table border="1" data-bbox="235 502 689 853"> <tr> <td rowspan="5">Likelihood</td> <td>5</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>3</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>2</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>1</td> <td></td> <td></td> <td></td> <td>4</td> <td></td> </tr> <tr> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> <td></td> </tr> <tr> <td></td> <td colspan="5">Impact</td> <td></td> </tr> </table>	Likelihood	5						4						3						2						1				4			1	2	3	4	5			Impact						4 Amber		4 Amber	4* Amber
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Risk ref	Risk title and description	Previous score (Sept 2016)	Direction of travel	Current score (Nov 2016)	Target score and date
16 01/14	<p>Equal Pay</p> <p>Significant equal pay liabilities have been dealt with over recent years. However, equal pay will remain a potentially significant risk until:</p> <ul style="list-style-type: none"> the second generation claims, from trade union members, have been dealt with. six years after the implementation of single status, until that time “Abdullah” type claims can still be brought. <p>Risk owner: Mark Taylor Cabinet Member: Cllr Andrew Johnson</p> 	8 Amber		6 Amber	Achieved Transferred to an operational register.

* The target assessment for these risks remains constant as they are risks which are likely to remain at their current level over the medium term and as such these risks may not have target dates.

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Strategic Risk Assurance Map – November 2016

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Risk Ref	Risk Title and Description	Current Score	External/ Independent (Third Line of Defence)	Types of Assurance Risk and Compliance (Second Line of Defence)	Operational and Management (First Line of Defence)	Comments / Gaps in Assurance/Risk Exposure
1	Looked After Children (LAC) If the number of LAC is not reduced this may result in an increase in costs, budget overspends and an increased demand on children's services.	8 Amber	Performance indicator- number of LAC per 10,000 population Audit and Risk Committee review of risk – September 2015 Internal audit review 2015/16 – External Placements (substantial assurance)	Scrutiny review of Corporate Parenting and Children in Care Council – September 2015 Resources panel reviews Update to Children's Trust Board- September 2014 Care panel reviews of placement costs Report to Cabinet (Performance Management Panel) September 2014 Scrutiny review of LAC February 2014	Children's Services self- assessment December 2015 Reports to LAC Budget Monitoring Group (every two months) Controls Assurance Statement	Present sources will continue to provide assurance regarding the changes in number of LAC and progress made against the programme. Assurances through the budgetary process regarding the cost of LAC need to be continually provided to ensure effective management of the budgetary pressures associated with this risk.
2	Skills for Work If the city residents do not have the appropriate skills that employers require then they will be unable to access the jobs and opportunities available resulting in high rates of unemployment and increased demand on council services.	15 Red	Audit and Risk Committee review of risk – September 2016 and December 2015 Wolverhampton Skills Commission Review – November 2014 to April 2015 Internal audit review – City of Wolverhampton College- Learners with learning difficulties post 16, December 2014 Black Country performance management framework Skills and Employment Board	Scrutiny review of "Employability and Skills in Wolverhampton" report to Cabinet 11 March 2015 Scrutiny review of "Employability and Skills" September 2014 – January 2015 Performance indicator - % of residents with no qualification Performance indicator - number of work experience/ volunteering/ apprenticeships opportunities provided Monthly unemployment briefings Stronger City Economy Scrutiny Panel Review 2016/17 – Skills and Training Scrutiny Review 2016/17 – The City's Apprenticeship Offer	Reports to the Wolverhampton Skills and Employment Board growth board Inclusion board Controls Assurance Statement	In addition to the performance indicators in place, the review undertaken by the Wolverhampton Skills Commission and the successful monitoring and delivery of the city skills and employment action plan will provide assurances over the effectiveness of the various measures and initiatives in place to manage this long term risk. In addition to this, assurances received at a regional level (e.g. through the West Midlands Combined Authority) will also inform the adequacy and effectiveness of the regional initiatives employed.
3	Information Governance If the council does not put in place appropriate policies, procedures and technologies to ensure: <ul style="list-style-type: none">that the handling and protection of its data is undertaken in a secure manner and consistent with the provision of the Data Protection Act 1998;compliance with the Freedom of Information Act and Environmental Information risk Act then it may be subject to regulatory action, financial penalties, reputational damage and the loss of confidential information.	6 Amber	Internal audit review 2014/15 – Information sharing agreements (Satisfactory assurance) Internal audit review– Protective marking compliance, September 2014 (Limited assurance) Internal audit review 2016/17 – Freedom of Information Requests Internal audit review 2016/17 – Information Governance	Information risk register and reports to Information Governance Board Performance reports to Cabinet, Scrutiny Board and SEB Performance indicators reported to Cabinet- Number of data breaches Performance indicator - % of Freedom of Information (FOI) requests met within timescales Performance indicator- % of Subject Access Requests (SAR) met within timescales	Senior Information Risk Officer Annual Report Controls Assurance Statements	The Council's on-going dialogue with the Information Commissioners Office, regular audits, performance against FOI and SAR requests and information incidence logs will all continue to inform the level of assurance over the effectiveness and adequacy of the controls in place to manage this risk this risk.

Risk Ref	Risk Title and Description	Current Score	External/ Independent (Third Line of Defence)	Types of Assurance Risk and Compliance (Second Line of Defence)	Operational and Management (First Line of Defence)	Comments / Gaps in Assurance/Risk Exposure
4	<p>Medium Term Financial Strategy</p> <p>If the Council does not manage the risks associated with the successful delivery of its medium term financial strategy including the continual review of the assumptions and projections of the strategy, the effective management of the key MTFS programmes and projects then this may exhaust reserves, result in the potential loss of democratic control and the inability of the Council to deliver essential services and discharge its statutory duties.</p>	12 Amber	<p>PwC report: Report to those charged with governance (ISA 260) September 2016</p> <p>Independent review of process for MTFS and budget- E Sullivan, May 2014</p> <p>Internal audit review Budgetary Control - 2015/16 (Satisfactory assurance)</p> <p>Internal audit review – 2014/15 Assumptions of the MTFS</p> <p>LGA Finance Peer review- June 2016</p>	<p>MTFS risk register</p> <p>Reports to Budget Working Party</p> <p>Reports to Cabinet</p> <p>Scrutiny reviews of budget strategy</p>	<p>Management accounts</p> <p>Controls Assurance Statements</p>	<p>Ongoing internal and external reviews will continue to provide assurances over the successful delivery of the MTFS and the achievement of efficiency savings.</p>
7	<p>Safeguarding</p> <p>If the Council's safeguarding procedures and quality assurance processes are not consistently and effectively implemented then it will fail to safeguard children and vulnerable adults and lead to reputational damage.</p>	10 Amber	<p>West Midlands Association of Directors of Adult Social Services peer review – Adult safeguarding September 2014</p> <p>West Midlands Association of Directors of Children's Services peer review- children's safeguarding September 2014</p> <p>Internal audit review 2015/16 – Independent Reviewing Officer Service (satisfactory assurance)</p> <p>Internal audit review 2015/16 – Safeguarding in schools (satisfactory assurance)</p> <p>S.11 (Safeguarding self-Assessment) Audit 2016/17</p> <p>Internal audit review 2016/17 - MASH</p>	<p>Scrutiny review- Child Sexual Exploitation 2015/16</p> <p>Adults and Safer City Scrutiny Panel Review- Violence against women and girls strategy September 2015</p> <p>Annual reports from adults and children's local safeguarding boards</p> <p>'Our Story' report to Cabinet Member for Children and Families</p> <p>National and local Wolverhampton performance indicators in relation to social care</p> <p>Self- audits confirmation by schools of s175 compliance</p> <p>Annual Reports from: IRO Service, Local Authority Designated Officer, Foster Home reviewing Officer</p>	<p>Children's Services self- assessment December 2015</p> <p>Adults safeguarding self- assessment and action plan – June 2016</p> <p>Quality Assurance Framework and assessments</p> <p>Controls Assurance Statement</p> <p>WSCB Self Assessment against Ofsted Descriptors</p>	<p>Up to date assurance from Ofsted is required to confirm risk is being effectively managed.</p> <p>In addition, further assurances continue to be sought by the Wolverhampton Safeguarding Children's Board in respect of the adequacy and effectiveness of the safeguarding arrangements in schools.</p>
8	<p>Business Continuity Management</p> <p>Failure to develop, exercise and review plans and capabilities that seek to maintain the continuity of critical functions in the event of an emergency that disrupts the delivery of Council services.</p>	8 Amber	<p>Internal audit review 2015/16 – Business continuity and resilience management (satisfactory assurance)</p>	<p>Reports from Wolverhampton Resilience Board to SEB</p>	<p>Incident management: St Alban's Church of England School February 2015</p> <p>Incident management : e.g. industrial action July 2014</p> <p>Incident management: Drug resistance TB June 2016</p> <p>Incident Management: Anchor Lane Chemical Spill September 2016</p> <p>Incident Management: Ettingsall Fire October 2016</p> <p>Reports to Wolverhampton Resilience Board</p> <p>Controls Assurance Statement</p>	<p>The exercise and testing programme once developed and implemented will provide further assurances on the management of this risk.</p> <p>Given the continual reductions in the Council's workforce, ongoing testing will be required to provide assurance over the resilience of the provision of Council services.</p>

Risk Ref	Risk Title and Description	Current Score	External/ Independent (Third Line of Defence)	Types of Assurance Risk and Compliance (Second Line of Defence)	Operational and Management (First Line of Defence)	Comments / Gaps in Assurance/Risk Exposure
9	<p>City Centre Regeneration</p> <p>If the city centre regeneration programme is not effectively managed in terms of project timings, costs and scope, then it will be unable to maximise opportunities including:</p> <ul style="list-style-type: none"> • creation of well paid employment • retention of skilled workers • sector and economic growth • increased prosperity and • reduced demand on council services 	8 Amber	Internal audit review 2015/16- City centre development (Satisfactory assurance)	<p>Programme and project risk registers</p> <p>Monthly reporting to the City Centre Regeneration Programme Board</p> <p>Stronger City Economy Scrutiny Panel Review 2016/17 – Regeneration programmes</p>	<p>Reports to Programme Board from project managers</p> <p>Controls Assurance Statement</p>	Regular update reports to the Programme Board and Cabinet continue to provide assurance on the management of this risk.
10	<p>Economic Inclusion</p> <p>If the Council and its partners do not work effectively together to promote and enable growth then the risk of economic exclusion will materialise and demand for Council services will continue to increase.</p>	12 Amber	<p>Reports to the Black Country Local Enterprise Partnership and City Board</p> <p>National performance indicators e.g. % residents unemployed, child deprivation, skills profile, etc.</p> <p>Wolverhampton Skills Commission Review – November 2014 to April 2015</p> <p>Skills and Employment Board</p>	<p>Stronger City Economy Scrutiny Panel Review – Investment and Funding July 2016</p> <p>Report to SEB – City Board – Monthly unemployment briefings</p>	<p>Controls Assurance Statement</p>	<p>National indicators will demonstrate the effectiveness of the measures in place to manage this long term risk.</p> <p>In addition, assurances received at a regional level (e.g. through the West Midlands Combined Authority) will also inform the adequacy and effectiveness of the regional initiatives being employed to manage this risk.</p>
14	<p>School Improvement</p> <p>If the Council does not provide effective support, challenge and appropriate intervention to raise standards in schools, then the Council and these schools are at risk of underperforming, receiving inadequate Ofsted judgements and a potential loss of control and influence.</p>	5 Amber	<p>Ofsted annual report – Schools 2014/15, December 2015</p> <p>Ofsted inspections 2015/16</p> <p>School internal audit reviews 2013/14 and 2014/15 and 2015/16</p> <p>Internal audit review 2015/16 – School Improvement and Governance Strategy (satisfactory assurance)</p> <p>Internal audit review 2016/17 – Vulnerable Pupils</p>	<p>Performance indicator – gaps in educational performance</p> <p>Performance indicator – end of key stage outcomes</p> <p>Report to Children and Young People and Families Scrutiny Panel – School Improvement Strategy July 2016</p> <p>Report to Children and Young People and Families Scrutiny Panel - Local Authority School Improvement Inspection Self-Evaluation July 2016</p> <p>Report to Children and Young People and Families Scrutiny Panel- Primary School Organisation strategy July 2015</p> <p>Report to Children and Young People and Families Scrutiny Panel- Academy Partnership Protocol April 2016</p> <p>Report to Children and Young People and Families Scrutiny Panel – Secondary School Sufficiency Strategy April 2016</p> <p>Report to Children and Young People and Families Scrutiny Panel – Improving Our Schools Annual Report 2016 April 2016</p> <p>Audits carried out by School Support Advisors and External Governance reviews</p>	<p>Reports to Cabinet</p> <p>Controls Assurance Statement</p>	<p>The Ofsted inspections and annual report published in December 2016 will continue to be the primary source of assurance for this risk.</p> <p>A review on the effectiveness of the School Improvement Strategy in 2016 will provide further assurance on the measures in place to manage this risk.</p>

Risk Ref	Risk Title and Description	Current Score	External/ Independent (Third Line of Defence)	Types of Assurance Risk and Compliance (Second Line of Defence)	Operational and Management (First Line of Defence)	Comments / Gaps in Assurance/Risk Exposure
15	Emergency Planning Failure to develop, exercise and review plans and capabilities for preventing, reducing, controlling or mitigating the effects of emergencies in both the response and recovery phases of major a incident.	4 Amber	Follow up of internal audit recommendations, January 2014	Reports to Wolverhampton Resilience Board (WRB) Regular reports from WRB to SEB and C3 Scrutiny Panel	Incident management, e.g. weather incidences 2014, Hickman Avenue fire September 2014 Test exercise "Exercise Chillout" August 2014 Winter debrief report to WRB – June 2014 Controls Assurance Statement	The exercise and testing programme once developed and implemented will provide further assurances on the management of this risk. In the meantime, unplanned incidences and the lessons learned from these exercises continue to provide some level of assurance over this risk.
16	Equal Pay If schools do not comply with the Collective agreement and agree local pay scales and conditions then there is a potential for significant equal pay claims to materialise.	6 Amber	PwC report: Report to those charged with governance (ISA 260) September 2015 Ongoing Internal audit assurance in 2015/16 to Equal Pay Project. Internal audit review - Equal Pay claims, September 2014 (Substantial assurance) External legal advice from Browne Jacobson on claims Internal audit review 2016/17 – Equal Pay	Reports to Equal Pay Project Board	Controls Assurance Statement	On-going review by management of the level of claims continues to provide assurance on this risk, over which the Council has little control.
21	Transforming Adult Social Care (TASC) If the Council does not have robust management and governance arrangements in place for the Transforming Adult Social Care Programme then it may be unable to effectively manage demand and deliver the targets of the significant savings challenge the service needs to make as part of the MTFS.	12 Amber	Birmingham City Council – Wolverhampton Adult Social Care Peer Challenge, March 2016	Reports to Transforming Adult Social Care (TASC) Board Regular reports from TASC Board to SEB Resources Panel reviews Programme and project risk registers Various TASC KPI's and performance measures	Controls Assurance Statement	Ongoing reviews will continue to provide assurances over the successful delivery of the TASC programme and the achievement of savings targets in the MTFS.

Update on Selected Risk for Review

Risk title and description	Previous score (Feb 2016)	Direction of travel	Current score (June 2016)	Target score and date
<p>Medium Term Financial Strategy</p> <p>If the Council does not manage the risks associated with the successful delivery of its medium term financial strategy including the continual review of the assumptions and projections of the strategy, the effective management of the key MTFS programmes and projects then this may exhaust reserves, result in the potential loss of democratic control and the inability of the Council to deliver essential services and discharge its statutory duties.</p> <p>Risk owner: Keith Ireland Cabinet Member: Cllr Andrew Johnson</p>	12 Amber		12 Amber	8 Amber On-going

Background and progress to date

- 1.1 The Medium-term Financial Strategy (MTFS) is key to delivering our corporate plan objectives. Prudent financial management and planning has ensured the council is on firm foundations and the budget has been underspent for the last two years.
- 1.2 Through careful and considered planning, the Council has already made cuts of £175 million over the past six years. Further, the council identified sufficient budget reduction proposals to set a balanced budget for 2016/17 without the need to call on general reserves.
- 1.3 Significant further budget reduction proposals and income generation ideas are required for 2018/19 and 2019/20 and planning is well underway.
- 1.4 There are rigorous processes in place to develop and monitor the delivery of the MTFS which are outlined here.

Review of the assumptions and projections

- 2.1 The assumptions and projections in the MTFs are reviewed regularly by Strategic Finance and updates are reported to Cabinet.

Key projections in the MTFs

3.1 Local taxes

The Strategic Finance Team work closely with colleagues in Revenues and Benefits to monitor and project income from Council Tax and Business Rates. Very prudent assumptions about growth are built into the MTFs. Provision is made for business rates appeals, collectability and bad debts.

3.2 Government Grant

In addition to providing the Council with final settlement figures for 2016/17, the Government have also provided each authority with indicative core government grant allocations for 2017/18 to 2019/20, to cover the Parliamentary period. The Secretary of State also announced the option for councils to sign up to a four year settlement. The council has taken up this offer. A four year settlement will enable greater certainty when forecasting and planning. The council is currently waiting for the government to announce the settlement figure.

3.3 Inflation and other growth factors

The MTFs contains assumptions about growth required for inflation, demographic changes and service developments. The assumptions are reviewed throughout the year and where required, proposed changes are reported to Cabinet. The following factors inform the review of assumptions:

- In-year monitoring of budgets
- Benchmarking
- Contract negotiations
- Analysis of trend data
- Data from the Office of National Statistics
- National pay negotiations
- Triennial revaluation of the West Midlands Pension Fund

Monitoring the current year financial position

- 4.1 Approved budgets fully reflect the MTFs including budget reduction and income generation schemes. This ensures that such schemes are fully embedded in budget monitoring. Budget managers are identified for each budget area and are required to provide monthly budget monitoring information and highlight any areas of concern.
- 4.2 Quarterly budget monitoring information is reported to Cabinet (Resources) Panel.
- 4.3 The in-year budget monitoring informs the continuous review of the MTFs including progress on delivery of savings and emerging pressures.

Management of key budget reduction programmes

- 5.1 Where budget reduction and income generation projects are determined to be complex or high risk, in terms of delivery, there are specific governance arrangements in place, namely the Adults Budget Development Working Group and the Children's Services Budget Group. These meetings are attended by councillors and oversee the transformation of the service area and the delivery of budget reduction programmes.

Capital Programme and Treasury Management

- 6.1 Funding investment in jobs, opportunity and growth is key to the council's capital programme in line with the Corporate Plan priorities. Recent examples of prudent borrowing to fund investment includes the i54 hi-tech enterprise zone, the i10 grade A office block in the city centre, the £13 million investment in a former Sainsbury's city centre site and key gateway to the city and the council's FutureSpace programme. On the back of a successful £270 million Building Schools for the Future (BSF) programme, the council has made £30 million capital investment in expanding primary schools to improve educational attainment. The council has also been successful in generating millions of pounds of external funding to invest in jobs, opportunity and growth
- 6.2 The capital programme is reviewed in detail each quarter and reported to Cabinet (Resources) Panel. Work is being undertaken to develop the use of Agresso and Verto, the Council's project management system, to improve the information available to project managers.
- 6.3 Funding requirements from the Capital Programme inform the Treasury Management Strategy and monitoring. The revenue costs of projected borrowing requirements are then used to update the MTFs accordingly.

External review

7.1 External Audit

On 19 September the Council's external Auditors, Grant Thornton reported to the Audit and Risk Committee on The Audit Findings for City of Wolverhampton Council. Grant Thornton considered:

- What arrangements the Council has in place for identifying, agreeing and monitoring its forward sustainability and operational plans, and communicating key findings to the Cabinet and Audit Committee.
- What plans are being put in place by the Director of Education and his team to improve the performance of the schools during the year and for continuing to improve the levels of educational achievement for the City's young people going forward.
- What actions are being undertaken within Adult and Children's Social Care to address overspends in Older People and Disability & Mental Health, and to control the numbers of Looked after Children.
- What actions have been taken against the risks identified in the 2014-15 Annual Governance Statement in respect of Strategic Asset Management, and whether they are embedded and have been effective.

- 7.2 Grant Thornton reported that ‘Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources’
- 7.3 Specifically in relation to the Medium Term Financial Resilience, Grant Thornton concluded that ‘the risk was sufficiently mitigated and the Council has proper arrangements’.

Finance Peer Review

- 8.1 As part of the process of ensuring we are providing the best service, the City of Wolverhampton Council invited the LGA to carry out a Finance Peer Review which took place on 7, 8 and 9 June 2016.
- 8.2 As part of the process the Peer Team spoke to more than 40 people, including a range of Council staff together with Councillors and external stakeholders. They gathered information and views from more than 20 meetings and additional research and reading, collectively spending more than 150 hours to determine their findings
- 8.3 The overall conclusion of the Peer Team was that:

‘The Council has made major progress in its aim to achieve financial stability. There is strong leadership, prudent financial management and clear evidence of innovation. It is now timely to reflect on and refine the Financial Strategy so it further enables and supports the delivery of the ambitions of the City’.

- 8.4 The overall messages and observations of the Peer Team were:
- There has been significant progress, developments and improvements resulting in a good grasp of the current budgetary position and understanding of the future financial challenge.
 - There is visible and well respected leadership –both political and managerial –that provides a clear and consistent message about the scale of the challenge and the imperatives of responding to it.
 - The finance function is well regarded and respected by Councillors and managers, and clearly plays an enabling role that supports transformation and the delivery of financial savings across directorates.
 - The key governance, processes and systems -including digital capability -that support and enable financial planning, monitoring and management are in place or are being developed.
 - The components of the financial strategy –including commercialisation and demand management –are consistent with practice in the sector.

- It is now timely to reflect on the strategy, approach and pace in light of the current position and future aspirations.
- The challenge remains significant and there is no room for complacency. The fundamental requirement to deliver on existing proposals whilst formulating new ones remains.

8.5 The following are the Peer Team's key recommendations to the Council:

- Review and refresh the strategic narrative for addressing the budget deficit so there is further clarity on aspirations, ethos and work streams.
- Revisit and review some of the assumptions and approaches in the financial strategy so that they better reflect and support the future ambitions of the Council.
- Review the Medium Term Financial Strategy risk on the Strategic Risk Register.
- Continue the work on developing the alignment, linkage and interdependency of the financial strategy and information with other plans and processes.
- Make the approach to capital programming more robust.
- Further consider the balance, emphasis and pace between the different components of the financial strategy going forward.

An action plan has been developed. Progress against the action plan is reported to the Confident, Capable, Council Scrutiny Panel.

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1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on the progress made against the 2016/17 audit plan and to provide information on recent work that has been completed.

2.0 Background

- 2.1 The internal audit update report as at 30 September 2016 (quarter two) contains details of the matters arising from audit work undertaken so far this year. The information included in the report will feed into, and inform the overall opinion in our annual internal audit report issued at the year end. It also updates the Committee on various other activities associated with the internal audit service.

3.0 Progress, options, discussion, etc.

- 3.1 Quarterly internal audit update reports will continue to be presented to the Committee throughout the year.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendations in this report (MK/29112016/I).

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report (TS/0112016/G).

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

- 7.1 There are no environmental implications arising from the recommendations in this report.

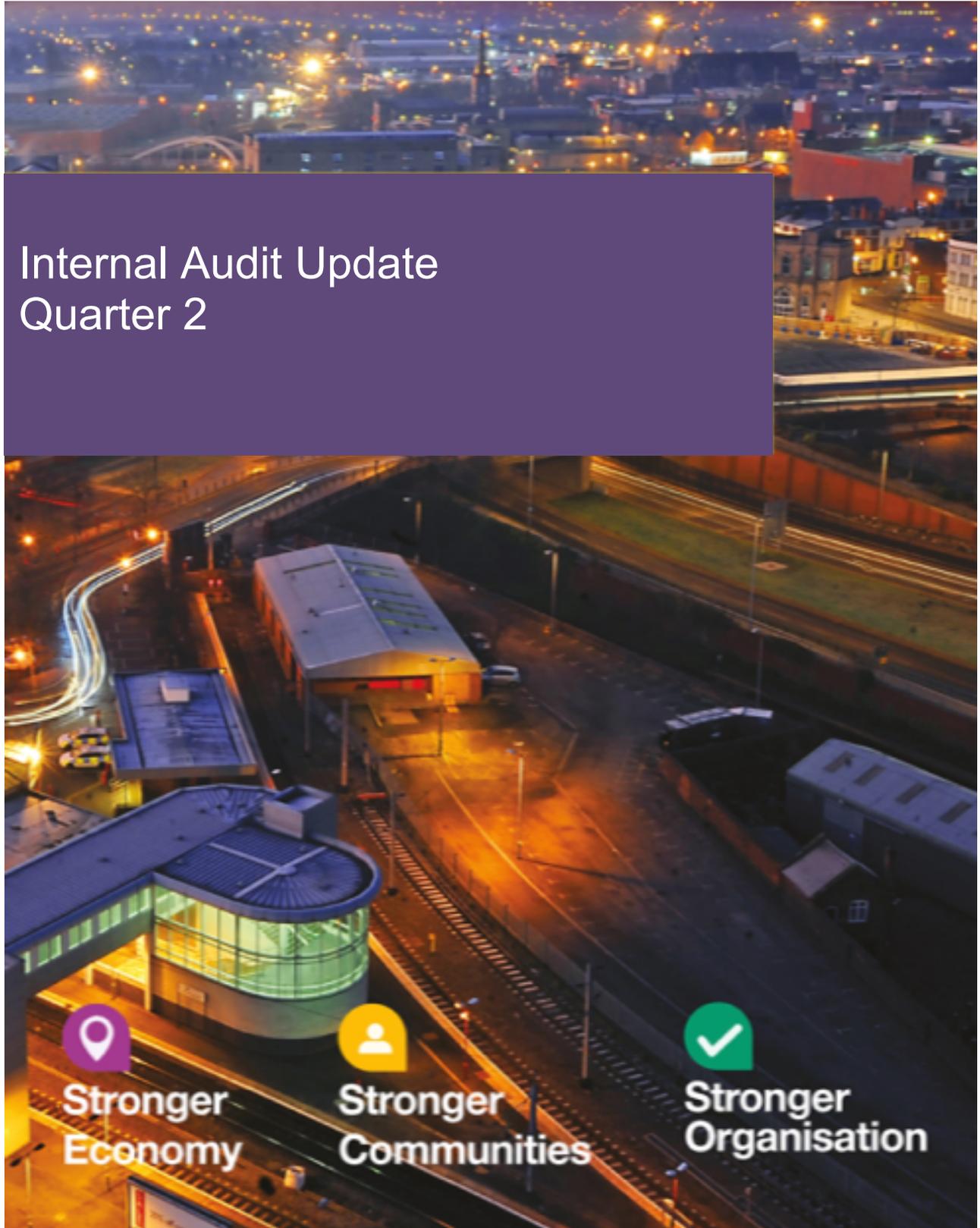
8.0 Human resources implications

- 8.1 There are no human resources implications arising from the recommendations in this report.

9.0 Corporate landlord implications

- 9.1 There are no corporate landlord implications arising from the recommendations in this report.

10.0 Schedule of background papers - None



1 Introduction

The purpose of this report is to bring the Audit and Risk Committee up to date with the progress made against the delivery of the 2016/17 internal audit plan.

The Audit and Risk Committee has a responsibility to review the effectiveness of the system of internal controls and also to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides the committee with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

The information included in this progress report will feed into, and inform our overall opinion in our internal audit annual report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Year on year comparison

19 pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over previous years, is set out below:

Opinion	2016/17 (@ Q2)	2015/16	2014/15
Substantial	13	13	7
Satisfactory	4	35	29
Limited	2	14	12

2 *Summary of audit reviews completed*

The following audit reviews were completed by the end of the second quarter of the current year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Previously reported:							
Phoenix Nursery School	Medium	-	-	1	1	1	Substantial
St Thomas' CE Primary School	Medium	-	-	2	2	2	Substantial
Holy Trinity Catholic Primary School	Medium	-	-	2	2	2	Substantial
Castlecroft Primary School	Medium	-	-	2	2	2	Substantial
St Michael's CE Aided Primary School	Medium	-	-	4	4	4	Substantial
The Braybrook Centre	Medium	-	-	4	4	4	Substantial
The Orchard Centre	Medium	-	-	2	2	2	Substantial
Midpoint Centre	Medium	-	-	4	4	4	Substantial
Fleet Management Accounts Payable Process	Medium	-	1	5	6	6	Substantial
FutureSpace Governance Assurance 2016/17	High	-	-	3	3	3	Substantial
2016/17 Annual Certification of Senior Officers Remuneration and Officers earning over £50K	N/A*	-	-	-	-	-	N/A*
Reported this quarter for the first time:							
Tettenhall Wood Special School	Medium	-	2	1	3	3	Satisfactory
Wilkinson Primary School	Medium	-	3	2	5	5	Satisfactory
Bilston CE Primary School	Medium	-	1	4	5	5	Satisfactory
Christ Church CE Junior School	Medium	-	-	3	3	3	Substantial
Mayoral Hospitality	Medium	-	-	2	2	2	Substantial

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Schools Compliance - Collective Agreement	Medium	-	3	2	5	5	Satisfactory
Management of Utility Works 2016/17	Medium	-	-	5	5	5	Substantial
Carbon Reduction Credits Scheme	N/A*	-	-	-	-	-	N/A*
Payment Arrangements for Court Costs	Medium	1	1	-	2	2	Limited
Section 17 Payments	Medium	-	10	1	11	11	Limited
IT & SM Transport Grant 2015	N/A*	-	-	-	-	-	N/A*
Highway Challenge Fund Grant	N/A*	-	-	-	-	-	N/A*
Payment by Results - June 2016 Claim	N/A*	-	-	-	-	-	N/A*

Key:
AAN Assessment of assurance need.
* One-off piece of work undertaken by request or certification/non-risk based reviews etc. – therefore an audit opinion may not always be provided/required.

3 *On-going assurance where no report is issued*

We provide on-going assurance throughout the year in the following areas:

Equal Pay

A member of the audit team is embedded in the project to provide advice on project governance and management of risks associated with the management of equal pay claims. Audit assurance is also provided around the calculation of settlement offers and the payment of claims.

Information Governance

We have a member of the team who sits on the Council's Information Governance Board.

Digital Transformation Programme (DTP)

We also have a member of the team involved in this programme which covers the Customer Engagement Platform, Master Data Management, and Business Intelligence projects. During the lifecycle of the programme we provide on-going advice on the governance of the programme and management of associated risks. We have also provided on-going support in respect of user acceptance testing in respect of each of the programme's projects.

Corporate Projects/Programmes

We also have representation on the Council's Corporate Review Group. The group is responsible for reviewing and approving the initiation all of the Council's proposed programmes and projects. The group also provides assurance that all programmes and projects are managed in accordance with the Council's corporate project management approach.

Pay Strategy

Finally, we have representation on the Council's Pay Strategy Board. The purpose of the board is to ensure that all requests in respect pay and grading is approved in accordance with the Council's Collective Agreement for NJC employees.

Counter Fraud Activities

We continue to investigate all allegations of suspected fraudulent activity, during the year. Details of these have will be presented to the Audit and Risk Committee in a separate report, along with details of initiatives put in place in order to both raise awareness of, and tackle fraud across the Council.

4 *Audit reviews underway*

There were a number of other reviews underway as at 30 September 2016 and these will be reported upon in later update reports.

5 *Any key issues arising from our work completed in Quarter 2*

There were two limited reports issued during quarter two details of which are provided below:

Payment arrangements for court costs

Previously the Council's court costs had to be paid either by cheque or via a p-card. The Courts have recently implemented an account credit facility whereby the account is topped up and costs are deducted each time a case is lodged. This review was requested by the Director of Governance following the implementation of this new facility. The review examined transactions for the first three months of the account and identified that an inadequate reconciliation process was in place for monitoring payments and costs. We have been working with Banking services and officers from Legal to strengthen processes around the reconciliation of the accounts.

Section 17 payments

Section 17(6) of the Children Act 1989 states that the local authority may exercise its duty to safeguard and promote the welfare of children in need by providing 'assistance in kind to be given or in exceptional circumstances in cash'. The budget allocated for the current financial year is approximately £300,000. Our audit reviewed arrangements for payments in the scope of this Act. We made a number of recommendations to improve controls around the assessment of individual cases, authorisation and monitoring of payments.

In addition, a policy and procedure for families with no recourse to public funds was also being developed at the time of our review and we liaised with the Policy Officer to ensure a robust policy will be in place.

Follow up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit and Risk Committee.

Audit and Risk Agenda Item No: 8 Committee

12 December 2016

Report Title Audit Services – Counter Fraud Update

Accountable Director Mark Taylor, Finance

Accountable employee(s) Peter Farrow Head of Audit
Tel 01902 554460
Email peter.farrow@wolverhampton.gov.uk

**Report to be/has been
considered by** Not applicable

Recommendations for noting:

The Committee is asked to note:

1. The contents of the latest Audit Services Counter Fraud Update.

1.0 Purpose

- 1.1 The purpose of this report is to provide Members with an update on current counter fraud activities undertaken by Audit Services.

2.0 Background

- 2.1 The cost of fraud to local government is estimated at £2.1 billion a year. This is money that could be used for local services.
- 2.2 The Counter Fraud Unit was set up within Audit Services, in response to the increased emphasis being placed upon both fraud prevention and detection by the Department for Communities and Local Government.

3.0 Progress, options, discussion, etc.

- 3.1 At the last meeting of the Audit and Risk Committee in September 2016, it was agreed that regular updates on the progress the Council was making in tackling fraud would continue to be brought before the Committee.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendation in this report.
[MK/29112016/H]

5.0 Legal implications

- 5.1 Investigations by the Counter Fraud Unit may have legal implications depending upon what action is taken or decided against in respect of those investigations.
[TS/0112016/C]

6.0 Equalities implications

- 6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

- 7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from this report.

9.0 Corporate landlord implications

- 9.1 There are no corporate landlord implications arising from the implications in this report.

10.0 Schedule of background papers

- 10.1 None.

Counter Fraud Update @ November 2016

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Communities**


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Organisation**

1 Introduction

The counter fraud agenda is one that continues to hold significant prominence from Central Government who are promoting a wide range of counter fraud activities. The purpose of this report is to bring the Audit Committee up to date on the counter-fraud activities undertaken by the Counter Fraud Unit within Audit Services.

The Council is committed to creating and maintaining an environment where fraud, corruption and bribery will not be tolerated. This message is made clear within the Authority's Anti-Fraud and Corruption Policy, which states: "The Council operates a zero tolerance on fraud, corruption and bribery whereby all instances will be investigated and the perpetrator(s) will be dealt with in accordance with established policies. Action will be taken to recover all monies stolen from the Council."

2 The Counter Fraud Unit

The Counter Fraud Unit, which sits within Audit Services, is continuing to develop and lead in raising fraud awareness across the Council and in promoting an anti-fraud culture. The team carries out investigations into areas of suspected or reported fraudulent activity and organises a series of Council wide pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity. The team maintains the Council's fraud risk register, conducts raising fraud awareness seminars and holds fraud surgeries. In addition, they lead on the Cabinet Office's National Fraud Initiative (NFI) exercise.

3 Counter Fraud Update

Counter Fraud Plan

The latest status of progress against the counter fraud plan is shown at Appendix 1

National Anti-Fraud Network Intelligence Notifications

The National Anti-Fraud Network (NAFN) issues regular alerts which provide information on fraud attempts, trends and emerging threats. The information provided in the alerts has been notified to NAFN by other local authorities from across the country. These alerts are checked to the Council's systems to verify whether there have been any instances at Wolverhampton. Since August 2016 there have been twenty alerts issued by NAFN, and none impacted on suppliers used by the Council. Six of the alerts involved a fraudulent request to change bank mandate details from a legitimate organisation into their own bank account; however, the Council had not been subject to any such fraudulent activity.

National Fraud Initiative

The Counter Fraud Unit co-ordinates the investigation of matches identified by the Cabinet Office's National Fraud Initiative (NFI) data matching exercises. Where matches are identified the ensuing investigations may detect instances of fraud, over or underpayments, and other errors. A match does not automatically mean there is a fraud. Often there is another explanation for a data match that prompts bodies to update their records and to improve their systems. The latest NFI exercise commenced during January 2015 and the current outcomes are shown below.

Description	Previous value (£)	Current value (£)
Housing benefit claimants to student loans	53,272	82,720
Housing benefits claimants to pensions	8,420	8,420
Housing benefits claimants to in country immigration	42,224	42,224
Housing benefits claims to internal housing benefits claims	7,038	7,038
Housing benefits claims to external housing benefits claims	21,272	21,272
Pensions / Pension Gratuity to DWP Deceased	0	58,811
Waiting list to housing tenants	18,000	18,000
Waiting list to housing benefit claimants	23,000	23,000
Housing benefit claimants to council tax reduction	208	208
Council tax to electoral register	579	579
Total	174,013	262,272

Action is being taken to recover the value of the fraud and error wherever possible.

The West Midlands Pension Fund has been investigating matches identified by the 'Pensions / Pension Gratuity to DWP Deceased' match. Details have been updated on the NFI web site and included in the above table for the first time. Five cases of overpayment have been identified of which one case accounts for £44,000. Action is being taken to recover overpayments and to determine whether a fraud has been committed.

Since June 2015 the Department of Works and Pensions (DWP) has been responsible for investigating Housing Benefit matches where fraud has occurred. Investigators at the DWP have been granted access to the NFI matches and have continued to investigate and take appropriate action where fraud has been proven. The results are included above.

New Single Person Discount Matching Exercise

During July 2016 the Council received the results of the latest Council Tax data match to the updated Electoral Register. There were 4,614 initial matches plus a further 102 Council Tax rising 18 data matches*. For this exercise a new approach is being adopted. Following an initial review approximately 4,000 of the matches were sent to a credit reference agency to further validate whether there is evidence that more than one eligible person is living at a property. This has resulted in approximately 1,350 accounts being identified as having a high probability that more than one person is resident. Residents at these properties are being contacted and where appropriate the discount will be removed.

*Rising 18's are young people who have had the date that they become 18 years of age recorded on the Electoral Registration system. Once a person reaches 18 years of age, subject to certain exemptions, a household may no longer be eligible to receive single person discount.

National Fraud Initiative Exercise 2016/17

The next NFI data matching exercise commenced during October 2016 with the submission of data sets from across the Council. The Council's data will be cross matched

with data submitted by almost 1,300 other bodies including local and central government and the Department of Works and Pensions. The results of the matches will be available at the end of January 2017.

Cabinet Office – National Fraud Initiative Report 2016

During November 2016 the Cabinet Office published its first report, which identifies progress made with the National Fraud Initiative (NFI), since taking responsibility for the exercise in 2015 (Appendix 3). The report identifies around £200 million of potential fraud, overpayments and error in England over a range of different fraud types, but acknowledges that this is just the tip of the iceberg. The key areas for detecting fraud are Tenancy, Single Person Discount and Pension frauds.

The Cabinet Office has established a Fraud, Error and Debt Team to provide expertise in reducing fraud loss. The NFI continues to be developed to address emerging risks and to maximise the use of the data gathered for the exercise.

In addition to the established NFI exercises, which are currently completed every two years, more frequent data matching exercises have been introduced using a flexible data matching tool, for example, single person discount to the electoral register.

The scope of the NFI continues to be expanded and the 2016/17 exercise now includes matches for personal budgets, housing waiting lists and council tax reduction. In addition, new participants are being encouraged to take part in the initiative, for example, Housing Associations. The Cabinet Office will continue to develop the NFI by embracing new technology and seeking to embed NFI into the internal controls of organisations.

Fraud Data Warehouse

As reported previously, Birmingham City Council has been operating a data warehouse for a number of years.

Data warehouse: storing data sets from across organisations and used for data matching purposes in order to identify and prevent potential fraud.

For the last five years their data warehouse has been used to hold tenancy data provided by 15 organisations including Wolverhampton Homes. The Council has been invited to participate in an initiative to expand the scope of the warehouse to include data which can be used to detect other types of fraud, starting with Council Tax fraud. To enable the data to be shared a data sharing agreement has been signed following review by the Council's Legal and Information Governance Teams. A method of extracting and securely uploading Council Tax data through a secure web site is being developed and once established data will be uploaded on a regular basis. Further details of the progress made will be brought before the Committee as it becomes known.

Partnership Working

As part of the partnership arrangements with Sandwell Metropolitan Borough Council the Fraud Team at Sandwell continues to assist in the implementation of the Council's Counter Fraud Plan. This work began in September 2015 and has involved carrying out investigations, addressing National Fraud Initiative matches and hosting fraud awareness seminars and surgeries. This joint approach will see an increase in shared information, working practices and the introduction of new counter fraud initiatives.

Fraud Risk Register

The Counter Fraud Unit maintains the Council's fraud risk register. The register is used to help identify areas for testing and also to inform future audit assurance plans by focusing on the areas with the 'highest' risk of fraud. The latest fraud risk register is included at Appendix 2.

Midland Fraud Group

This group consists of fraud officers from across the Midland's local authorities. The purpose of the group is to identify and discuss the outcome of initiatives being used to tackle fraud. At the last meeting in September 2016, topics discussed included, National Fraud Initiative, Anti-Money Laundering checks, Council Tax Reduction, Social Housing Fraud and current trends and cases of interest.

Counter Fraud Plan Update

Issue	Action	Timescale
Raising counter fraud awareness across the Council	Develop and deliver Fraud Awareness seminars	Seminars completed December 2015 and January 2016
	Develop on line fraud training for staff.	To be refreshed early 2017
	Work with Workforce Development to develop and promote fraud training.	Fraud seminars and surgeries promoted through City People On-going use of online training package
	Establish measures for assessing the level of employee fraud awareness.	Early 2017
	Hold fraud surgeries to enable staff to report areas of suspected fraud.	Fraud surgeries undertaken in December 2015
	Use various forms of media to promote fraud awareness across the council including City People, the intranet and the internet.	Fraud seminars and surgeries promoted through City People
	Work closely with Wolverhampton Homes and seek opportunities to promote joint fraud awareness.	On-going
Work with national, regional and local networks to identify current fraud risks and initiatives.	Maintain membership of the National Anti-Fraud Network (NAFN).	On-going
	Participate in the Cabinet Office's National Fraud Initiative (NFI) data matching exercises. Acting as key contact for the council, the West Midlands Pension Scheme and Wolverhampton Homes.	On-going
	Complete the annual TEICCAF and CIPFA fraud surveys.	CIPFA Survey completed April 2016 TEICCAF survey completed September 2016
	Investigate opportunities to develop the use of NFI real time and near real time data matching.	Used for Housing Waiting Lists – Summer 2016
	Participate in CIPFA's technical information service.	On-going
	Maintain membership of the Midlands Fraud Group.	On-going – next meeting early 2017
	Attend external fraud seminars and courses.	NAFN Summit – November 2016 West Midlands Economic Crime Unit

Issue	Action	Timescale
		Fraud in the Workplace Seminar-- October 2016 TEICCAF Direct Payments Workshop – October 2016 TEICCAF Business Rates Workshop – September 2016 NAFN Roadshow – May 2016 Midlands Fraud Forum Annual Conference – February 2016
Assess the counter fraud strategy against best practice	Complete national fraud self-assessments, for example:	
	<ul style="list-style-type: none"> • New CIPFA Code of Practice 	June 2015 (the last time required)
	<ul style="list-style-type: none"> • The European Institute for Combatting Corruption And Fraud TEICCAF's- Protecting the English Public Purse 	Annually
	<ul style="list-style-type: none"> • Department for Communities and Local Government – ten actions to tackle fraud against the council. 	On-going
Identify and rank the fraud risks facing the council	Manage the council's fraud risk register to ensure key risks are identified and prioritised.	On-going
	Develop measures of potential fraud risk to help justify investment in counter fraud initiatives.	On-going
	Seek opportunities to integrate the fraud risk register with other corporate risk registers and also the Audit Services Audit Plan	On-going
Work with other fraud investigation teams at the council	Develop good communication links between the Counter Fraud Unit, Wolverhampton Homes, and Audit Services.	Corporate Fraud Group established
	Maintain an overview of the progress made with the tenancy data sharing agreement between Wolverhampton Homes and Birmingham City Council.	On-going
	Establish a fraud data sharing agreement between Wolverhampton Council and Birmingham City Council.	Signed July 2016

Issue	Action	Timescale
Work with external organisations to share knowledge about frauds?	Establish formal joint working relationships with external bodies, for example Police, Health Service and Immigration Enforcement.	A number of joint investigations were completed with the Police during 2015/16.
Participate in external initiatives and address requests for information	Implement industry best practice as identified in reports produced by external bodies, for example; The TEICCAF Annual Protecting the Public Purse report and the National Fraud Initiative report.	Annual/on-going
	Encourage Service Areas to participate in initiatives to identify cases of fraud.	Corporate Fraud Group established
	Look for opportunities to use analytical techniques such as data matching to identify frauds perpetrated across bodies, for example other councils.	On-going
	Undertake a programme of proactive target testing.	On-going
	Respond to external requests for information or requests to take part in national initiatives.	On-going
All cases of reported fraud are identified, recorded and investigated in accordance with best practice and professional standards.	Work with Service Areas to develop methods of recognising, measuring and recording all forms of fraud.	Corporate Fraud Group established
	Manage and co-ordinate fraud investigations across the council.	As reported back to the Audit and Risk Committee on a quarterly basis
	Implement and update the council's portfolio of fraud related policies in response to changes in legislation.	Latest version approved at Audit and Risk Committee – March 2016
	Where appropriate take sanctions against the perpetrators of fraud either internally in conjunction with Human Resources and Legal Services or externally by the Police.	On-going
Ensure responsibility for counter fraud activities is included in Partnership agreements with external bodies.	Embed responsibility for counter fraud activities in partnership agreements with the council's strategic partners.	On-going
	Partnership agreements to include the council's rights of access to conduct fraud investigations.	On-going
Provide the opportunity for employees and members of the public to report suspected fraud.	Manage and promote the Whistleblowing Hotline and record all reported allegations of fraud.	City People article – July 2016
	Promote and hold fraud surgeries that provide the opportunity for staff to discuss any potential fraudulent activity at the council.	Fraud surgeries undertaken in December 2015

Issue	Action	Timescale
	Seek other methods of engaging with employees and the public to report fraud.	On-going – for example through the council's internet site
	Where appropriate ensure allegations are investigated and appropriate action taken.	On-going
	Work with and develop procedures for carrying out investigations with other service areas for example Human Resources, Legal Services and Wolverhampton Homes.	Corporate Fraud Group established
Inform members and senior officers of counter fraud activities.	Report quarterly to the Audit Committee on the implementation of Counter Fraud initiatives and the progress and outcome of fraud investigations.	On-going

Fraud Risk Register @ November 2016

Themes	Potential fraud type	Risk rating
Housing Tenancy	Subletting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home, right to buy. This risk is managed by Wolverhampton Homes.	Red
Council Tax	Fraudulently claiming for discounts and exemptions such as the single persons discount and Local Council Tax Support Schemes.	Red
Personal Budgets	Falsely claiming that care is needed, carers using direct payments for personal gain, carers continuing to receive direct payments after a person dies, duplicate applications submitted to multiple councils.	Red
NEW: Cyber Security	Using technology as a tool to commit acts of fraud – this currently has a very high profile and is an ever increasing area susceptible to fraud	Red
Welfare Assistance	Fraudulent claims.	Amber
Procurement	Collusion (employees and bidders), false invoices, overcharging, inferior goods and services, duplicate invoices.	Amber
Business Rates	Evading payment, falsely claiming mandatory and discretionary rate relief, empty property exemption, charity status.	Amber
Payroll	'ghost' employees, expenses, claims, recruitment.	Amber
Blue Badge	Fraudulent applications, use and continuing to receive after a person dies.	Amber
Electoral	Postal voting, canvassing.	Amber
Schools	School accounts, expenses, procurement, finance leases.	Amber
Theft	Theft of council assets including cash.	Green
Insurance	Fraudulent and exaggerated claims.	Green
Manipulation of data	Amending financial records and performance information.	Green
Bank Mandate Fraud	Fraudulent request for change of bank details.	Green
Grants	False grant applications, failure to use for its intended purpose.	Green
Bribery	Awarding of contracts, decision making.	Green
Money Laundering	Accepting payments from the proceeds of crime.	Green



Cabinet Office

National Fraud Initiative

4 November 2016

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be sent to us at
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This document is also available from our
website at: GOV.UK

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Foreword



Chris Skidmore MP Parliamentary Secretary (Minister for the Constitution)



Marcus Jones MP Parliamentary Under Secretary of State (Minister for Local Government)

Every time the Government spends money or provides benefits and services, it is vulnerable to fraud and error. Estimates show the combined losses from central and local government to be between £20 billion and £49 billion every year.

We are combating this in a number of ways, including: HMRC's work on tackling everything from tax evasion to non-compliance; the Department for Work and Pensions' innovative use of data to identify fraud and error in benefits in real time; the Student Loan Company's use of new techniques to spot fraudulent applications; and the Department of Health's proactive campaign to deal with a range of fraud in prescriptions, dental treatment and health tourism.

In March, the Government also published the sector-produced [Local Government Counter Fraud and Corruption Strategy](#). This document sets out a series of recommendations, which we would encourage all councils to follow, to enhance their capability to tackle fraud.

This is a start; but just a start. We are not complacent; we need to do more right across government and beyond.

Cabinet Office Ministers, taking a lead, established a centre of expertise within the Cabinet Office; the Fraud, Error and Debt team (FEDs). This centre of expertise leads on a number of innovative policies and initiatives across Government, including working with individual departments to reduce fraud loss, increase capability through standard setting and improve access to quality data and data analytics.

Recognising the National Fraud Initiative (NFI) is a vital tool in cracking down on fraud, it was brought into the FEDs remit specifically to bolster its capabilities and use even further. The NFI is highly successful at what it does, matching an extensive range of data from almost 1,300 organisations from across the UK to help prevent and detect fraud. Over the years it has enabled participants to identify fraud and overpayments totalling in excess of £1.39 billion.

Local government remains a key stakeholder in the NFI and we urge councils across the country to take full advantage of the information it provides by prioritising and following up the matches quickly. Using the NFI effectively will enable local government to identify fraudulent individuals, safeguard public funds and protect vital public services. The information is there to be used, in order to ensure value for money we strongly encourage you make full use of it.

This isn't just about saving money. The report has been expanded and now includes two new data requirements on social housing waiting lists and the council tax reduction scheme. This will help councils spot and prevent fraudulent tenancies before they occur, ensuring that only those families which are entitled and in need are provided homes.

This year, the NFI launched a new fraud prevention tool, AppCheck, to allow the data it holds to be used, supporting fraud prevention efforts. It also has FraudHub software that provides flexibility, allowing smaller groups to use this product to better target their local fraud risks. Offering a flexible range of options for customers aligns with our published commitment to identifying ways to reduce losses in all public services.

The report identifies around £200 million of potential fraud, overpayments and error in England, over a range of different types of fraud. This is the just the tip of the iceberg and should serve as a wake-up call to the entire public sector to support us to do much more to ensure taxpayers' money is spent wisely and carefully. We ask public and private organisations to engage with us and help us spread the word and develop the tools of the future.

[Chris Skidmore MP, Parliamentary Secretary \(Minister for the Constitution\)](#)

[Marcus Jones MP, Parliamentary Under Secretary of State \(Minister for Local Government\)](#)

[4 November 2016](#)

Introduction

Summary

This report focuses on the outcomes from the National Fraud Initiative (NFI) data matching exercise to help prevent and detect fraud, overpayments and errors.

Data for the NFI is provided by some 1,300 participating organisations from across the public and private sectors. The data is cross matched and also compared to key data sets provided by other participants, including government departments. The NFI also works with public audit agencies in all parts of the UK and key data sets provided by government departments to prevent and detect fraud.

The organisations¹ that participate in the NFI are responsible for following up and investigating the matches, and identifying frauds and overpayments.

This report sets out the results of the NFI in the period 1 April 2014 to 31 March 2016 and follows on from our last report published in June 2014².

In England, fraud, overpayments and errors^{3 4} amounting to £198 million have been identified and prevented. The NFI also identified £24 million of fraud, overpayments and error in Scotland, Wales and Northern Ireland, bringing total outcomes since the last report to £222 million. This represents a slight fall from the £229 million reported for the period 1 April 2012 to 31 March 2014, although changes to some of the estimation methodologies mean this is not a true like for like comparison.

Since it began, the NFI has enabled the participants to detect and prevent fraud, overpayments and errors totalling £1.39 billion.

The main categories of fraud identified by the NFI in England relate to:

- £85 million of pension fraud and overpayments;
- £37 million of fraudulent or wrongly received, council tax single person discount (SPD) payments; and
- £39 million of welfare benefit fraud⁵ and overpayments.

The exercise also produced the following significant results in England:

- 54 properties were recovered for social housing;

¹ Mandatory organisations for the 2014/15 exercise included councils, NHS bodies, local police bodies and other local public bodies in England, as specified in Schedule 2 of the Audit Commission Act 1998. Other voluntary organisations that took part included NHS foundation trusts, government departments, private sector pension schemes and housing associations.

² Reporting outcomes recorded during the period 1 April 2012 to 31 March 2014.

³ The figures used throughout this report for fraud, overpayments and recoveries include fraud and error detected plus estimated future losses prevented. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching. A more detailed explanation is included in [Appendix 1](#).

⁴ Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.

⁵ This includes housing benefit, state benefit and council tax reduction scheme overpayments.

- 52 employees were dismissed or asked to resign because they had no right to work in the UK;
- 535 people were prosecuted;
- 726 false applications were removed from housing waiting lists following a second pilot exercise; and
- 23,063 blue badges and 97,064 concessionary travel passes were cancelled.

Most public bodies have sound arrangements in place for managing their participation in the NFI, but the NFI and public bodies should work together to understand how the matching can be used to maximise the amount of fraud and error overpayments found.

- Some participants do not make best use of the matches and or the tools within the web application to help them identify high-risk matches linked to local risks.
- Results from traditional housing related matches have been disappointing, so the NFI team will work in partnership with housing providers to understand the reasons for this, as well as monitoring new housing policies as they are implemented and researching new matching techniques.

The NFI has continued to develop the NFI data matching function to address emerging fraud risks and fraud prevention and will continue to do so.

- NFI tackled personal budget fraud for the first time.
- The NFI product range has been extended to incorporate more flexible options such as FraudHub and AppCheck, a preventative tool for point of application checking.
- The AppCheck preventative service helps organisations to stop fraudulent applications from being successful. This is valuable at any point in time, but it is particularly important in a period when local authorities report to the NFI that overall capacity to tackle fraud and error has been falling.
- AppCheck and the flexible NFI tools are designed to allow integration into existing systems' internal controls to facilitate more efficient and unified ways of working.

Recommendations

All public sector participants should ensure they maximise the benefits of their participation in the NFI. In particular, they should:

- consider whether it is possible to make better use of matches, after reviewing the suggestions presented in Table 4, page 36;
- use the NFI matches in conjunction with alternative matching services from other providers; and
- consider integrating the NFI prevention tool (AppCheck) into existing systems' internal controls to help better prevent fraudulent applications being successful.

The Cabinet Office will look to maintain or increase the benefits of the NFI by working with public sector participants to ensure it continues to meet their needs. This will include work with:

- participants to evaluate the value of integrating the NFI preventative and flexible tools into internal controls to improve fraud prevention and detection;
- Department for Work and Pensions and local authorities to agree the arrangements for effective follow up of subsequent housing benefit matches released through the NFI;
- Department for Communities and Local Government to ensure local government bodies utilise the NFI fraud prevention data matching to support delivery of their anti-fraud strategies and maximise the benefits the NFI matches offer; and
- housing providers, including housing associations, to understand why the levels of housing fraud detected through the NFI are minimal yet tenancy fraud is estimated to be the second largest area of fraud loss in local government.

We will also publish, following consultation, an NFI strategy for the period 2016 to 2020. The strategy will outline our commitment to embracing new technology, seeking to embed the NFI into internal controls, developing performance metrics to better inform our continuous improvement strategy and undertaking a full review of the NFI. The latter will include a review of:

- right to buy fraud, in conjunction with external parties, that will consider implementation of relevant new policies, seek to understand any associated fraud risks with the aim of identifying how the NFI matching can better assist housing providers; and
- immigration fraud to determine why there has been a reduction in the number of illegal working cases found through the NFI.

Details of our future plans are set out in [Chapter 6](#) of this report.

Chapter 1 - Introduction

This chapter explains the NFI's role in helping local public and private sector organisations to prevent and detect fraud.

1. The National Fraud Authority⁶ issued their final [Annual Fraud Indicator](#) report in 2013, estimating annual losses from public sector fraud to be £20.6 billion.
2. Putting in place effective controls and initiatives as part of an anti-fraud strategy to prevent and detect fraud is key to tackling the risk of fraud. Doing this prevents losses and allows the funds to go to those that are entitled.
3. The NFI data matching plays an important role in protecting the public purse against fraud risks by helping organisations to identify potential cases of fraud. For nearly two decades it was operated by the Audit Commission but, recognising the importance of this work in the prevention and detection of fraud, the Cabinet Office elected to take ownership of this service, rather than let the NFI cease when the Audit Commission closed in March 2015.
4. The use of data matching services, such as the NFI, is only one element of an effective counter-fraud strategy. It must be underpinned by a thorough understanding of the fraud risks that an organisation faces, to ensure effort is focused in the right places. This should be accompanied by access to capability to both react to issues of fraud and counter the threat by improving the control framework to ensure effective prevention and detection. It is also important to have strong anti-fraud cultures and fraud policies and procedures that emphasise that fraud is unacceptable.
5. The integration of the NFI into the Fraud, Error, Debt and Grants team in Cabinet Office allows us to better link in central government departments, thus increasing the benefits that the NFI can realise from the collaborative efforts of public and private sector organisations to fight fraud. Integration in this way also aligns the NFI with the wider work of the Cabinet Office team on building capability across central Government and improving access to data and analytical products.
6. The Fraud and Error part of the Fraud, Error, Debt and Grants team is working with departments and other public bodies to identify and reduce fraud and error across central Government. It also supports activity at a Local Government level, working with the Department for Communities and Local Government, and through the direct provision of the NFI. This focuses on the following:
 - working with fraud specialists across Government to set and support the adoption of standards for fraud activity;
 - working across Government to develop professional capability standards and help public bodies get access to counter-fraud capability
 - developing a Government Counter-Fraud Profession
 - increase Government understanding of the fraud risks that it faces and the potential loss as a result;
 - developing the data sharing landscape across Government for the detection and prevention of fraud and error;

⁶ The National Fraud Authority closed on 31 March 2014.

- testing new technologies for data sharing and analytics.
 - working with public bodies to develop and provide access to data sharing and analytics products to prevent and detect fraud and error (including the NFI);
7. NFI is an important part of the Cabinet Office's work to develop and provide access to data sharing, data matching and analytical products to help those working to counter fraud across Government to identify and reduce loss. Since the NFI became the responsibility of the Cabinet Office, it has sought to build on the valuable work done in this area by the Audit Commission.
 8. NFI has been working with central government to increase usage of the product and has added a fraud prevention tool (AppCheck) to the established NFI fraud detection product. This preventative service helps organisations to stop fraud at the point of application, thereby reducing administration and future investigation costs.
 9. The ability to prevent fraud should be particularly valuable to local authorities that are considering how they can most efficiently tackle the risk of fraud and error. With AppCheck now available, the focus will be to work with organisations to understand how this can be integrated alongside their existing internal controls to help better target fraud risks at the point of application.
 10. This report on the NFI is primarily intended for senior officers, elected members across the public sector and anyone with a focus on fraud prevention and detection. It outlines the results of the NFI across the UK over the last two years, with particular focus on England, as well as outlining our approach for taking the NFI forward.

Chapter 2 - The NFI

This chapter describes the NFI and how it helps protect the public purse.

11. The NFI brings together a wide range of organisations from across the UK to tackle fraud. By using data matching/analytics to compare different datasets across these organisations, the NFI is able to identify potentially fraudulent claims and overpayments.
12. For example, the matching may identify that a person is listed as working while also receiving benefits and not declaring any income. The relevant organisation should then investigate and, if appropriate, amend or stop benefit payments. [Appendix 2](#) includes more examples of the data matches undertaken and why. [Chapter 4](#) provides more information on the levels of fraud detected through the NFI.
13. High levels of fraud detection through the NFI data matching are likely to indicate weaknesses in underlying controls that need to be investigated and strengthened. In contrast, data matching showing little or no fraud and error provides assurance about the effectiveness of controls.
14. It is important to note that a match does not automatically mean fraud. There may be an explanation for a data match that prompts the organisation to update their records and/or improve their systems.
15. Traditionally the NFI has used data on existing claimants, tenants, etc. to detect live fraud in those systems. In the last two years we have extended the NFI so the same principles can now be applied to undertake checks for fraudulent statements on applications. Doing so allows the NFI to help organisations prevent fraud from entering their systems.
16. Delivering all aspects of the NFI services through web applications provides a secure, fast, effective and user friendly mechanism for users while protecting individuals' personal data.
17. The NFI is conducted under statutory powers set out in the [Local Audit and Accountability Act 2014](#)⁷. The legislation provides safeguards on the use and disclosure of data, including the requirement for a statutory [Code of Data Matching Practice](#) which helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards appropriate to the NFI.

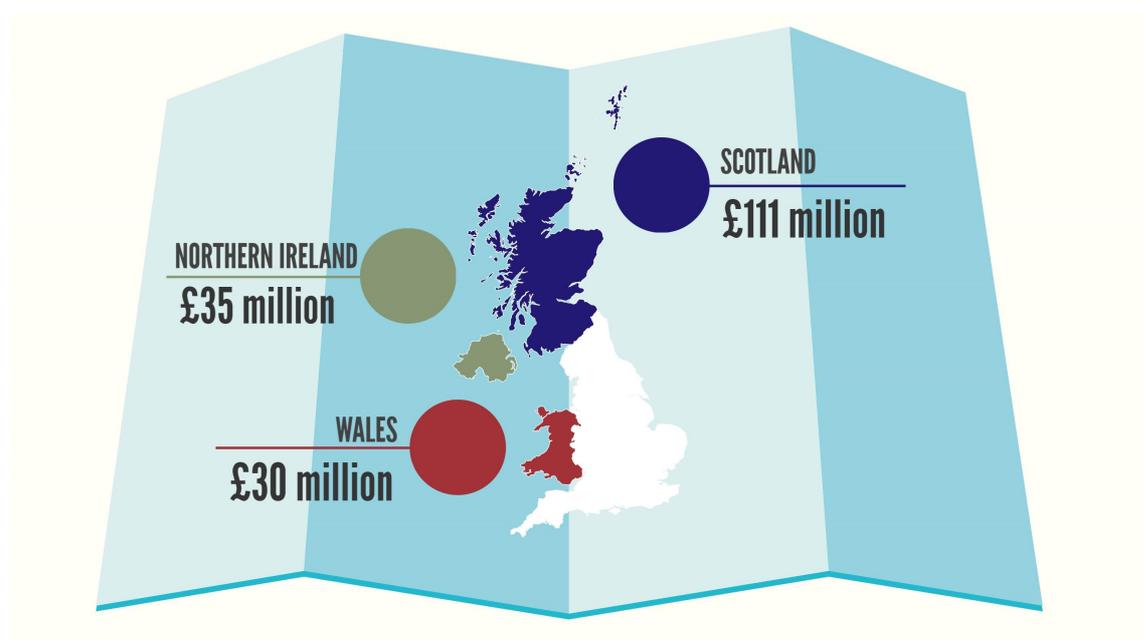
⁷ Local Audit and Accountability Act 2014 Part 6, Schedule 9

Chapter 3 - The NFI UK picture

This chapter describes how all the public audit agencies work in partnership to provide the NFI across the UK

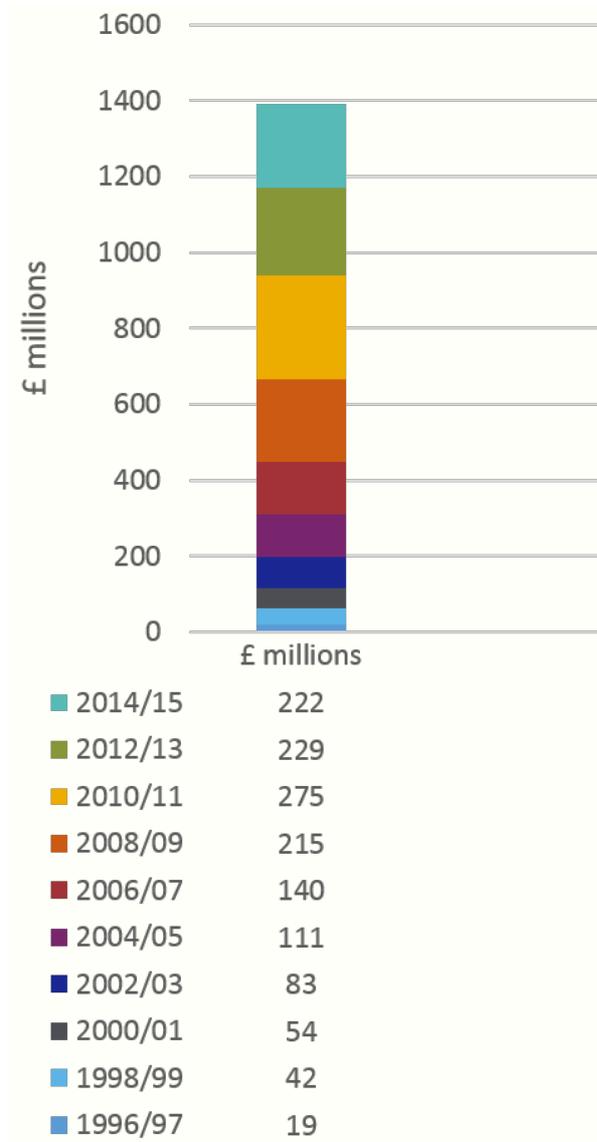
18. The involvement of the public audit agencies in Scotland, Wales and Northern Ireland is a key factor in the success of the NFI. Each national audit agency carries out data matching under its own powers, but uses the NFI's systems, processes and expertise.
19. This enables cross-border matching while also delivering economies of scale, reducing the cost for organisations taking part. Each agency reports on the NFI separately for their geographical area⁸.
20. In the period 1 April 2014 to 31 March 2016, £24 million of fraud, overpayment and error has been identified by the NFI in Scotland, Wales and Northern Ireland, in addition to £198 million in England. The aggregate amount of fraud and overpayments found since the NFI first started outside England is £176 million (Figure 1). This comprises:
 - Scotland - £111 million;
 - Northern Ireland - £35 million; and
 - Wales - £30 million.
21. The total fraud, overpayments and errors detected across the UK since the NFI began in 1996 amounts to £1.39 billion (Figure 2).

Figure 1- Cumulative total for the period 1996 - 2016 outside of England (£176 million)



⁸ The NFI results in Scotland are available at www.audit-scotland.gov.uk in Wales, at www.wao.gov.uk and in Northern Ireland, at www.niauditoffice.gov.uk.

Figure 2 - Cumulative outcomes identified across the UK (1996-2016) £1.39 billion



Chapter 4 - The NFI in England

This chapter sets out the results of the NFI in England and the successes in tackling key risks (Table 1).

22. Between 1 April 2014 and 31 March 2016 the NFI has identified further fraud, overpayments and errors in England totalling £198 million.
23. The total comprises £65 million of actual fraud and error detected, as well as estimated fraud and error detected and future losses prevented of £133 million ([Appendix 1](#)). Estimates are included where it is reasonable to assume that the fraud and error would have continued undetected without the NFI data matching. The estimate of £133 million comprises of £11 million estimated fraud and error detected and future losses prevented of £122 million. These estimated losses prevented represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.
24. When £44 million of the £65 million of detected fraud and error being recovered (68 per cent), is combined with future losses prevented (£122 million), the monetary saving to the public purse of the NFI over the last two years is estimated at £166 million (84 per cent of the £198 million total).
25. Table 1 summarises, by dataset, the significant financial success in England. Where there are instances of a decrease in the amount of fraud and error reported, this is explored in the relevant section later in this chapter. Table 2 sets out other notable results for each dataset. The rest of this chapter then reviews these outcomes in more detail.

Table 1 - NFI outcomes by risk area

Dataset	Example activity area	2016 £million	2014 £million
Pensions	Individuals obtaining the pension payments of a dead person	85.1	75.9
Council Tax single person discount	Individuals who did not qualify for the Council Tax single person discount because they were living with other countable adults	37.4	38.7
Welfare Benefit	Individuals claiming housing benefit who failed to declare an income or change of circumstances	39.2	32.6
Social Housing/Right to Buy	Social housing tenants/waiting list applicants who were subletting, were not entitled to social housing because of their status in the UK, or had multiple tenancies unlawfully	6.3	26.7
Blue Badges	Potential misuse of blue badge parking passes belonging to someone who had died	13.2	10.7
Payroll	Employees working for one organisation while being on long-term sick leave at another or obtaining employment while not entitled to work in the UK	5.0	10.0
Creditor Payments	Traders who intentionally or unintentionally submitted duplicate invoices for payment	4.5	5.2
Payments to private residential care homes	Payments to private care homes by the local authority for the care of a resident where the resident had died	3.5	2.2
Concessionary Travel	Potential misuse of concessionary travel passes belonging to someone who has died	2.2	0
Other	Other immigration outcomes linked to student loans and licences	1.3	0.9
Personal budgets	Individuals claiming a personal budget who failed to declare an income or change of circumstances or were deceased	0.5	0.2
	Total	198.2	203.1

Source: National Fraud Initiative 2016

Table 2: Key results in England

	2016 Number of cases	2014 Number of cases
Pensions		
Pension payments stopped	3,592	2,990
Council tax single person discount		
Council tax single person discount claims stopped	37,825	41,029
Social Housing/Right to Buy		
Properties recovered	54	86
Right to Buy wrongly awarded	4	21
Applicants removed from a housing waiting list	726	2,394
Housing benefit fraud, error and overpayments relating to:		
Local government employees	1,417	2,378
Central government pensioners	922	2,128
Individuals receiving a local government pension	876	1,508
Students	1,944	1,632
NHS employees	516	774
Other	864	663
Immigration	67	61
Blue Badges		
Blue badges cancelled	23,063	21,278
Social Care		
Residents in private care homes	263	182
Personal budgets	113	30
Payroll		
Total employees dismissed or resigned	109	158
Creditor Payments		
Duplicate creditor payments	3,488	6,410
Other		
Concessionary travel passes cancelled	97,064	78,443
Total	172,907	162,164

Source: National Fraud Initiative 2016

Outcomes across England

26. The levels of fraud, overpayments and errors reported has reduced by two per cent on the previous reporting period, down from £202m to £198 million. However, it should be noted that the figures are not totally like for like and therefore do not provide a true reflection of variances between these reporting periods. The reasons for the reductions are set out in sections 27 to 30.

Revised pension estimate

27. One reason is that we have reviewed, and adjusted, the methodologies applied to estimated future losses prevented during this reporting period. For example, the pension future losses prevented calculation is now based on the annual pension multiplied by the number of years until the pensioner would have reached the age of 85, whereas it was previously up to the age 90. We estimate that this change has reduced outcomes by as much as £13 million. While all the current methodologies are outlined in [Appendix 1](#) we have not carried out a full analysis to quantify the impact and to produce a retrospective comparison.

Social housing waiting list estimate

28. In addition, and as Table 1 highlights, another significant factor in the fall is the reduced social housing outcomes, specifically a pilot of social housing waiting lists. This reduction (£18 million) is linked to different methodologies for future losses prevented being applied, but in this case the changes have been made by the reporting organisations themselves not the NFI. During this pilot we have allowed individual local authorities to attempt to estimate the fraudulent losses prevented from the pilot themselves.
29. In the previous reporting period one London council removed 1,482 applicants from the social housing waiting list and estimated fraudulent losses prevented at £18 million (£12,000 per case - the estimated financial benefit relates to the reduced temporary accommodation costs). In this reporting period the pilot was expanded and 726 housing waiting list applicants were reported as being removed. However, very few reported an estimate of losses prevented. The overall total prevented was £1 million. This has resulted in a potential under reporting of up to £8 million, when compared to the £12,000 per case applied by the London council in the previous reporting period.
30. We have recently elected, following consultation, to make this match mandatory for the next NFI exercise. As part of this process we will evaluate all the evidence and establish an NFI estimation for future losses prevented for persons removed from the social housing waiting list. This will then be applied to all future outcomes for this match.

Recovery rate/impact on the public purse

31. The estimated future losses prevented, £122 million, are savings to the public purse. They are monies that we estimate would have been lost to fraud without the intervention of the NFI.
32. In addition to this £122 million, participants are in the process of recovering £44 million of the £65 million (68 per cent) of fraud and error losses that have been

detected. Table 3 provides further analysis of recovery rates for specific dataset areas.

Table 3 - Recovery rates by dataset area

Dataset	Fraud Detected (actual not estimated) £m	Amount in recovery £m	Recovery Rate
Pensions	11.4	7.5	65%
Council Tax single person discount	13.7	11.2	82%
Welfare Benefits	29.8	20	67%
Social Housing/Right to Buy	0	0	n/a
Blue Badges	0	0	n/a
Payroll	2.4	0.4	14%
Creditor Payments	4.5	3.0	67%
Payments to private residential care homes	1.7	1.7	100%
Personal Budgets	0.38	0.37	99%
Other	1.3	0.2	15%
Total	65.2	44.3	68%

Source: National Fraud Initiative 2016

33. Combined the losses recovered and the estimated losses prevented total £166 million, 84 per cent of the £198 million.

Pensions

34. The NFI matches pension information to data about deceased people, which is provided by DWP and the Disclosure of Death Registration Information (DDRI) from the General Registrar's Office. This is referred to as 'mortality screening'.
35. Frauds and overpayments of pension occur most often when pensioners die but relatives fail to tell the pension scheme about the death and knowingly continue to receive the payments.
36. Mortality screening has been part of the NFI for many years, yet we continue to identify consistently high levels of fraud cases, indicating that new pension frauds and overpayments are regularly being initiated.
37. During this exercise, the NFI identified 3,410 cases where pensioners had died, but payments were continuing. The majority, 98 per cent, of these cases were identified by public sector pension schemes. Actual overpayments detected (£11.4 million) and estimated future losses prevented total £85 million ([Appendix 1](#)).
38. Twice a year the NFI offers organisations pension schemes an additional opportunity to screen against DWP data about deceased people. Schemes can also match to the Disclosure of Death Information Register at a time to suit them rather than waiting for the two yearly national exercise. Some of the UK's largest public sector pension schemes utilise this more regular mortality screening and evidence suggests that this has reduced the average value of overpayments, as a result of them being identified

sooner. This has also meant that the total amount of fraudulent and erroneous overpayments made, and therefore needing to be recovered, by these schemes has been significantly reduced.

39. Case study 1 provides an example of how regular mortality screening is helping to reduce fraud losses.

Case study 1: Pensions

NHS Business Services Authority (NHSBSA) began undertaking six monthly mortality screening with NFI from November 2013. Although the number of deceased pensioner cases have remained very similar across both the 2012/13 and 2014/15 exercises, the average overpayment value has decreased by 38 per cent from £3,033 per case in 2012/13 to £1,868 per case in 2014/15. This indicates that NFI has assisted NHSBSA in identifying deceased cases sooner, thereby reducing the amounts needing to be recovered.

Source: National Fraud Initiative 2016

40. Although the overall recovery rate for the £11.4 million of overpayments in the reporting period stands at 65 per cent, it is encouraging that the recovery rate from the most recent matches, NFI 2014/15, has risen to 80 per cent. We will continue to work with participants to ensure they maximise the recovery of these overpayments. At the same time we will encourage other schemes to adopt more regular data matching to minimise the overpayments that need recovering.

Council tax single person discount

41. Over the last two years the NFI match to tackle council tax single person discount (SPD) abuse has once again provided substantial returns for councils. Over 37,000 SPDs have been cancelled and £11 million of underpayments of council tax (82 per cent) have been/are being recovered. In addition the impact of the changes to the annual council tax base in England are estimated to have increased revenues to councils by around £24 million.
42. However, despite this success there are still nearly 44 per cent of councils in England that are not maximising the benefits the NFI matches offer. We acknowledge that some of these councils are using other matching initiatives. However, the NFI and private sector organisations use different data sources and therefore both produce different matches. Both can be useful. We therefore encourage, and have spent time helping, councils undertaking alternative data matching to identify and review the additional matches that NFI identifies.
43. In the last two years, following consultation, the council tax SPD module has become an annual data match which is aligned with the annual publication of the electoral register. Doing this allows fraudulent and erroneous claims to be spotted quicker. It also allows councils to manage their resources more efficiently by spreading the investigations more evenly rather than having a peak every two years. Early evidence suggests that the additional matches released in the first of these annual exercises has significantly contributed to the rise in overall outcomes.
44. Given the continued levels of fraud and error detected in council tax single person discounts, we have recently released the results of a pilot exercise which involved

matching SPD against a wider range of datasets that the NFI already has access to, for example social housing and payroll. The results of this pilot will be evaluated and if, as expected, they help councils identify further fraudulent and erroneous claims, we will integrate this matching into the annual exercise.

45. In order to help councils follow up the annual NFI matches efficiently, we have developed and launched a sophisticated but easy-to-use mail merge tool. This tool helps councils produce letters from the information provided in the data match to print and send locally to charge payers in receipt of single person discount, enquiring if they have a change of circumstance to declare.

Housing benefit

46. In November 2015, the DWP reported that in 2014/15 councils across Great Britain paid out over £24.3 billion in housing benefit. The equivalent fraud losses are about £590 million, or 2.4 per cent, each year⁹.
47. The NFI matches housing benefit records against multiple data sources, including student loans data, immigration data, payroll data, housing tenancy data and data that can indicate earnings such as taxi driver licence holder data. The matches may identify where a person is claiming a benefit that they are not entitled to.
48. Housing benefit overpayments account for a significant proportion of the total fraudulent overpayments identified through the NFI. During this exercise, the NFI has helped to uncover benefit frauds and overpayments worth £36.7 million, 20 per cent of total NFI outcomes in England. Across the reporting period, action has been/is being taken to recover 67 per cent of the £27.6 million actual overpayments. Further analysis of this recovery rate shows that, while it is as low as 54 per cent for the NFI 2012/13 matches, it has risen to 73 per cent for the NFI 2014/15 matches. Going forward, we will continue to work with participants to help ensure recovery action is taken wherever reasonable.
49. Action taken against benefit fraudsters, as a result of the NFI matches, included 392 prosecutions, 697 administrative penalties and 234 cautions. Case study 2 provides an example of a fraud case identified by the NFI.

⁹ Department for Work and Pensions, [Fraud and Error in the Benefit System: 2014/15 Estimates \(Great Britain\)](#), Department for Work and Pensions, November 2015.

Case study 2: Housing benefit

The investigation of a NFI housing benefit to pension match identified a claimant who originally denied being in receipt of a civil service occupational pension at formal interview. She later pleaded guilty to failing to declare that same pension when making her claim to housing benefits.

She also denied holding the bank account into which her pension was paid, despite several discussions about the matter during the course of the interview. The claimant has been overpaid Housing benefit, Council tax benefit and Council tax reduction. A total loss to the public purse of over £10,000.

These overpayments are now being recovered and the court imposed a fine of £110, a victim surcharge of £20 and costs of £350.

Source: National Fraud Initiative 2016

50. In addition to the NFI 2014/15 matches released in January 2015, the DWP provided refreshed housing benefit data for an additional match to refreshed data for student loan, immigration and deceased persons. The matches were released in December 2015 and the outcomes of investigations are beginning to be reported, with the majority expected in the next 12 months.
51. During this reporting period there have been some significant changes to the arrangements for detecting housing benefit fraud. These changes have been led by the DWP, most notably the:
- Single Fraud Investigation Service (SFIS) project which transferred the responsibility for investigating housing benefit fraud from local authorities to the DWP Fraud and Error Services (FES). Local authority staff transferred to DWP as part of a phased roll out between July 2014 and March 2016; and
 - use of HM Revenue and Customs (HMRC) Real Time Information (RTI) to match benefits, including housing benefit, to identify under declared earnings and non-state pension. Under this initiative, DWP regularly issued referrals to local authorities from October 2014.
52. The above changes have impacted on the NFI housing benefit outcomes over the reporting period and are expected to continue to do so as the new arrangements become embedded. The transition to DWP FES appears to have resulted in many of the NFI matches being investigated by local authorities or referred to DWP for investigation later in the period. To date DWP have reported, from the NFI matches referred to SFIS, overpayments of £2.1 million across 407 individual cases, with a further 997 overpayment cases currently under investigation. We would therefore expect significant outcomes from the existing NFI matches to continue to be reported throughout 2016, as these investigations are concluded. Based on the figures provided to date, realised by SFIS, these outcomes could exceed £6 million.
53. RTI should help local authorities and DWP identify fraud and error earlier, and indeed that appears evident from the NFI outcomes which have shown a sharp decline in the number of outcomes from earnings based matches. For example the housing benefit to pension matches outcomes have seen a 51 per cent reduction in the number of cases, and a 29 per cent reduction in associated overpayments. However, despite RTI, there are still £9.7 million of NFI overpayments across 3,794 cases from

earnings based matches (payroll and pension data). More work needs to be undertaken to fully understand why these may not have been identified by RTI at an earlier stage and to ensure duplication of effort is minimised whilst maximising fraud detection.

54. Now the transfer of responsibility for investigating housing benefit fraud from local authorities to the DWP FES is complete, we will work with both DWP and local authorities to ensure the arrangements for the next NFI are aligned correctly with the new environment.

State benefits

55. We have been working closely with the DWP over the last two years to understand how the NFI could assist more widely in their fight against fraud, specifically in pursuing individuals that deliberately withhold information. As a result of this collaboration, and for the first time, the NFI undertook data matching to state benefits on behalf of DWP. This included matching the NFI data to income support, job seekers allowance, employment support allowance and pension credit. The approach adopted mirrored the successful housing benefit matching. Following a limited pilot and subsequent evaluations, initial matches were released in January 2015 with a further release in December 2015. Together these matches identified overpayments for 2014/15 totalling £2.2 million.
56. Building on this success, we are already working with the DWP on plans to undertake a pilot data match using Universal Credit data in 2016/17.

Social housing

57. In 2015, the Department for Communities and Local Government (DCLG) reported that over 1.2 million families were waiting for social housing¹⁰. Identifying unlawful subletting would free up properties for those on the waiting list. Tenancy fraud should therefore be a key priority for councils and housing associations. The NFI helps to fight this fraud by undertaking data matching to:
- identify properties that are potentially being sublet unlawfully;
 - identify tenancies gained by deception; and
 - help social landlords verify their tenants' immigration status and identity.
58. The National Fraud Authority stated in the 2013 Annual Fraud Indicator¹¹ that the cost of housing tenancy fraud to local authorities is estimated to be £845 million per year. This was estimated to be the second largest area of fraud loss in local government. To address this, funding was made available to councils to tackle social housing fraud alongside the [Prevention of Social Housing Fraud Act 2013](#) which came into force in October 2013 and made tenancy fraud a criminal offence.
59. The NFI matches have enabled social landlords to recover 54 properties from those in unlawful occupation, and reallocate the properties to tenants in genuine need of

¹⁰ Department for Communities and Local Government, Statistical data set - Table 600: numbers of households on local authorities' housing waiting lists by district: England 1997 to 2015, [Department for Communities and Local Government](#), 21 January 2016.

¹¹ National Fraud Authority, [Annual Fraud Indicator](#), National Fraud Authority, June 2013.

them. In addition, two of the tenants were prosecuted. Case study 3 provides an example of housing tenancy fraud identified through the NFI data matching.

Case study 3: Housing tenancy

A housing tenancy to immigration match highlighted a case where a tenant had provided false immigration papers to obtain a tenancy with the council when he had never had the right to remain in the UK.

The investigation also revealed that a false passport had been provided to the Department for Work and Pensions when the claimant applied for job seekers allowance which also enabled him to claim housing and council tax benefit. Overpayments in this area total over £28,000. The tenant has been evicted and arrested, allowing the council to reallocate the property to someone in genuine need. The case is due to be heard in court.

Source: National Fraud Initiative 2016

60. However, in this context it is disappointing that, since our report in June 2014, there has been a decrease of 37 per cent and a continuation of the position we reported last time. This decrease, when compared to our previous reporting period of 86 properties, continues to be a trend (235 properties were recovered in 2010/11). It should be noted however, that the decrease in properties recovered goes beyond the NFI. The TEICAFF [Protecting the English Public Purse 2015](#) report outlined a 1.2 per cent decrease in the number of social homes recovered from tenancy fraudsters in 2014/15 in the UK, with London councils recovering 10.5 per cent fewer.
61. We will work with our key stakeholders in this area to better understand the reasons behind the decrease in properties recovered so we can enhance our data matching to better help tackle tenancy fraud.

Housing associations

62. Over 50 per cent of social housing in England is managed by housing associations, so it is disappointing that only 32 out of 1,582 of these private registered providers of social housing chose to take part in the NFI 2014/15. These 32 recovered six properties that were in unlawful occupation.
63. The National Fraud Authority, Annual Fraud Indicator 2013 estimated that, based on the total cost of housing tenancy fraud, the cost to the public purse of housing tenancy fraud against housing associations costs £919 million per year. Given the scale of the potential fraud loss to the public purse, it is vital that housing associations play their part in tackling tenancy fraud.
64. There are potential emerging considerations for housing associations including the extension of the Right to Buy (RTB) scheme to assured tenants of housing associations on a voluntary basis. No implementation date has yet been announced for the extension of the RTB scheme, although a pilot scheme with five associations is underway.
65. In addition, as a result of a consultation exercise in 2012, social landlords in England were given the discretion to charge market or near market rents to tenants with an income of £60,000 or more a year. It was agreed that high income families should not

be paying social rents when they could afford to pay more. The scheme, known as 'pay to stay', was announced as part of the Summer Budget 2015. The Chancellor set out that this discretionary 'pay to stay' scheme would be made compulsory (in England) and measures to introduce a mandatory pay to stay scheme for local authorities are included in the [Housing and Planning Act 2016](#)¹². The scheme will remain discretionary for housing associations.

66. We will continue to monitor the implementation of these new policies and seek to understand any associated fraud risks for housing associations and how our data matching can be enhanced to better help them mitigate any risks.

Housing waiting lists

67. As stated above, DCLG reported¹³ that, as of 1 April 2014, the number of households on local authority social housing waiting lists was 1.2 million. Removing applicants from the housing waiting list who are not eligible for social housing will therefore enable local authorities to allocate social housing to those in genuine need.

68. To help, and in line with the NFI strategy to target more preventative data matching (in this case stopping someone obtaining social housing from the outset), a pilot data match was introduced in 2012/13 to target this fraud risk. The match was refined as a result of the 2012/13 pilot and offered again in 2014/15. 61 local authorities across the country provided housing waiting list data for this second pilot match.

69. The data matching is able to identify people who are not eligible for social housing or have misrepresented their circumstances on housing waiting list applications. Those not entitled can then be removed from the housing waiting list and prevented from accessing social housing. The data matching helps identify:

- an undisclosed social housing tenancy;
- an undisclosed change in circumstances;
- the unreported death of the applicant; or
- an applicant that is not entitled to social housing, for example, because of their immigration status.

70. As a result of the further pilot, over 700 applications have been removed from housing waiting lists bringing the total outcomes for the pilot since it began to over 3,000 removals. Local authorities themselves have estimated that this has prevented losses of almost £20 million. As a result, and following consultation, we have added housing waiting list data as a mandatory requirement in the NFI 2016/17.

Right to buy

71. The NFI matches data relating to housing tenants that have bought, or are in the process of buying, their council property at a discount as part of the Right to Buy (RTB) scheme. The match, to housing benefit and other tenancy records, enables councils to identify potential cases where the applicant may have provided false

¹² <http://services.parliament.uk/bills/2015-16/housingandplanning.html>

¹³ Department for Communities and Local Government, Statistical data set - Table 600: numbers of households on local authorities' housing waiting lists by district: England 1997 to 2015, Department for Communities and Local Government, 21 January 2016.

information in support of the RTB application. It also identifies changes of circumstances, such as the former tenant selling the property within the discount period. This means that some, or all, of the discount amount could be repaid to the council.

72. In April 2012, in an effort to increase the opportunity for council tenants to own their own home, the government significantly increased the RTB discount in England to a maximum of £75,000.
73. In March 2013, the maximum discount for London increased to £100,000, and in July 2014 the maximum percentage discount for a house was increased further to 70 per cent; the maximum cash cap now increases in April every year in line with inflation. The maximum discounts are currently £77,900 across England and £103,900 in London. Eligibility rules also changed to allow people who have spent three years as a public sector tenant, instead of the previous five years, to exercise their Right to Buy.
74. The Audit Commission's [Protecting the Public Purse 2014](#) report recommended that councils should be alert to the risks as a result of these changes.
75. However, the NFI outcomes do not reflect an increased fraud risk in RTB, as councils have only reported stopping four applications that were in progress, compared to 21 in the previous reporting period.
76. This may indicate that the fraud risk is not as big as other indicators suggest or that NFI is not currently an effective tool to identify RTB fraud. We will work with councils to establish the underlying reasons and whether improvements are necessary.

Concessionary travel

77. Since 2008 the English National Concessionary Travel Scheme (ENCTS) has enabled eligible older people¹⁴ and disabled people to access free off peak travel on local bus services anywhere in England. In London, the statutory concession for London residents covers the whole London Local Transport Network, including the London underground and trams.
78. ENCTS is administered locally by Travel Concession Authorities (TCAs). These include County Councils, Unitary Authorities, Passenger Transport Executives and London Boroughs. In 2014/15 there were 9.8 million concessionary pass holders in England, and one billion concessionary journeys were made during the financial year¹⁵. In 2014/15 TCAs in England spent a total of £1.2 billion¹⁶ on the concessionary travel scheme.
79. Each concessionary travel pass is usually valid for up to five years, so the opportunity for fraud can therefore be significant. Outside London, the Department for Transport estimates that, up to £55 million a year could be saved in England by tackling fraudulent use of concessionary travel cards¹⁷. Similarly, the South Yorkshire

¹⁴ Eligibility for a pass for both men and women is based on the State Pension age for women.

¹⁵ Department for Transport, [Concessionary Travel Statistics: England](#), 29 September 2015.

¹⁶ This includes all aspects of the scheme for both the statutory and discretionary elements, including reimbursement to bus operators' administration, pass production costs and employee costs.

¹⁷ ITSO, [ITSO News](#), February 2014, page 1.

Passenger Transport Executive carried out research that estimated concessionary travel pass fraud was costing them an estimated £750,000 per year¹⁷.

80. The NFI data match targets this fraud risk by identifying cases where the holder of a concessionary travel pass is identified as deceased. In this exercise the number of concessionary passes either updated, cancelled or hot-listed (the act of stopping/deactivating the deceased matched cards) is 97,064. This is a 24 per cent increase on the 78,443 reported last time.
81. We estimate the value of fraud detected and prevented associated with each pass is £24. As a result the total associated value of fraud and error detected and prevented for 2014/15 stands at £2.2 million.
82. The 24 per cent increase in passes cancelled, updated or hot listed may be linked to the roll out of smart ticketing systems across the UK which have meant some ENCTS operators have been able to introduce new technology to help hot-list invalid passes using data sources such as NFI. ENCTS operators can now hot-list passes centrally, and then flag them in the smart ticketing system which then enables drivers to confiscate passes directly at the point of travel. This then prevents invalid or fraudulent travel far more easily than would have been the case previously. This has meant there is also an increased incentive for ENCTS operators to utilise the NFI concessionary travel matches.

Blue badges

83. Unitary authorities and county councils are responsible for awarding blue badges, which provide a range of parking concessions for people with severe mobility problems, who have difficulty using public transport. In London, this concession extends to the congestion charge.
84. Fraudsters exploit the scheme by forging badges and stealing badges from cars. Abuse also occurs when badges remain in use, or are renewed by someone, after a badge holder has died. The NFI data match identifies cases where a Blue Badge is in circulation but the owner of the badge is identified as deceased. It also identifies holders of more than one badge, which is not allowed under the scheme.
85. In this reporting period, the 23,063 Blue Badges cancelled represents an eight per cent increase on the 21,278 cancelled in the previous reporting period. This has reversed the decrease in the number of badges cancelled in the previous two reporting periods, suggesting that the NFI matches still provide a valuable, additional tool to the Blue Badge Improvement Service¹⁸ in the fight to prevent and detect fraud.
86. The estimated value of cancelling a blue badge, which represents an estimation of the fraud to date plus future losses prevented, has been increased from £500 to £575. Therefore the total monetary value associated with cancelling these Blue Badges is £13.2 million for this reporting period.

Immigration

¹⁸ <https://www.gov.uk/government/speeches/blue-badge-improvement-service>

87. The NFI matches data from the Home Office on immigration offenders and expired visas against data from other participants such as housing benefit claims, employee payroll records and social housing tenants.
88. Aggregate outcomes across the NFI datasets for this reporting period amount to £7 million and include:
- the dismissal or resignation of 52 employees from 139 organisations, including local authorities, NHS hospitals and NHS Foundation Trusts;
 - councils and the DWP identifying 149 housing benefit overpayments amounting to £2.6 million;
 - the recovery of 13 social housing properties; and
 - employers identifying £3 million of salary payments to illegal workers.
89. Case study 4 provides an example of how the NFI matches discovered someone working illegally.

Case study 4 - Immigration

A payroll to immigration match identified an employee of a council who had managed to gain employment in 2009 as an assessor in Adult and Community Services. However, investigations carried out as a result of an NFI match showed that the employee did not have permission to work in the UK and had used forged identity documents to secure employment. The employee was immediately suspended and then subsequently resigned. When the employee was asked to attend an interview under caution they failed to attend due to illness and stress, on three separate occasions.

The Council is now seeking to prosecute the former employee. Over six years the employee was paid in excess of £160,000. The Council now uses the latest identity authentication software in all recruitment cases to ensure that any attempts made by persons seeking employment when using false identity documents are identified at the outset.

Source: National Fraud Initiative 2016

90. The Home Office have utilised the results of the NFI data match to investigate immigration and asylum support cases, and have identified a number of individuals who have left the UK, post-NFI matching. Through the use of the NFI mortality screening service they have also closed over 130 cases.

Payroll

91. Employee fraud poses a serious risk to organisations. Exposure needs to be minimised through adequate internal checks and controls and anti-fraud initiatives. Employers should regularly raise awareness of the severity of the action they will take if an employee is found to be committing fraud.
92. The NFI matches payroll data to help identify employees who are potentially committing fraud. The matching may be linked to immigration, as set out above. Alternatively, it might show someone working for two employers, for example, when the individual is on long term sick leave for one of the jobs and is not entitled to work

elsewhere at the same time. Case study 5 provides an example of a fraud case identified by the NFI.

93. We have seen a decrease of £5 million in reported payroll related outcomes. This is contrary to the increases we have seen in the previous two exercises (where outcomes increased by £2 million for each exercise). The decrease appears to be linked to a fall in the number of immigration cases reported by participants and the associated cumulative salary payments to the illegal workers. One reason for this could be that bodies have been able to put in place effective mechanisms to identify illegal working, such as identifying fraudulent documents at the point of employment, using identity authentication software packages. Going forward, we will monitor outcomes and undertake a review to establish whether this is a trend that we need to respond to.

Case study 5 - Payroll

A payroll to payroll match helped to identify a 58 year old woman who had been working for two health based trusts simultaneously by working in one post while suspended from the other. As a result, the woman was dismissed from her substantive post in July 2015, and also removed from the nurse bank at the other trust. Investigations revealed she had failed to declare her secondary employment, and had also failed to declare a previous conviction.

Source: National Fraud Initiative 2016

94. Payroll matches also identify fraud through undeclared conflicts of interest. This is done by matching payroll to creditor payments data. Whilst there are some encouraging results for this relatively new match, we expect these to be even better in future exercises now the NFI has secured access to Companies House data.
95. Investigations into the NFI payroll matches (excluding immigration cases) have enabled employers to dismiss or seek resignation from 42 employees.

Creditor payments

96. Creditor payments matches continue to produce significant outcomes with over £4.4 million of wrongly paid duplicate invoices identified across more than 200 organisations. This is a 16 per cent reduction from the previous exercise. Case study 6 provides an example of a case identified by the NFI.

Case study 6 – Creditor payments

An NFI match helped one government department identify a duplicate payment in excess of £300,000. This duplicate invoice was raised by a supplier in error and was not identified by the invoice approval process. Once identified, through the NFI, the supplier was contacted and the payment was refunded immediately.

Source: National Fraud Initiative 2016

97. Much of this reduction is thought to be due to many creditor systems now having integrated validation routines that will prevent many duplicate invoices entering the system prior to payment. This is supported by a more detailed analysis of the NFI reports containing duplicate invoices that have certain features that are more difficult to detect by system validation software, for example, where apparently different suppliers seem to be submitting identical invoices. These NFI matches have delivered £1.3 million of the NFI outcomes, with an average success rate around ten times higher than that of the standard duplicate invoice matches involving the same supplier. Consequently, for future exercises, we are aiming to focus our attention on those matches that are less likely to be prevented through the existing local arrangements.
98. As well as helping to identify duplicate payments, we are also aware that some organisations have utilised the duplicate creditor matches to carry out housekeeping exercises on their supplier databases. This is particularly useful when migrating to new systems but at all times reduces the risk of accidental or fraudulent payments being made to spurious suppliers.

Payments to private residential care homes

99. The cost of social care is rising and demands on social care services are growing. This is partly linked to the ageing population, with ONS figures showing that the number of people aged over 85 increased by 30 per cent between 2005 and 2014¹⁹ so it is key that funding in these areas is not lost to fraud.
100. According to Prestige Nursing + Care research²⁰, the average annual cost for a room in a care home now exceeds £29,000, which is more than double the average pensioner's income of £14,300. Where councils agree that a resident needs to move into a residential care home, they may pay part or all of the care home's fees.
101. The NFI matches information about private residential care home payments to deceased persons' records to identify where payments are continuing for people who have died. These overpayments can carry on undetected for some time, diverting council resources away from genuine causes.
102. The NFI match helped identify 263 such cases amounting to £1.6 million. The overpayment has been, or is being, recovered in 99.8 per cent of cases which is an improvement on the previous reporting period where 71 per cent of overpayments were recorded as being recovered.

Personal budgets - direct payments

103. A personal budget is a sum of money that a council allocates to an adult (user) to meet their assessed needs for care and support. The user can choose how their budget is paid and how money is used. Personal budgets can be managed by the council, which commissions services for the user, or given to the applicant or the

¹⁹ http://www.ageuk.org.uk/Documents/EN-GB/Campaigns/CIC/Care_in_Crisis_report_2014.pdf?epslanguage=en-GB?dtrk%3Dtrue

²⁰ <http://www.prestige-nursing.co.uk/news/care-home-price-hikes-overtake-pensioner-income-growth/>

carer as a direct (cash) payment so they can buy their own care and support services.

104. In 2014 the Health and Social Care Commission reported 153,000 people were in receipt of direct payments (this was up from seven per cent from 2012/13)²¹. In 2014/15 total expenditure on personal budget direct payments amounted to £1 billion²².
105. The NFI match helps councils to identify where:
- a recipient is deceased and a relative, family member, or carer has failed to notify the council;
 - there has been a duplicate registration either within or between authorities;
 - a person has failed to disclose some income sources such as a pension; or
 - a fraudulent identity has been used by someone to apply for a personal budget.
106. Personal budget direct payments data was included as a mandatory match for councils in the 2014/15 exercise, as a result of a successful pilot carried out in 2012/13. In total, across 113 cases, £377,000 in overpayments were identified by the NFI, as well as £124,000 of estimated future savings. 99 per cent of the overpayments are being recovered by the administering organisations.
107. Case study 7 provides an example of a fraud case identified by the NFI.

Case study 7: Personal budgets

The new personal budget to deceased data match helped one local authority identify a payment where the recipient had already deceased. Payments had continued for over 16 months without the death being detected. The authority are seeking a prosecution and are aiming to recover in excess of £16,000 using the [Proceeds of Crime Act 2002](#).

Source: National Fraud Initiative 2016

108. In response to suggestions from participants, we also carried out further pilot work on personal health budgets, administered by clinical commissioning groups (CCGs). Adults eligible for NHS Continuing Healthcare have had a legal right to have a personal health budget since October 2014. In total, fourteen CCGs participated in this work and there were only limited outcomes as caseloads are still quite low (currently estimated to be 4,000 cases)²³. The NHS expect this to be a growing area of work and the number and value of cases will increase. There is a mandate in place, which means that by 2020 between 50,000 to 100,000 people will be in receipt of a personal health budget or integrated personal budget²⁴. We will therefore

²¹ Health and Social Care Information Centre, Community Care Statistics, Social Services Activity, England - 2013-14, Provisional release, July 08, 2014.

²² Health and Social Care Information Centre, Personal Social Services: Expenditure and Unit Costs England 2014-15, Provisional release, September 2015, page 6.

²³ Department of Health, The Government's mandate to NHS England for 2016-17, January 2016, page 13 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494485/NHSE_mandate_16-17_22_Jan.pdf

²⁴ Department of Health, The Government's mandate to NHS England for 2016-17, January 2016, page 13 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494485/NHSE_mandate_16-17_22_Jan.pdf

continue to monitor this area and revisit at an appropriate time in the future, should the fraud risk increase.

Fraudulent identity data

109. Operation Amberhill is an initiative led by the Metropolitan Police Service. The team collate and distribute data on false identities and share it with counter crime partners, including the NFI, to help detect fraud. This data consists of approximately 100,000 records²⁵ mainly of counterfeit and forged passports, national identity cards and driving licences which are manufactured or obtained by organised criminal gangs. The Amberhill data also includes fraudulently obtained genuine UK driving licences.
110. The resulting data matches differ from those traditionally identified by the NFI and, as such, require a different follow up approach. Identity documentation checks are required as part of the investigation process to be able to determine whether a fraudulent identity has been used. This is particularly important given the possibility that the matched person may be a victim of the identify fraud rather than a fraudster.
111. Data matches helped identify one case where the person was prosecuted using the Fraud Act 2006. A further eight cases of victim ID theft were identified and one police caution for use of a fraudulent identity. A further case was identified where an employee had gained employment using a fraudulent identity. The salary paid to this person totalled £369,000. More details on this can be seen in case study 8. One housing tenant was also removed from their social housing and payments to the recipient of a residential care home place were stopped as a consequence of the data matching.

Case study 8: Amberhill false identity

A payroll to the Met Police Amberhill false identity data match identified a 47 year old employee of Transport for London who had gained employment in 2007 after producing a genuine UK passport which had previously been fraudulently obtained using a fraudulent birth certificate.

The match led to investigations in which the Amberhill team confirmed the employee's identity as genuine but the passport as being a fraudulently obtained genuine document. The employee had no right still to be in the UK, having overstayed his student visa, or to work in the UK.

The employee pleaded guilty in court to the two fraud offences he was charged with (obtaining the passport by deception and fraud by false representation) and was sentenced to six months imprisonment suspended for two years and was also ordered to pay a court charge of £180 and a victim surcharge of £80. Transport for London dismissed the employee and are now looking to recover monies paid into the pension fund. His status in the UK is being reviewed by the authorities.

Source: National Fraud Initiative 2016

²⁵ <http://news.met.police.uk/news/100-000th-fraudulent-document-recovered-126134>

112. [*Sir Eric Pickles' independent review into electoral fraud \(August 2016\)*](#) highlighted the links between electoral fraud/identity fraud to other benefit and financial fraud. In their evidence to the review, the National Police Chief's Council noted that analysis from Operation Amberhill had linked false electoral registrations with fraudulent applications for credit, benefits and other financial products; the fraudulent electoral roll entry was the means of creating a false identity footprint. Evidence to the review by the London Electoral Management Board (representing London returning officers) also warned that phantom registrations are made to facilitate fraudulent access to credit, services and benefits, as the electoral register becomes de facto evidence of residence. The Government is now carefully considering the recommendations of the review on tackling electoral fraud.

Chapter 5 - How can organisations make better use of the NFI?

This chapter looks at how organisations can get the most out of the NFI and considers how the NFI is used at an operational level.

113. The total of £198 million fraud, overpayment and error in England and the £1.2 billion identified since the NFI began is significant, but there are still opportunities for participants to achieve better results by making small improvements.
114. In this chapter we :
- comment on the challenges the organisations taking part in the NFI have faced in the past two years;
 - report how effective organisations have been at following up the data matches;
 - look again at specific areas where improvements could be made; and
 - comment on the possibility that significant levels of fraud and error go unreported or undetected.

Participants' capacity and capability for investigating fraud

115. As part of our proactive engagement with the organisations that participate in NFI, such as our NFI User Advisory Group, local authorities have reported that their counter fraud resourcing capacity continues to reduce, and that a divergence in the capability of participants to combat fraud is emerging. The view is that this appears to have arisen from the transfer of investigation resource to the DWP Fraud and Error Services, where all benefit fraud is now investigated in one place, alongside the challenge of delivering budget reductions whilst maintaining front line services. Participants have stated that this has impacted on the effectiveness of the follow-up arrangements for the NFI matches.
116. Some participants have explained how they sought innovative ways to resource their counter fraud work, including consortium and shared partnership arrangements, or by increasing the fraud awareness of general employees. The NFI Team has also observed that participating organisations are increasingly integrating data matching techniques into their operational systems, for example duplicate creditor payment checks and deceased persons matching. There also appears to be increasing interest in the better use and sharing of data both internally and externally. For local authorities, this aligns with the vision set out in [The Local Government Counter Fraud and Corruption Strategy 2016-2019](#) that “local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses”.
117. These approaches align with recent extensions to the NFI product range to incorporate fraud hub functionality (NFI FraudHub) and a point of application tool (NFI AppCheck), which can be integrated into existing internal controls. We are therefore now working closely with participants to understand how these services can

be embedded in their systems as anti-fraud controls to reduce fraud while not stretching counter fraud investigative capacity further.

The effectiveness of follow up arrangements

118. For the NFI 2012/13 we were able to ask external auditors of mandatory NFI participants to assess the arrangements in place for taking part in the NFI and for following up data matches. For the NFI 2014/15, following the closure of the Audit Commission, we no longer have the same direct working relationship with the external auditors. Therefore we developed our own multi-criteria based risk assessment to review the progress that organisations were making with investigating their data matches to identify any that appeared not to be engaging effectively with the exercise.
119. The risk assessment looked at factors such as organisations not:
- opening all or many of the NFI reports;
 - reviewing guidance and training materials;
 - investigating data matches flagged as high risk;
 - following up issues promptly; and
 - meeting suggested milestones.
120. We followed up the risk assessments and gave support to organisations where it was needed. Many of these organisations have since taken action to address the weaknesses. Only one organisation is deemed to have failed to engage effectively by not reviewing any of their matches:
- NHS West Lancashire CCG.
121. In addition, the following organisations failed to provide the data required under statute without reasonable excuse:

CTSPD 2013/14

- North Norfolk District Council failed to provide Electoral Register data²⁶.

NFI 2014/15

- Bassetlaw District Council failed to provide Housing Tenants and Right to Buy data;
- Isle of Wight Council failed to provide Personal Budgets and Private Residential Care Homes data;
- Mendip District Council failed to provide Residents Parking Permit data; and
- West Hertfordshire Hospitals NHS Trust failed to provide Trade Creditors History and Trade Creditors Standing data.

CTSPD 2015/16

- Mendip District Council failed to provide Electoral Register and Council Tax.

²⁶ Data was provided for the subsequent CTSPD 2015/16.

Specific opportunities to improve

122. The NFI Team continue to encourage organisations to review and investigate the matches efficiently and effectively. This enables them to make better use of their limited resources. However, we remain concerned that some could and should do more. The types of improvement that can be made are listed in Table 4.

Table 4 - **How can organisations taking part work more effectively?**

How do I ensure ...	Responses
..... that I am using the NFI software efficiently?	Ensure you and the staff within your organisation that are working on the NFI matches keep up to date with new features of the web application and good practice by reading the guidance notes and watching the online training modules before they begin work on the matches.
..... that I act upon the matches that are time critical so I identify overpayments at an early stage?	Key contacts should schedule staff resources so that time-critical matches, such as housing benefit to students and payroll to immigration can be dealt with as soon as they are received.
..... investigations across internal departments are coordinated to avoid duplication of effort or delays in identifying overpayments?	Key contacts should coordinate investigations across internal departments and, for example, organise joint investigation of single person discount matches involving housing benefit, to ensure all relevant issues are actioned.
..... I only spend time looking at matches that meet local fraud risks?	Use the tools within the web application, such as the filter and sort options or data analysis software, to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations.
..... that enquiries from other organisations that take part in the NFI are responded to promptly?	The web application shows the number of shared comments which require a response. These responses should be prioritised if they relate to an ongoing investigation so that it can be progressed promptly.
.... data quality issues that are highlighted within the web application are addressed before the next NFI exercise?	Review the quality of the data supplied before the next exercise as external providers normally have to phase in changes to extraction processes. Better data quality will improve the quality of resulting matches.
..... I prioritise employee fraud recovery and the use of civil sanctions?	Develop capability and capacity to punish fraudsters, ensuring that investigations are not abandoned if the individual resigns, leaves the property etc. Seek, through collaborating with law enforcement and the courts, the recovery of defrauded funds.
Source: National Fraud Initiative 2016	

123. [The Local Government Counter Fraud and Corruption Strategy 2016-2019](#) (page 15) states that "*Many local authority practitioners reported that the capacity to tackle fraud and corruption was likely to be reduced, or had already been reduced, as a result of austerity-related local authority funding reductions*". It is important therefore that all organisations adopt this good practice to ensure they use the valuable resources they invest in the NFI more effectively. Equally, with new participants regularly joining the NFI, it is vital that these organisations adopt good practice from the outset.
124. As many of the messages have been highlighted previously, the NFI team will continue to look for new ways to communicate these messages more clearly to help participants maximise the benefits from the NFI.
125. As well as piloting new data matches through our pilot programme, we will also look at what other techniques are being used to identify fraud to see if they can enhance the NFI, for example reducing the false positive rate of the NFI matches. This will include evaluating and applying, if appropriate, recent advancements in data matching techniques from academic research.

Under reported/identified fraud

126. The National Audit Office (NAO) [Fraud Landscape Review 2016](#) noted that the exact scale of fraud within the government is unknown. It also reported that there could be significant²⁷ fraud and error that is unreported or undetected and losses that are not being adequately addressed. The NAO report that this is in part because of: large gaps in knowledge about fraud losses; methods to measure fraud accurately are still developing; and because fraud reported to investigative authorities is only a small proportion of the fraud detected.
127. The National Fraud Initiative is a tool that can be used by organisations, both central and local Government, as part of an overall strategy to proactively look for fraud. By its nature, fraud can be a hidden crime, which means the use of proactive tools and techniques to detect fraud is an important part of a cohesive response to fraud. We will therefore work with public sector bodies to ensure that the tool provides them with the maximum assistance.

²⁷ The UK figure of 0.02% of expenditure compares with estimates of 3% to 5% in the European Union and United States. (National Audit Office).

Chapter 6 - Looking to the future

This chapter looks at the future development of the NFI and what its focus will be.

128. The next 18 months represents a key time for the NFI. We will deliver the next biennial batch data matching, NFI 2016/17, and at the same time we will look to maximise the benefits of the recent investment in the NFI product range and the move to the Cabinet Office, through growth in a number of key areas.
129. Specifically we will focus on:
- fraud prevention through utilisation of the AppCheck product;
 - new emerging risks;
 - providing links to key third party datasets;
 - strong engagement from key government departments;
 - product development, seeking to embed links to the NFI in key suppliers software so there are multiple entry points to relevant NFI services;
 - extension of our legislative powers;
 - publication of a NFI strategy for 2016 - 2020
130. We will also continue to work with the DWP and councils to ensure the benefits of the NFI are maximised now the DWP SFIS is fully operational.

Increased focus on fraud prevention

131. We have invested significant resource in developing the AppCheck product to facilitate point of application checking. This preventative service complements the traditional detection tools and allows us to support organisations to stop fraudulent applications from being successful. Stopping them at the point of application reduces administration and future investigation costs.
132. Following a series of pilots, we launched the full service in 2015/16 and now have a number of early adopters utilising this service, including all local authorities in Wales, following support from the Welsh Government. We are working with these organisations to ensure they maximise the benefits of participation, including rolling it out across all relevant internal departments. Alongside this, we will work more widely across all stakeholders to evaluate how AppCheck could support delivery of their fraud prevention and detection strategies.

Emerging risks

133. Following successful pilots, we have extended the remit of the NFI 2016/17 to include social housing waiting list data and council tax reduction scheme (CTRS) data.
134. Social housing waiting list data has been piloted over NFI 2012/13 and NFI 2014/15. In total across the pilots, 3,000 applicants have been removed from a social housing waiting list. The local authorities removing these applicants have estimated savings at almost £20 million. This data match is designed to prevent fraudulent tenancies before they occur, potentially reducing the number of future cases and subsequent

cost of tenancy fraud. Mandating this data aligns with the NFI work in fraud prevention.

135. Following the replacement of council tax benefits by locally administered council tax reduction schemes in April 2013, CTRS data matching was piloted in NFI 2014/15 to capture fraud in this area. 51 local authorities took part in the CTRS pilot as part of the NFI 2014/15, with matches released in July 2015. With work still on-going, fraudulent and erroneous overpayments prevented and detected stand at £250,000. Based on these figures, it is estimated that mandating this dataset for NFI 2016/17 would prevent and detect fraudulent and erroneous CTRS overpayments worth around £1.5 million.
136. We will continue to develop the NFI to meet new fraud risks by:
- listening to the concerns raised by organisations about emerging challenges facing them;
 - working with key stakeholders in the public and private sectors;
 - working with the Fighting Fraud and Corruption Locally Board, local authorities and others to ensure the NFI supports the implementation of [The Local Government Counter Fraud and Corruption Strategy 2016 -2019](#); and
 - encouraging suggestions on emerging fraud risks that NFI could assist to tackle.

Third party data

137. We continue to seek to identify third party datasets that will add benefits to NFI participants. We are:
- piloting the use of data from Companies House and Cifas²⁸;
 - evaluating the benefits that financial and insurance sector data offers; and
 - in discussions with credit reference agencies (CRA's) about allowing NFI participants, on a voluntary case by case basis, to make a call out from the NFI web application to check the data submitted against the CRA data. The results could be integrated back into the NFI web application. Providing the potential to combine referral results in this way would offer another more unified option to organisations in their fight against fraud.
138. As always we welcome feedback from anyone who feels they can suggest datasets that would improve the NFI.

Government department engagement

139. Central Government departments can choose whether to engage with the NFI on a voluntary basis. We are pleased to say that the engagement of these departments improved in NFI 2014/15.

²⁸ <https://www.cifas.org.uk/>

140. In addition to the continued support that some government departments give by providing data about housing benefit claimants, deceased persons, student loans and immigration status, other engagement included:
- DWP: undertook data matching on state benefits data following the successful housing benefit matching logic. As well as identifying fraud and error for the DWP, this data is now available to help prevent and detect fraud for other participants. In addition, we are delivering a Household Composition pilot for DWP, which aims to identify fraud where there are undeclared persons living at the claimant's address, by matching a wide range of data from across the public and private sectors. Going forward we also have a pilot on Universal Credit scheduled for autumn 2016.
 - Pension Fraud: key government schemes submit pension records for deceased checks and abatement checks, leading to £3.2m of fraud and error being prevented and detected.
 - Student Loans Company: supply student loans information which led to over £10 million of housing benefit fraud being detected and also student loan fraud prevented and detected by checking immigration status of claimants.
 - Legal Aid: as well as submitting payroll and creditor information Legal Aid are piloting the AppCheck product.
 - Land Registry: a pilot to target property fraud is underway.
 - HMRC: providing data to feed into a pilot targeting living together fraud in benefits.
 - Charity Commission: agreement to undertake a pilot.
 - Department for Health: a pilot is underway to establish the benefits NFI can offer in helping reduce fraud and error in European Health Insurance Cards.
141. As the NFI forms part of the Cabinet Office Fraud, Error, Debt and Grants team portfolio, it is now aligned with the wider government strategy for fraud and error. This strategy includes liaising with key departments to explore how the NFI can be developed to best assist them to effectively target their specific fraud risks, as well as exploring whether they have data which could be used to better target fraud against other public sector organisations.

NFI product development

142. Over the last two years we have invested significant resources on our product range to ensure we offer flexible products suited to both fraud prevention (AppCheck) and detection (ReCheck).
143. We are now focused on providing more flexible access to the NFI product range. This will include engaging with relevant third party system suppliers to seek to integrate AppCheck into their systems. The aim is to enable participants to automatically access AppCheck through external systems they are already using, for example, existing case management systems. We are also seeking to integrate all the NFI products so they can all be accessed through one single portal.

Legislative powers extension

144. The Local Audit and Accountability Act 2014 (LAAA) allows for the Cabinet Office to seek to extend the permitted purposes of data matching to assist in the:
- prevention and detection of crime (other than fraud);
 - apprehension and prosecution of offenders;
 - prevention and detection of errors and inaccuracies; and
 - recovery of debt owing to public sector organisations.

These amendments to the purposes can be secured by regulation following consultation, as set out in LAAA 2014, Schedule 9, section 8 (1).

145. During the next two years we intend to commence this consultation.

NFI Strategy

146. We will publish, following consultation with participants and stakeholders, a strategy for the NFI for the period 2016 to 2020. In this we will outline our plans for developing the NFI products and performance metrics to better inform our continuous improvement, widening the range of data, and embracing new technology to ensure that the NFI continues to develop to meet the needs of participants. The strategy also includes undertaking a review of the NFI, which will include a review of:
- right to buy fraud, in conjunction with external parties, that will consider implementation of relevant new policies, seek to understand any associated fraud risks with the aim of identifying how the NFI matching can better assist housing providers; and
 - immigration fraud to determine why there has been a reduction in the number of illegal working cases found through the NFI.
147. This strategy will shape the requirements for our procurement, in 2017/18, of the specialist IT resources required to deliver the NFI.

Appendix 1 - Report calculations (England)

An explanation of how we calculate the figures for frauds, overpayments and outcomes used in the report is shown in the following table. These estimated losses prevented represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

Table 5: Report calculations

Data Match	Fraud Detected (£million)	Estimated (£ million)	Total (£million)	Basis of calculation of estimated outcomes
Pensions	11.4	73.6	85.1	Annual pension multiplied by the number of years until the pensioner would have reached the age of 85 ²⁹
Council tax SPD	13.7	23.7	37.4	Annual value of the discount cancelled multiplied by two years
Welfare benefits ³⁰	29.8	9.4	39.2	Weekly benefit reduction multiplied by 21 weeks ³¹
Housing Waiting List	0.0	1.0	1.0	Recorded by participants
Blue badges	0.0	13.2	13.2	Number of badges confirmed as deceased multiplied by £575 to reflect lost parking and congestion charge revenue ³²
Payroll	2.8	2.2	5.0	£5,000 per case (£10,000 for immigration cases) and £50,000 for a removal from the UK
Tenancy fraud	0.0	6.0	6.0	£93,000 per property recovered based on average four year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies ³³ £53,000 per property recovered in Northern Ireland ³⁴

²⁹ Following a review in February 2016, the 'pensioner age', for outcomes from NFI 2014/15, has been reduced from 90 to 85, to align with the latest average life expectancy for pensioners at age 65.

³⁰ This includes housing benefit, state benefit and council tax reduction scheme.

³¹ Following a review in February 2016, the estimated duration of overpayments, for outcomes from NFI 2014/15, has increased from 13 weeks to 21 weeks to align with the methodology used by DWP to calculate future overpayments prevented from detecting and stopping fraud and error.

³² Following a review in February 2016, for outcomes from NFI 2014/15, this estimate has increased from £500 to £575 to reflect research and statistics relating to blue badge fraud.

³³ Following a review in February 2016, for outcomes from NFI 2014/15, this estimate has increased from £75,000 to £93,000 to reflect statistics relating to tenancy fraud.

³⁴ Based on the same tenancy fraud methodology for non NI authorities, with parts of the calculation aligned with regional statistics.

Data Match	Fraud Detected (£million)	Estimated (£ million)	Total (£million)	Basis of calculation of estimated outcomes
Trade creditors	4.5	0.0	4.5	
Private residential care homes	1.7	1.8	3.5	£7,000 per case based on average weekly cost of residential care multiplied by 13 weeks
Right to buy	0.0	0.3	0.3	£65,000 per application withdrawn based on average house prices and the minimum right to buy discount available ³⁵ This estimate has the following regional variations: <ul style="list-style-type: none"> London: £104,000 per application withdrawn to reflect the maximum value of Right to Buy discount available for London properties³⁶ Northern Ireland: £31,000 per application withdrawn based on average house prices and minimum right to buy discounts in Northern Ireland³⁷
Concessionary travel	0.0	2.2	2.2	Number of passes cancelled multiplied by £24, based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme
Personal Budgets	0.4	0.1	0.5	Monthly reduction in personal budget payment multiplied by three months
Other immigration	0.9	0.4	1.3	£50,000 for a removal from the UK
Total³⁸	65.2	132.9	198.2	
Source: National Fraud Initiative 2016				

³⁵ Following a review in February 2016, this estimate has increased from £52,000 per case, for the outcomes from NFI 2014/15, to reflect changes to the Right to Buy policy and increases in average house prices.

³⁶ Maximum Right to Buy value applied for London to reflect the London property market.

³⁷ Estimate calculation reflects Right to Buy policy and average house prices in Northern Ireland.

³⁸ The amounts included in this table relate to England results only and are subject to rounding.

Appendix 2 - Examples of the data matches the NFI undertakes

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Failing to declare an income while claiming housing benefit.
Payroll records to records of failed asylum seekers and records of expired visas.	Obtaining employment while not entitled to work in the UK.
Blue badge records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council tax payer gets council tax single person discount but the person is living with other countable adults, and so does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Source: National Fraud Initiative 2016

References

National Fraud Authority, [Annual Fraud Indicator](#), National Fraud Authority, June 2013.

Audit Commission/Cabinet Office, [Code of Data Matching Practice](#), Audit Commission, July 2008.

HM Government, [Local Audit and Accountability Act 2014](#), The Stationery Office Limited, 30 January 2014.

Audit Commission, [Protecting the Public Purse 2014: fighting fraud against local government](#), Audit Commission, October 2014.

HM Government, [Prevention of Social Housing Fraud Act 2013](#), The Stationery Office Limited, 31 January 2013.

HM Government, [Housing and Planning Act 2016](#), The Stationery Office Limited, 12 May 2016.

HM Government, [Proceeds of Crime Act 2002](#), The Stationery Office Limited, 24 July 2002.

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Audit and Risk Committee

12 December 2016

Report title	Annual Governance Statement – Action Plan Update	
Accountable director	Mark Taylor, Finance	
Originating service	Audit Services	
Accountable employee(s)	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendations for noting:

The Committee is asked to note:

1. The progress made in addressing the key improvements areas identified in the 2015/16 Annual Governance Statement action plan.

1.0 Purpose

- 1.1 The Council is required under Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulation 2006 to produce an Annual Governance Statement to be included in the annual statement of accounts, which is signed by the Leader of the Council and the Managing Director.

The statement draws upon the management and internal control framework of the council, especially the work of internal and external audit and the council's risk management arrangements. In compiling the statement assurance is obtained from a range of sources in order that the signatories to the statement can assure themselves that it reflects the governance arrangements for which they are responsible. Following this exercise a list of key improvement areas were identified.

2.0 Background

- 2.1 Appendix A of this report has an action plan listing the key areas for improvement that were identified at the time of the compilation of the Annual Governance statement, and updates the Committee on the actions that have been taken so far, towards their implementation.

3.0 Progress, options, discussion, etc.

- 3.1 A further update on progress made against the actions identified in the 2015/16 Annual Governance Statement will be reported to the Committee at the year-end as part of the 2016/17 Annual Governance Statement.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendation in this report as Councillors are only requested to note the progress made in addressing the key improvements areas identified in the 2015/16 Annual Governance Statement action plan. The Annual Governance Statement and delivery of the action plan is, however, a significant element of the processes in place to ensure proper and effective use of resources. (MK/29112016/H)

5.0 Legal implications

- 5.1 There are no legal implications arising from this report. (TS/01122016/F)

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

- 7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from the recommendations in this report.

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendations in this report.

10 Schedule of background papers

10.1 2015/16 Annual Governance Statement

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Based on the Council's established risk management approach, the following issues were assessed as being "significant" for the purpose of the 2015/16 annual governance statement. An update on how the actions are progressing will be presented to Councillors at the December Audit and Risk Committee meeting.

Key areas and actions for implementation	Responsibility and expected implementation date	Update @ 31 October 2016
<p><i>Savings Targets</i></p> <p>This continues to be a key area for the Council to manage as it is faced with finding savings of £56.4 million by 2019/20. As part of this process £22.2 million of additional savings is to be identified for 2017/18 and reported to Cabinet, in order to demonstrate that a balanced budget can be achieved in 2017/18.</p>	<p>Director of Finance July 2016</p>	<p>On 19 October Cabinet approved that:</p> <ul style="list-style-type: none"> Budget reduction and income generation proposals amounting to £13.5 million in 2017/18 proceed to the formal consultation and scrutiny stages of the budget process. That Financial Transaction and Base Budget Revisions totalling a net reduction of £10.0 million in 2017/18 be incorporated into the 2017/18 draft budget. <p>Cabinet also approved a number of changes to items in the MTFS. As a result of the recommendations approved by Cabinet the Council is projected to be able to set a balanced budget for 2017/18.</p> <p>Budget consultation and scrutiny will be undertaken during November and December the outcome of which will be reported back to Cabinet. An initial review of the assumptions and projections built into the Draft Budget and MTFS 2017/18 - 2019/20 has been undertaken, with further work to be completed during the 2017/18 budget setting process.</p> <p>A further report will be taken to Cabinet on 22 February 2017.</p>

<p><i>Combined Authority</i></p> <p>The West Midlands Combined Authority (CA) has been formally vested. The Council needs to work effectively with its partners - including other local authorities and Local Enterprise Partnerships – to ensure that the CA is a success and that it benefits the City of Wolverhampton.</p> <p>Next steps include strengthening and embedding the governance arrangements required to deliver the first devolution deal and preparation for a West Midlands Metro Mayor in May 2017. This will include public consultation (in the Summer of 2016) on the powers to be conferred on the Mayor by Central Government.</p> <p>Continuing officer and member involvement in the Combined Authority is crucial to making it a success, in delivering the first devolution deal, and developing future deals.</p>	<p>Managing Director Ongoing</p>	<p>The Council needs to continue to work effectively with its partners - including other local authorities and Local Enterprise Partnerships – to ensure that the WMCA successfully delivers the devolution deal, and its success benefits the City of Wolverhampton.</p> <p>The Council continues to play a major role in the Combined Authority. The appointment of the Leader of the Council, Councillor as the Transport portfolio lead for the WMCA was confirmed at its AGM in June 2016.</p> <p>The appointment of the Managing Director to the role of Monitoring Officer of the Combined Authority (on a part time basis) was also confirmed at its AGM, on an interim basis until May 2017.</p> <p>Next steps include strengthening and embedding the governance arrangements required to deliver the first devolution deal and preparation for a West Midlands Metro Mayor in May 2017.</p> <p>This to date has included a public consultation (summer 2016) on the functions to be conferred on the Combined Authority by government, to deliver the devolution deal. The formalising of that process will be underway in December 2016, through the constituent council's consideration of the statutory 'Order' (detailing the devolution agreement functions).</p> <p>The governance structures of the Combined Authority, consisting of boards, committees, working groups and commissions, were reflected upon and amended following the development of the devolution agenda and the updated structures were approved at the Combined Authority Board meeting on 28 October 2016.</p> <p>Constitutional arrangements are also being made to incorporate the Mayoral WMCA arrangements into the Combined Authority, and following the consideration by Parliament of the Mayoral WMCA functions, the required changes will be embedded.</p> <p>Continuing officer and member involvement in the Combined Authority is crucial to delivering the first devolution deal, and developing future deals.</p>
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Corporate Landlord

A Strategic Asset Plan for the Council is to be developed. Detailed service reviews to ensure the new service delivery is relevant and effective in supporting the Council's priorities and objectives are underway and due to be completed in-year.

Strategic Director – Place
September 2016

A dedicated project manager is now in place to finalise scopes of work, prepare briefs and commission external consultancy support. Work packages to be supported are summarised as follows:

Strategic Asset Plan

Duration: six months consultancy (completion June 2017)
To assist in the production of the Strategic Asset Plan (suite of three documents – Asset Policy, Asset Strategy and Action Plan). This documentation will set out the long term strategy/goals for where the Council's asset portfolio needs to be in the future.

Commercial Portfolio: review of leases/licences/ service charges/debt management

Duration: 6-12 months (completion November 2017)
To review all leases, licences and service charges in line with the Royal Institute of Chartered Surveyors requirements.

Asset Challenge: Utilisation and Life-cycle Assessment

Duration: 12 months (completion December 2017)
To undertake utilisation surveys and life-cycle (circa 25 years) condition surveys on all buildings enabling Corporate Landlord to assess the performance of the asset portfolio and ensure it supports the Council's strategic and operational objectives.

Data Management

Duration: 6-12 months (completion November 2017)
A Project Manager, Data Support Officer and access to scanning facilities will be required to map, identify, cleanse and capture baseline land and property data. Centralised data is at the core of the Corporate Landlord service delivery model and this work will enable analysis and reporting.

<p><i>Procurement, Contract Management and Monitoring</i></p> <p>A standard approach to Contract Management will be implemented, with a programme of training developed to support a consistent approach to realising the benefits from contracts.</p>	<p>Service Director for Commercial Services. Implementation from June 2016.</p>	<p>The Procurement team has started to offer contract management support to service teams. The first areas where this has commenced is Environmental Services and Public Health. The first dedicated Contract Manager post has been agreed and is currently being recruited to.</p> <p>A new contract management system (Accord) is being implemented and will be live in early 2017. This will give visibility of each contract and a standardised approach to performance monitoring and contract administration.</p>
<p><i>Partnership Governance</i></p> <p>The Council is embarking on a systematic review of Governance arrangements with partner organisations and has already implemented revised protocols for all newly drafted arrangements. The Black Country Joint Committee, set up in Summer 2015, has established a clear governance structure for collaborative arrangements across the Black Country, which the Council has committed to.</p> <p>The City Board oversees the Economic Growth Board, Inclusion Board and the recently set up Employment and Skills Board. The governance for each is reviewed annually and amendments made, if required.</p>	<p>Service Director for City Economy March 2017</p>	<p>At the City level, work is underway to review the strategic approach for City Economy and how this is reflected in our partnerships. This work is expected to complete around spring 2017.</p> <p>New reporting formats for projects being championed by the Economic Growth Board and Skills and Employment Board have now been developed and approved. This will help to tighten governance and impact from partnership working.</p> <p>The Council is also the accountable body for the delivery of the Black Country Growth Hub. Again the governance has been reviewed and tightened to enable effective governance of a wider remit that includes delivery of the new ERDF funded AIM for the Black Country project.</p>

Audit and Risk Committee

12 December 2016

Report title	Payment Transparency	
Accountable director	Mark Taylor, Finance	
Originating service	Audit	
Accountable employee(s)	Peter Farrow	Head of Audit
	Tel	01902 554460
	Email	peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendations for noting:

The Committee is asked to note:

1. The Council's current position with regards to the publication of all its expenditure.

1.0 Purpose

1.1 This report is to update the Committee on the Council's current position with regards to the publication of all its expenditure.

2.0 Background

2.1 The latest position on the Council's payment transparency activity is as follows:

- Following the introduction of Agresso, the Council now publishes its own spend data, instead of using a third party.
- The data is available on the Council's internet site under Transparency and Accountability (payments to suppliers) and is updated monthly.
- In addition, to the spend to date, the site also includes spend for the financial years from 2011.
- Since last reported to the Audit Committee in September 2016, there have been no requests for information from the public (as an 'armchair auditor').

3.0 Progress, options, discussion

3.1 We will continue to report back to the Audit and Risk Committee on the details of any 'armchair auditor' requests the council receives.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendation in this report. (MK/20112016/F)

5.0 Legal implications

5.1 There are no legal implications arising from the recommendation in this report. (TS/0122016/E)

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendation in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendation in this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from the recommendation in this report.

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendation in this report.

10.0 Schedule of background papers - None

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Audit and Risk Committee

12 December 2016

Report title	Audit and Risk Committee – Knowledge and Skills Framework	
Accountable director	Mark Taylor, Finance	
Originating service	Audit	
Accountable employee(s)	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendation(s) for action or decision:

The Committee is asked to:

1. Note the results of the recent knowledge and skills framework exercise, and the plan to move on to the final stage of the process.

1.0 Purpose

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) in their Audit Committees – Practical Guidance for Local Authorities, recommend that an Audit Committee should carry out a regular review of its performance and effectiveness, alongside a number of other self-assessment activities. The first two stages of such an exercise have now been completed and the results of the second stage of the exercise are now being presented.

2.0 Background

- 2.1 This self-assessment exercise forms part of a three stage review, which in line with CIPFA's Audit Committees – Practical Guidance for Local Authorities, includes the following activities:

Self-assessment exercise

This exercise has already been completed.

Members knowledge and skills framework

This exercise has also now been completed and the results will be considered at this meeting of the Committee.

Evaluating the effectiveness

At the next meeting of the Committee, the third and final part of the exercise evaluating the effectiveness of the committee will be undertaken.

3.0 Progress, options, discussion, etc.

- 3.1 This exercise is taking place in three stages. Following each stage, the results will be summarised and presented at the next meeting. The results will also help drive a more structured future training programme.

4.0 Financial implications

- 4.1 There are no financial implications arising from the recommendations in this report. (MK/29112016/X)

5.0 Legal implications

- 5.1 There are no legal implications arising from the recommendations in this report. (TS/01122016/D)

6.0 Equalities implications

- 6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from the recommendations in this report

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendations in this report.

10.0 Schedule of background papers – Audit Committee: Knowledge and skills framework

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Audit and Risk Committee Members: Knowledge and Skills Framework
(Average scores from seven respondents)

Appendix A

Core areas of knowledge

Knowledge Area	Details of core knowledge required	How the Audit and Risk Committee member is able to apply the knowledge	Committee Member ranking (score between 5 = strong to 1 = minimal)
Organisational knowledge	An overview of the governance structures of the authority and decision-making processes. Knowledge of the organisational objectives and major functions of the authority	This knowledge will be core to most activities of the Audit and Risk Committee including review of the Annual Governance Statement, internal and external audit reports and risk registers	4
Audit and Risk Committee role and functions	An understanding of the Audit and Risk Committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements. Knowledge of the purpose and role of the Audit Committee	This knowledge will enable the Audit and Risk Committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.	4
Governance	Knowledge of the six principles of the CIPFA/SOLACE Good Governance Framework and the requirements of the Annual Governance Statement (AGS). Knowledge of the local code of governance	The committee will plan the assurances it is to receive in order to adequately support the AGS. The committee will review the AGS and consider how the authority is meeting the principles of good governance.	3

Internal audit	<p>An awareness of the key principles of the <i>Public Sector Internal Audit Standards</i> and the <i>local Government Application Note</i>.</p> <p>Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.</p>	<p>The Audit and Risk Committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards. The Audit and Risk Committee will review the assurances from internal audit work and will review the risk-based audit plan.</p> <p>The committee will also receive the annual report, including an opinion and information on conformance with professional standards.</p> <p>In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed.</p>	4
<p>Financial management and accounting</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 146</p>	<p>Awareness of the financial statement that a local authority must produce and the principles it must follow to produce them.</p> <p>Understanding of good financial management principles.</p> <p>Knowledge of how the organisation meets the requirements of the role of the chief financial officer, as required by the <i>CIPFA Statement on the Role of the Chief Financial officer in Local Government</i>.</p>	<p>Reviewing the financial statements prior to publication asking questions. Receiving the external audit report and opinion on the financial audit.</p> <p>Reviewing both external and internal audit recommendations relating to financial management and controls.</p> <p>The Audit and Risk Committee should consider the role of the CFO and how this is met when reviewing the AGS.</p>	4
External Audit	<p>Knowledge of the role and functions of the external auditor and who currently undertake this role.</p> <p>Knowledge of the key reports and assurances that external audit will provide.</p> <p>Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken.</p>	<p>The Audit and Risk Committee should meet with the external auditor regularly and receive their reports and opinions.</p> <p>Monitoring external audit recommendations and maximising benefit from audit process.</p> <p>The Audit and Risk Committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service.</p>	4

Risk management	<p>Understanding of the principles of risk management, including linkage to good governance and decision making.</p> <p>Knowledge of the risk management policy and strategy of the organisation.</p> <p>Understanding of risk governance arrangements, including the role of members and of the Audit and Risk Committee.</p>	<p>In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces.</p> <p>Keeping up to date with the risk profile is necessary to support the review of a number of Audit and Risk Committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee.</p> <p>The committee should also review reports and action plans to develop the application of risk management practice.</p>	4
Counter-fraud	<p>An understanding of the main areas of fraud risk the organisation is exposed to.</p> <p>Knowledge of the principles of good fraud risk management practice.</p> <p>Knowledge of the organisation's arrangements for tackling fraud.</p>	<p>Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy.</p> <p>An assessment of arrangement should support the AGS and knowledge of good fraud risk management practice will support the Audit and Risk Committee member in reviewing that assessment.</p>	4
Values of good governance	<p>Knowledge of the Seven Principles of Public Life.</p> <p>Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff.</p> <p>Knowledge of the whistleblowing arrangements in the authority.</p>	<p>The Audit and Risk Committee member will draw on this knowledge when reviewing governance issues and the AGS.</p> <p>Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The Audit and Risk Committee member should know to whom concerns should be reported.</p>	4

Specialist Knowledge that adds value to the Audit Committee

Knowledge area	Details of supplementary knowledge	How the Audit and Risk Committee member is able to add value to the committee	Committee Member ranking (score between 5 = strong to 1 = minimal)
Accountancy	Professional qualification in accountancy	More able to engage with the review of the accounts and financial management issues coming before the committee. Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussions of risks and resource issues. More able to engage with the external auditors and understand the results of audit work.	4
Internal audit	Professional qualification in internal audit.	This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing. The committee would be more able to provide oversight of internal audit and review the output of audit reports.	4
Risk management	Risk management qualification. Practical experience of applying risk management. Knowledge of risks and opportunities associated with major areas of activity.	Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice. Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers.	4
Governance and legal	Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law.	Legal knowledge may add value when the committee considers areas of legal, risk or governance issues.	4
Service knowledge relevant to the functions of the organisation	Direct experience of managing or working in a service area similar to that operated by the authority. Previous Scrutiny Committee experience.	Knowledge of relevant legislation, risks and challenges associated with major service areas will help the Audit and Risk Committee to understand the operational context.	3
Programme and project management	Project management qualifications or practical knowledge of project management principles.	Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews.	3

IT systems and IT governance	Knowledge gained from management or development work in IT	Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls.	4
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Core Skills

Skills	Key elements	How the Audit and Risk Committee member is able to apply the skill	Committee Member ranking (score between 5 = strong to 1 = minimal)
Strategic thinking and understanding of materiality	Able to focus on material issues and overall position, rather than being side-tracked by detail	When reviewing audit reports, findings will include areas of higher risk, or materiality to the organisation, but may also contain more minor errors or control failures. The Audit and Risk Committee member will need to pitch its review at an appropriate level to avoid spending too much time on detail.	4
Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations. Challenging performance and seeking explanation while avoiding hostility or grandstanding.	The Audit and Risk Committee will review reports and recommendations to address weaknesses in internal control. The Audit and Risk Committee member will seek to understand the reasons for weaknesses and ensure a solution is found.	4
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility	The outcome of the Audit and Risk Committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities. Where errors or control failures have occurred, then the Audit and Risk Committee should seek assurances that appropriate action has been taken.	4
Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice.	The Audit and Risk Committee should seek assurances that planned actions are practical and realistic.	4
Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms, etc	The Audit and Risk Committee will seek to ensure that external documents such as the Annual Governance Statement and the explanatory foreword to the accounts are well written for a non-expert audience.	4

Objectivity	Evaluate information on the basis of evidence presented and avoiding bias or subjectivity.	The Audit and Risk Committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views.	4
Meeting management skills	Chair the meeting effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting.	These skills are essential for the Audit and Risk Committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members.	4

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