

**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 Sohail Khan (Con)

### Labour

Cllr Obaida Ahmed  
Cllr Harbans Bagri  
Cllr Mary Bateman  
Cllr Philip Bateman MBE  
Cllr Jasbir Jaspal  
Cllr Barbara McGarrity

### Independent Member

Mr Mike Ager  
Mr John Humphries

Quorum for this meeting is two Councillors.

## Information for the Public

If you have any queries about this meeting, please contact the Democratic Services team:

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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

*Item No.*    *Title*

### MEETING BUSINESS ITEMS

- 1        **Apologies for absence**
- 2        **Declaration of interests**
- 3        **Minutes of previous meetings** (Pages 5 - 24)  
[For approval]
- 4        **Matters arising**  
[To consider any matters arising from the minutes]

### DECISION ITEMS

- 5        **Annual External Audit Letter** (Pages 25 - 42)  
[To receive the Annual Audit Letter provided by Grant Thornton]
- 6        **External Audit Progress Report and Sector Update** (Pages 43 - 58)  
[To receive an update on progress made by Grant Thornton in delivering their responsibilities as the Council's external auditors]
- 7        **Capital Projects Lessons Learnt - Progress Update** (Pages 59 - 62)  
[To provide an update on progress made in implementing the lessons learnt recommendations made in the reports: Markets Relocation, Wolverhampton Interchange (Train Station) and Civic Halls Refurbishment]
- 8        **Strategic Risk Register and Risk Assurance Map** (Pages 63 - 84)  
[To provide an update on the key risks the Council faces and how it can gain assurance that these risks are being mitigated]
- 9        **Internal Audit Update - Quarter One** (Pages 85 - 92)  
[To note the contents of the latest Internal Audit update]
- 10       **Internal Audit Charter - Annual Review** (Pages 93 - 100)  
[To review the Internal Audit Charter]
- 11       **Audit Services - Counter Fraud** (Pages 101 - 120)  
[To note the latest Audit Services Counter Fraud update]

- 12      **Payment Transparency** (Pages 121 - 124)  
[To receive an update on the Council's current position with regards to the publication of all its expenditure]

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## Attendance

### Members of the Audit and Risk Committee

Cllr Craig Collingswood (Chair)  
Cllr Sohail Khan (Vice-Chair)  
Cllr Obaida Ahmed  
Cllr Harbans Bagri  
Cllr Jasbir Jaspal  
Cllr Barbara McGarrity  
Mike Ager (Independent Member)  
John Humphries (Independent Member)

### Employees

Emma Bland	Finance Business Partner
Peter Farrow	Head of Audit
Dereck Francis	Democratic Services Officer
Claire Nye	Director of Finance
Laura Palmer	Projects and Programmes Manager
Hayley Reid	Senior Auditor
Alison Shannon	Chief Accountant
Mark Wilkes	Audit Business Partner

### In attendance

Bob Hide      Advisor, Equib Risk Management

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## Part 1 – items open to the press and public

*Item No.*      *Title*

- 1 Apologies for absence**  
Apologies for absence were submitted on behalf of Councillors Mary Bateman and Philip Bateman MBE.
- 2 Declaration of interests**  
No declarations of interest were made.
- 3 Minutes of previous meetings**  
Resolved:  
That the minutes of the meeting held on 11 June 2018 be approved as a correct record and signed by the Chair.
- 4 Matters arising**  
There were no matters arising from the minutes of the previous meeting.

5 **Audited Statement of Accounts 2017-2018**

Mark Stocks from the Council's external auditors, Grant Thornton, took the Committee through the report on the findings from their audit of the Council's Statement of Accounts for 2017/2018. He informed the Committee that the audit had been completed and that an unqualified audit opinion would be issued in respect of the Council's Financial Statements and an unqualified value for money conclusion on the Council's value for money arrangements

John Humphries, Independent Member asked about disclosure errors highlighted during the audit and whether there would be any penalty from Government as a result of the finding. Grant Thornton reported that the error had only occurred in the draft statements of accounts. There would be little impact from Government because of the error.

The Chair asked Grant Thornton to elaborate on the finding that progress on the Strategic Asset Management Plan (SAMP) being slow. Grant Thornton advised that the Strategic Asset Management had been looked at during last year's audit of the Council's Statement of Accounts. Progress had been made but the proposal had commenced in 2016 or earlier. Given that it was one of the Council's areas of focus it seemed that the Council had not gone at a pace on this issue. He wondered whether there had been a lack of focus in this area because of the focus on the Markets Relocation, the Interchange (Train Station) and Civic Halls refurbishment. Claire Nye, Director of Finance added the Council's Strategic Executive Board (SEB) would say the same. She was pleased to see progress on the data management (Focal365) and felt confident that the Council had accurate data on its assets. She indicated that the SAMP had not moved at a pace the Council would have liked to have seen and undertook to take the point back to the Strategic Executive Board with a view to getting some movement on Strategic Asset Management, as well as a request from the Committee to have an update on the matter to the Committee following the October 2018 Cabinet meeting.

The Chair commented that given the tight deadline for completion of the audit of the Accounts it was an achievement that the papers were available for the Committee. He thanked Grant Thornton and the Council's employees for all their hard work in meeting the deadline for the completion of the successful audit.

Resolved:

1. That the formal publication of the 2017-2018 Statement of Accounts, as required by the Accounts and Audit Regulations 2015, which require publication by 31 July 2018 be approved.
2. That the draft Management Representation letter which would be signed by the Director of Finance on behalf of the Council be approved.
3. That authority be delegated to the Chair of the Audit and Risk Committee to agree subsequent changes to the Statement of Accounts and Management Representation letter in consultation with the Director of Finance, should there be any audit adjustments.
4. That the 2017-2018 report to those charged with governance from the Council's External Auditors, Grant Thornton be noted.

5. That an update on the Strategic Asset Management Plan be submitted to the Committee's December 2018 meeting.

6 **Strategic Risk Register and Strategic Assurance Map**

Hayley Reid, Senior Auditor, outlined the changes to the strategic risk register since the March 2018 meeting of the Committee.

Councillor Harbans Bagri asked whether the Council had made any changes to its management structures as a result of the lessons learned reports on the Markets Relocation, the Interchange (Train Station) and the Civic Halls Refurbishment and whether there were any other old capital projects that may have similar issues to those highlighted in the lessons learned reports. The Senior Auditor reported that work on the abovementioned capital projects had commenced several years ago when different controls were in place. The new controls and project management arrangements in place would be applied in respect of the three capital projects going forward and for other capital projects. Laura Palmer, Projects and Programmes Manager added that her team shared information with the Senior Auditor on a monthly basis. One of the issues from the lessons learned reports was about strengthening existing processes and having open and honest reporting on projects/programmes.

The Chair asked when the Committee would see an indication that the recommendations from the lessons learned reports would be implemented. The Senior Auditor advised that some of the recommendations had already been actioned and a report on progress would be submitted to the meeting on 17 September 2018.

John Humphries, Independent Member commented that given the Committee met quarterly, was there a dynamic reporting mechanism whereby the Chair of the Committee could receive early warning of any problems. Peter Farrow, Head of Audit reported that he had regular catch up meetings with the Chair and anything of significance would be flagged in those meetings.

Councillor Jasbir Jaspal commented that she was not clear on the role and function of Corporate Landlord and would welcome a briefing. Claire Nye, Director of Finance reported that it could be combined with the report on the Strategic Asset Plan referred to in minute 5 above. In response to a further question from Councillor Jaspal on Finance and Legal Services input and involvement in contracts for capital projects, the Director of Finance reported that her team had a lot of involvement in projects. The lessons learned reports addressed the point of the Procurement Team's involvement in projects at an early stage. The Strategic Finance and Procurement teams were getting stronger. Legal Services would also be involved in the drafting of contracts.

Councillor Barbara McGarrity noted that risk 30 - Civic Hall was categorised risk red. She asked when the Committee would receive regular updates on the costs of the programme. The Head of Audit reported that the Committee's role would be to monitor progress on the implementation of the recommendations from the lessons learned report and to provide independent assurance on the adequacy to the Council of the risk management framework and internal control environment. Where appropriate costs would be included in the update report to Risk Register report, otherwise the Cabinet (Resources) Panel as well as the appropriate scrutiny panel would be monitoring the costs of the programme.

Councillor Harbans Bagri noted that the Council secured external support/advice for some of its projects. He asked what in house evaluation the Council carried out on the costs and delivery of projects and whether the Council followed any Government standards. The Chair advised that part of the role of Bob Hide, Equib would be to undertake benchmarking and provide that oversight for the Committee and the Council. Bob Hide, Equib then went on to explain in more detail his role to make sure that the benchmarking scrutiny is there.

Referring to the risk 9 - City Centre Regeneration, Councillor Jasbir Jaspal commented that a lot of regeneration activity was taking place in the city. She asked for an update on the city's regeneration strategy. The Chair advised that the Cabinet Member for City Economy attended a recent meeting of the Stronger City Economy Scrutiny Panel where a discussion took place on the draft Strategic Economic Plan. He did not wish to duplicate those discussions. He also reported that the Committee received an update on City Centre Regeneration from Paul Lakin, Head of City Development at its meeting on 12 March 2018. He suggested that the appropriate officer could be invited back to a future meeting.

Referring to risk 8 – Business Continuity Management, the Chair asked when the transfer of the day to day management and delivery of the Council's Emergency Planning and Business Continuity management service to the West Midlands Fire and Rescue Service (WMFS) under a Collaborative Agreement would happen and whether WMFS were happy to enter into this type of agreement with the Council. The Senior Auditor reported that they were working towards it happening in the summer and that as far as she was aware WMFS were happy with the arrangement.

The Chair suggested that risk 32 – Waste Management Services be considered at the next meeting and the risk owner be invited to attend.

Resolved:

1. That it be noted that three new risks have been added to the register:
  - Risk 32 – Waste Management Services
  - Risk 33 – Governance of Major Capital Projects and Programmes
  - Risk 34 – Wolverhampton Interchange Programme (Train Station)
2. That it be noted that Risk 31 – City of Wolverhampton College had been archived, a memorandum of understanding has now been agreed. A low-level risk has been added to the Corporate department's risk register regarding the ongoing partnership with the College and a possible call on guarantees provided by the Council.
3. That the change in the target date and target score for the following risks be noted:
  - Risk 7 – Safeguarding
  - Risk 22 – Skills for Work and Economic Inclusion
  - Risk 24 – Maximising Benefits from the Combined Authority.
4. That risk 32 – Waste Management Services be considered at the next meeting and the risk owner be invited to attend.



7 **Audit and Risk Committee Annual Report - 2017-2018**

Peter Farrow, Head of Audit asked the Committee to endorse the report which summarised the principal areas of work undertaken by the Committee during 2017/2018. He proposed to take the annual report to Council.

The Chair thanked existing and former members of the Committee for their valued contributions to the work of the Committee during 2017/2018.

Resolved:

That the Audit and Risk Committee Annual Report for 2017/2018 be endorsed and referred to Council for approval.

8 **Audit Services Counter Fraud Update**

Mark Wilkes, Audit Business Partner presented the update report on current counter fraud activities undertaken by Audit Services.

Councillor Sohail Khan referred to the National Fraud Initiative's (NFIs) data matching exercises and matches on 'housing benefits claimants to DWP Deceased'. He asked how the Council was processing information it received on the notification of a deceased person and whether the it was making use of the 'Tell Us Once Service' in relation to notification of the death of a person. The Audit Business Partner clarified that the cases in the report were not related to the deceased. On the 'Tell Us Once Service' it was voluntary and not everyone used it to report a death to government organisations in one go. The Council does receive information through the service. However, if someone was contemplating fraud they were unlikely to use the service.

John Humphries, Independent Member asked why the Council could not use information it had from the Registrars Service to detect possible fraud. The Audit Business Partner reported that information from the Council's Registrars service was Government information and not the Council's data. The Council Tax Service had a right to receive the information direct but other Council service departments did not.

Councillor Obaida Ahmed asked what action was being taken to stop tenancy sub-letting of properties and how likely is was that the Council would recover the value of the fraud from the 16 cases highlighted in the report. The Audit Business Partner reported that it would be difficult to recover the value of the fraud from some of the tenants because they have little or no assists to claim against. Peter Farrow, Head of Audit added that the notional savings value of £93,000 referred to in the report was based on future use of the property rather than actual loss of income.

The Chair commented that he understood that fraud from the single person council tax discount was difficult to a track. The Audit Business Partner reported that the Council Tax serviced carried out a management exercise to check the possibility of false claims for the single person discount. The Chair asked what information was sent out to households to discourage abuse of the discount and whether information was included with the Council tax bills asking the public to notify the Council if they are no longer eligible for the discount. The Audit Business Partner confirmed that information was posted out with council tax bills.

Resolved:

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

- 9        **Payment Transparency**  
Peter Farrow, Head of Audit presented the report on the latest position on the Council's payment transparency activity. Since the last report to the Committee in March 2018 there had been no requests for information from the public (armchair auditor requests).
- Resolved:  
That the Council's current position with regards to the publication of all its expenditure be noted.
- 10       **CIPFA Audit Committee Update**  
The Committee received the latest edition of regular briefings issued by the Chartered Institute for Public Finance and Accountancy (CIPFA) for audit committee members of public bodies. The focus of the update was on developing an effective Annual Governance Statement.
- The Chair asked that arrangements be made for the Committee to receive training during Autumn. Peter Farrow, Head of Audit reported that he would liaise with Grant Thornton to deliver a training session prior to the next meeting.
- Resolved:  
That the contents of the latest CIPFA Audit Committee Update, Issue be noted.
- 11       **Wolverhampton Interchange (Train Station) - Lessons Learned Update**  
Peter Farrow, Head of Audit presented for information an update on the Wolverhampton Interchange (Train Station) lessons learned report that was presented to the Audit and Risk Committee on 25 June 2018. Specifically, in response to a concern expressed by the Project Manager that paragraph 4.1.9 of the report was factually incorrect.
- Having reviewed the paragraph, and following discussions with the Project Manager, it appeared there had been a misinterpretation of the paragraph. The comments in the report related to a period in time and did not reflect the current position on the scheme. Based on the matter being clarified there was no proposal to either remove the paragraph from the lessons learned report or change it.
- Bob Hide, Equib added that the misunderstanding arose from the time line approach used in the presentation of the information in the report and there was no need to amend the lessons learned report.
- Resolved:  
That it be noted that following consideration of the report at the Committee meeting of 25 June 2018, it had been confirmed that paragraph 4.1.9 of the audit report was factually correct resulting in no changes being required to the original report.

12 **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 item of business as it involves the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act.

## **Part 2 - exempt items, closed to press and public**

13 **Audit Investigations Update**

Mark Wilkes, Audit Business Partner presented the update report on current audit investigations.

Referring to the first audit investigation report, John Humphries, Independent Member asked whether the Council had any specific issues with arms length management organisations who are contracted to provide services on behalf of the Council. The Audit Business Partner reported that the issue in the report concerning the two organisations who are contracted to provide services on behalf of the Council had been brought to the Council's attention. Action was therefore taken to investigate the matter in order to protect the Council's interests.

Resolved:

That the update on the internal audit investigation be noted.

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## **Attendance**

### **Members of the Audit and Risk Committee**

Cllr Craig Collingswood (Chair)  
Cllr Sohail Khan (Vice-Chair)  
Cllr Obaida Ahmed  
Cllr Harbans Bagri  
Cllr Mary Bateman  
Cllr Philip Bateman MBE  
Cllr Jasbir Jaspal  
Cllr Barbara McGarrity  
Mike Ager (Independent Member)  
John Humphries (Independent Member)

### **Employees**

Emma Bennett	Director of Children's Services
Ian Cotterill	Audit Business Partner
Peter Farrow	Head of Audit
Dereck Francis	Democratic Services Officer
Keith Ireland	Managing Director
Tim Johnson	Deputy Managing Director
Andy Moran	Director of Commercial Services
Claire Nye	Director of Finance
Kevin O'Keefe	Director of Governance
Laura Palmer	Projects and Programmes Manager
Colin Parr	Head of Business Services
Laura Phillips	Head of Business Management
Hayley Reid	Senior Auditor
Mark Taylor	Strategic Director - People
Meredith Teasdale	Director of Education
David Watts	Director of Adult Services

### **In attendance**

Bob Hide	Advisor, Equib Risk Management
Subeagh Singh	Interchange Programme Co-ordinator
Mark Stocks	Grant Thornton, External Auditors

## Part 1 – items open to the press and public

*Item No.*    *Title*

1            **Apologies for absence**  
There were no apologies for absence received for the meeting.

2            **Declaration of interests**  
No declarations of interests were made.

3            **Markets Relocation - Lessons Learned**  
Keith Ireland, Managing Director reported that he had commissioned Audit Services to undertake lessons learned reviews on three capital projects. He had also agreed that the reports from the reviews be presented to the Committee in open session. He gave a brief introduction to the first of the reports on the Markets Relocation project and invited questions.

During the ensuing discussion and in response to questions, Peter Farrow, Head of Audit reported they were independent reviews and that no pressure had been put on Audit Services during these audit reviews and the production of the lessons learned reports.

The Managing Director supported by the Strategic Executive Board and other senior officers of the Council responded to the Committees questions and observations, the details of which are summarised as follows and should be read in conjunction with the detail in the lessons learned report.

### **When the scheme was being considered was there any doubt a higher contract price would be needed to deliver the scheme?**

- The Council had a price of £2.5 million for a scheme based on advice from professionals. £470,000 was added to the cost of the project as a result of trader engagement and Cabinet approved the increased funding for the project as this would enhance to the market and add to the public experience of using the market.
- From the report and the tight timescale, it was reasonable to assume that the bidder had risk priced their tender. At no time did the scheme escalate in costs once the revisions were agreed. A contract price for the scheme was obtained..

**It appears that no one was taking ownership of the project. The feasibility study should have flagged up some markers about the site. There was no pre-set format to approve the project and monitor it and the risks. Even if there is a fixed budget for the project there would be an element for a variation figure, but contract value has increased by 100%.**

- Lessons are being learned. There are examples of where the Council has successfully delivered major capital projects such as the Civic Centre building and park. However sometimes it has not delivered as well on other projects. In hindsight the market relocation project could not be delivered for the original contract figure.

- Employees were asked to deliver a cost neutral scheme. The issue on this project was that the costs and budget figures are being reported before we were ready. The Council has engaged the services of Equip to advise and make sure it does not repeat these mistakes.
- Council money has not been wasted on the scheme. A decision needed to be made that led to the costs increasing. The increased costs of the project were approved by Councillors. The market was telling us something else other than the £2.5 million cost. The scheme that we want to take the Council forward cost £4.5 million.

**Why did the Council only go to one company for the contract?**

- The Council sought professional advice on the matter. The contract went out to open tender but only one response was received.

**Why was that contractor awarded to the sole bidder?**

- The time and speed the Council wanted to move. There was an end date for the relocation of the market. The amount of construction activity taking place in the West Midlands, the buoyancy of the market was also taken into account.

**Is it the case that the £2.5 million was unrealistic rather than the time constraint?**

- We cannot know what is in a bidder's mind when they submit their tender. With the current activity in the construction industry it is difficult to get contractors to bid. A tender was received that met our criteria. The contractor was aware of the site for the new market location so for them it was not a big shock in terms of what the Council wanted.

**Could things have been done better in a political sense; was there enough guidance in the process; if you did it again would you want to see the process strengthened?**

- The reason for the three lessons learned reports was to improve the process. One issue from all of the projects is when do we release figures/cost information into the public domain. Currently that information is released too soon. On the political involvement and guidance, the Cabinet Member for Environment was involved in the project. The issue was undertaking more detailed work before we run with the proposition.

**The lessons learned reports are welcomed but they need to be put into practice. The relationship with the Audit and Risk Committee will be important and the risk aspect needs to be focussed on and Lesson Learned 10 should be strengthened.**

- Due process had been followed on the project. In the reports the Committee is asked to take more of an interest in assessing the actions and that they are implemented. If large capital projects are being delivered the Committee may want to monitor them through say the risk register.

**Does the Council have the resources to do the job in such a way we are robust and can keep up with pace and offer a contrary view if required?**

- City Centre Regeneration had been included on the Council's strategic risk register for a while. Civic Halls restoration was highlighted from that. It was also

the same for the recommendations on the Interchange Programme. The Committee would be seeing more of this in the risk register at its future meetings. The recommendations in the lessons learned reports would be monitored by the Committee. The Audit Services would work with other service areas to populate the plans in real time and the Audit team would review it and report back to the Committee.

- A big learning point from the reviews was project risk management. The Council's ability to perform that function through its external advisors and its own internal resource. The Council had secured the services of Bob Hide, Equib to provide project risk management advice on all of the Council's capital projects. The Council was learning, and it now had its own advisor on risk. That would strengthen the Council's capacity in this area.

**Is there any redress against the advisors on the original contract price?**

- There was a change in the scope of the project. The original price was based on there being a competitive market.

**Why did we then appoint them as the Project Manager?**

- We took a view that £4.5 million was the market value for the contract. We took the view to offer it to them

**There is a perception the contract was small beer. Why was only one month given for contractors to bid?**

- The usual process is six weeks. With the programme to relocate the market and the Westside regeneration scheme about to commence it was decided to shorten the period for the receipt of bids by two weeks.

**How did the successful contractor know they were the only tenderer?**

- A supplier would have been aware of any other interest in the contract very quickly because of the way the supply chain operates. The successful tenderer only had prior knowledge of the site. The Council did not reveal to them that there were the only tenderer for the contract, they worked it out and this was reflected in their tender submission.

(A member of the Committee commented that the contractor had the Council at a disadvantage. The Council should have given itself more time to secure another tender submission. The Council needs to be mindful of this point.)

**The appointment of the external consultant as Project Manager for the design and build seemed flawed in terms of the oversight and management of the project. The Council needs to hold back on putting project costs into the public arena until it has the full case. There should also be a clear format on how the Council manages these types of projects from start to finish.**

- On the point of the advisors it is not unusual for private sector organisations to appoint Project Managers to deliver these types of capital schemes.



**It appears that the contractor had more information on the project than the Council**

- The Cabinet Member for Environment and Cabinet member for Resources challenged the Strategic Executive Board during briefings on the project. We were challenged politically. We could only put forward the best information we had.

**The market was meant to open on the new site in May and it is now June.**

- Two events have occurred on the site. Human remains, and a petrol tank were found. The Council has been working with its partners for the development of Westside. The developer was not ready to be on the site so that has worked for the Council to address the items detected on the new market site.

**Are we confident the project would be delivered on £4.9 million**

- Yes. Minus the two issues previously referred to regarding the petrol tank and human remains found on the site. A bid is being submitted to the West Midlands Combined Authority land remediation fund towards the costs of addressing the ground contamination. The Market would open on 17 July 2018.

**Can minutes of briefing meetings and the briefing notes to Cabinet members be shared with the Committee in future as an audit trail and in order to protect employees.**

- For the Markets relocation report it was too late. In terms of the Civic Halls Restoration programme, revised governance arrangements are in place for this and other projects. Minutes would be available for them if required. The Council was strengthening governance for all capital projects and would take on board the point regarding the minutes.

**Resolved:**

1. That the lessons learned action plans be received.
2. That the Committee oversee the implementation of the lessons learned programme over the next 12 months and receive a quarterly update report on the progress made in implementing the lessons learned.
3. That the actions taken to date be supported which include:
  - a. To improve programme and project management
  - b. To ensure better financial modelling
4. That the Managing Director's decision to make the report an open report to ensure maximum transparency be noted.
5. That the minutes from the governance arrangements for capital projects be shared with the Committee upon request when the Committee has a specific focus on a capital project through the strategic risk register.

4

**Wolverhampton Interchange (Train Station) - Lessons Learned**

Keith Ireland, Managing Director presented the second of three reports he had commissioned from Audit Services on a lessons learned review on three capital projects. The issues within this report on Wolverhampton Interchange (Train Station) project were more complex than the first report considered by the Committee. It was

a complex capital project involving multiple players and the Council was not managing it on its own. This made it all complicated.

The Managing Director supported by the Strategic Executive Board and other senior officers of the Council responded to the Committees questions and observations, the details of which are summarised as follows and should be read in conjunction with the detail in the lessons learned report.

**Excluding the change in contractor, what were the reasons for the increased costs?**

- Appendix A to the lesson learned report sets out the timeline of key events of the scheme and its changes. The contract for the railway station demolition/reconstruction was awarded to the contractor in early 2018.
- All railway station schemes are delivered to a Governance for Railway Investment Projects (GRIP) process. There are eight distinct stages to the process for how railway station projects would be managed and controlled by Network Rail. At GRIP stage 1 the project costs would be guestimates. We probably went too early regarding the cost of the programme. A contractor has now been appointed and we have a clearly defined railway station scheme.

**Are you confident that the contractor is robust enough to complete the project?**

- Yes. Projects of this type are complex and risky and extremely difficult to manage. As a result, you need to go into it with clear detailed planning. It is not a standard construction project

**The report appears to raise and some concerns in paragraphs 4.1.9 and 4.7.1 of the report with Supplier M**

- The statements at paragraph 4.1.9 of the report were not representative of the current state of the project and the contractor.

(It was therefore agreed that the Auditor following discussions with the Programme Co-ordinator and the Director of Commercial Services submit a short report to clarify the issue regarding paragraphs 4.1.9 and 4.7.1 of the report suggests some concerns with Supplier M)

**What was Corporate Procurement's involvement in the process for the procurement of a contractor at the time and what will it be in the future?**

It was also a complex capital project involving multiple parties and the Council was not managing it ourselves. This made it complicated. Procurement had not been involved in the process for the procurement of a contractor because it was a railway station project and was part of a wider agreement with ION. It was for them to deliver the contractor for the delivery of the project. The lessons learned report now set out Corporate Procurement's role in future on all reports to Cabinet for all internally or externally procured projects.

**'QRA' in the table at paragraph 3.1.2;**

- QRA was a technical issue of how we looked at individual risk analysis.

**Ground testing**

- Ground investigations were undertaken at an early stage of the project. There is a good understanding of the ground conditions. There are a number of site investigation tests we need to undertake and present as evidence to Network Rail.

**Plans for the car park?**

- The plans for the car park include a pick up and drop point that improves on the current layout. However it is a constrained site. We wish we could make it better but cannot do this in the short term

**Control the Council has over the expenditure increase and to stop it happening again?**

- The Council was undertaking a joint venture and having involvement with ION. The Council had delivered big construction projects. It does not happen that these types of projects do not sometimes have major issues.

**Whether more accurate information or better contingencies are required before getting approval of capital budgets;**

- There is a good contingency now for the scheme. Some of it would be spent but we can live within that contingency. The unresolved issue is when we go public with the cost figures.

**How can the Committee gain assurance that all of the checks that come on a risk have been dealt with in a comprehensive way; and that someone has a handle on where the Local Authority stands on the project at any particular time?**

- In terms of the level of control the Council has over the project, the Government arrangement for management of these types of scheme has been updated. Regular meetings take place with ION on their work programme so we are confident once the drawings are approved by Network Rail we will be in a good position.
- The Council had delivered hundreds of projects successfully, so it has a track record. With this programme you can expect it may incur more costs. The dilemma is when should Senior Management release to members the cost figure for a project.

Resolved:

1. That the lessons learned action plan be received.
2. That the Committee oversee the implementation of the lessons learned action plan over the next 12 months and to receive a quarterly update report on progress with implementing the lessons learned.
3. That the actions taken to date be supported which include:
  - a To improve programme and project management
  - b. To ensure better financial modelling
4. That the Managing Director's decision to make the report an open report to ensure maximum transparency be noted.

5. That Ian Cotterill, following discussions with Subeagh Singh and Andy Moran submit a short report to clarify the issue on paragraph 4.1.7 of the lessons learned report.

## 5 **Civic Halls Refurbishment - Lessons Learned**

Keith Ireland, Managing Director presented the third of three reports he had commissioned from Audit Services on a lessons learned review on three capital projects in the city. This report related to Civic Halls refurbishment.

Member of the Committee reported that they were shocked and horrified with what had happened on the project. It was not in keeping with the way the Council now operated and it was felt that the reputation of the Council had been damaged as a result. Members also felt that the Council had not received the level of service expected by contractors on the project and that there were issues of competence, particularly in respect of the costings.

The Managing Director supported by the Strategic Executive Board and other senior officers of the Council responded to the Committee's questions and observations, the details of which are summarised as follows and should be read in conjunction with the detail in the lessons learned report

### **It does seem that there has been a responsibility issue that has come out from the report. How has the management team been managed?**

- Detail on the action taken in relation to council employees accountability and responsibility for the project could be discussed in private session.

(The Chair commented that he would like as many questions answered on the open session of the meeting. If there were any questions that could not be responded to in open session, then the meeting would move into closed session)

- The Council had not accepted what has happened on the project and a number of things have happened to improve the Council's services over recent years.
- The project comprised two schemes. One to do with capacity of the Civic Halls and the other to do with the building. The project had slipped through the net and it had not been picked up sooner.
- We know we need a Project Director, and top advisors. At the time the Council did not get the right advisors.

### **Whether legal proceedings against the external advisors/ contractors who had failed the Council on this project.**

- Meetings have taken place to determine whether grounds exist for claims and the value of claims against external firms. Employees were exploring the Council's ability to cover costs and legal activity was being pursued

### **Why did the project fail?**

- It is complicated what was going on. In 2010 no one employee owned the project. I did not ask questions about Civic Halls because it was not part of my area. Things were not done and the Council received bad advice on the project. No one asked if the intrusive survey work had been undertaken. There were

competence issues. There is evidence that the project was never on track and was being under categorised in its risk rating. The third Project Manager came in and identified issues with the project. The project was then categorised as red risk.

- The first the Senior Management Team became aware of the issues was when it received a limited assurance report from the Council's Internal Audit service. Since then changes have been made to the management of the project. When the Strategic Director for Place looked into the project he identified that there were issues and the project needed to be revisited.

**Why intrusive work on the building had not taken place at the outset of the project?; why the fabric of the building was in such a state of repair?; why the Council's own building repairs/ maintenance programme failed to point out the problems with the building?; and whether a structural survey had now been undertaken.**

- At that time the Council had a £60 million backlog of repairs and record keeping in this area was poor.
- As part of our due diligence the structural survey of the building is being carried out by the new Project Manager.

**The accountability and management responsibility for the project?**

- In terms of governance of the project, the responsibility for the spend and financial aspects of the project rested with the Council. The physical construction works will be left to the Project Manager.

**Whether the Council's fiduciary duty been compromised.**

- There were no breaches to Councillors fiduciary duty.

**Why an experienced Project Manager had not been appointed to manage the project at the outset; has an experienced Project Manager now been appointed; what will their responsibility be; and how convinced are we that the new Project Manager would deliver the project on time and to budget?**

- We know we need a Project Director, and top advisors. At the time the Council did not get the right advisors. We are bringing in a new Project Manager to look after the scheme. The new Project Manager was at the early stage of their work. We feel they are the right people to deliver the project.

**On the reporting to elected members and the timeline of events (P93), could action have been taken at the time if Cabinet Members had flagged up any concerns.**

- The Cabinet Member for Resources regularly grilled officers about the state of the project and expenditure on the project and officers had to justify the spend. The view that Councillors did not interrogate the officer about the project is incorrect. As far as we knew the scheme was progressing well.

**Has any work taken place into the impact of the closure on the city centre economy?**

- Work on the impact of the closure of Civic Halls on the city centre economy has not taken place. Work on the growth aspects could take place once the building is refurbished.

**How confident are you that the current cost figure is accurate that the project would be delivered on budget and on schedule?**

- Once the assessment reports are available we can come back and say if we are confident or not that the project would be completed on time and on budget. We cannot give a guarantee on the delivery of the project until the assessment reports are available. It is anticipated that the assessments would be available later in the year around in October 2018.

**Is there scope for seeking external financial support to assist in the delivery of the project, including English Heritage Funding.**

- It has been made clear that the Council is expected to secure external funding for the project. This was being explored but there was no guarantee that external funding would be secured. We need to wait for the results from the surveys. The English Heritage option is something being considered. However, it might be too late in the day to try and secure that funding.

**Should the Committee have a site visit to Civic Hall**

- A visit by the Committee to the Civic Halls site would be welcomed.

**Resolved**

1. That the lessons learned action plan be received.
2. That the Committee oversee the implementation of the action plan over the next 12 months and to receive a quarterly update report on the progress made in implementing the lessons learned.
3. That the actions taken to date be supported which include:
  - a. To improve programme and project management
  - b. To ensure better financial modelling
4. To ensure the right people are appointed to the right roles including appropriate project managers and/or a programme director for large scale capital projects
5. That the Managing Director's decision to make the report an open report to ensure maximum transparency be noted.

**6 Action Plans - Lessons Learned**

The Committee received the report which brought the three action plans from the lessons learned reports together in a single document to provide an overview of the Council's intended actions to improve in the future. Keith Ireland, Managing Director reported that the action plans would set the Committee's agenda for the future.

The Committee noted that the recommendations from the Markets Relocation Action Plan were in place, however the action plan did not include any timescales. The Chair asked that the Council's Projects and Programmes Manager be invited to future meetings of the Committee as appropriate to provide an update on projects.

The Chair of the Committee said that while it was not the role of the Committee to micro-manage large scale capital projects, it would continue to monitor the risks associated with such projects – predominantly through the strategic risk register, but would welcome support from the Council's Projects and Programmes Manager if it was flagged that such projects were not meeting financial or completion targets. The Committee would also focus on ensuring that the recommendations made in these reports were being implemented in a timely manner and he stressed the importance of ensuring that these are achieved.

The Committee was informed that the Audit function was taking a larger role and was now more integrated within project management boards than in the past. The model the Council now had for managing major capital projects was the right one. In the future Mr Bob Hide from Equib would be attending meetings of the Committee, as appropriate, to provide the Committee with independent audit assurance on major projects and programmes.

Resolved:

1. That the lessons learned action plans be received.
2. That the Committee oversee their implementation over the next 12 months and to receive a quarterly update report on progress with implementing the lessons learned.
3. That the actions taken to date be supported which include:
  - a. To improve programme and project management
  - b. To ensure better financial modelling
  - c. To ensure partners deliver their commissions to the right quality and specification
  - d. To ensure the right people are appointed to the right roles including appropriate project managers and/or a programme director for large scale capital projects
4. That the Managing Director's decision to make the report an open report to ensure maximum transparency be noted.

## 7 **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 paragraphs 1, 3 and 5 of Schedule 12A of the Act.

## 8 **Action Plan - Lessons Learned**

In response to further questions and comments from the Committee on the lessons learned reports, the Committee was informed of:

- Action taken to hold employees and contractors accountable for their shortcomings on the Civic Halls refurbishment project.

- Capacity existed within the Council's Legal Services and external legal support that could be secured to ensure the Council's interests are protected.
- The role Verto project management system in providing the Council with the information it needs to manage projects.
- Deep dives that would be taking place into projects to check and provide independent assurance to the Committee on the state of projects and programmes.
- The Director of Finance's expectation that her team would be involved at the outset on any capital programme project group set up by the Council.

Resolved:

That the verbal report be noted.



<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Audit and Risk Committee</b> 17 September 2018
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<b>Report title</b>	Annual External Audit Letter	
<b>Cabinet member with lead responsibility</b>	Councillor Louise Miles Resources	
<b>Accountable director</b>	Claire Nye, Director of Finance	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee(s)</b>	Emma Bland Tel Email	Finance Business Partner 01902 553928 Emma.Bland2@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	None	

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**Recommendation for noting:**

The Committee is asked to note:

1. The Annual Audit Letter provided by Grant Thornton.

## **1.0 Purpose**

- 1.1 To update the Audit and Risk Committee on the key findings arising from the work carried out at the Council, its subsidiaries (the group) and the West Midlands Pension Fund for the year ended 31 March 2018.

## **2.0 Background**

- 2.1 Annually Grant Thornton provide a commentary on the results of their work to the Council and external stakeholders, and to highlight issues that they wish to draw to the attention of the public. A copy of the Annual Audit Letter is attached at Appendix A.

## **3.0 Financial Implications**

- 3.1 The audit of the accounts and the Value for Money conclusion by the external auditors, are important elements of the accountability and transparency of the Council's finances.  
[EB/05092018/V]

## **4.0 Legal implications**

- 4.1 The Secretary of State makes the Accounts and Audit Regulations in exercise of powers conferred by the Local Audit and Accountability Act 2014. The Accounts and Audit Regulations 2015 require the 2018-2019 Statement of Accounts be produced in accordance with proper practice.
- 4.2 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 31 May 2018 and published by 31 July 2018.  
[TS/07092018/Q]

## **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.

## **8.0 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**

- 9.1 There are no relevant preceding reports.



# Annual Audit Letter

*Year ending 31 March 2018*

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City of Wolverhampton Council  
30 August 2018

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Your key Grant Thornton  
team members are:

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2. Audit of the Accounts
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## Appendices

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# Executive Summary

## Purpose

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), its subsidiaries (the group) and the West Midlands Pension Fund for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 23 July 2018. Our findings from the audit of the Pension Fund were reported to the Chair of the Pensions Committee on 23 and 31 July 2018.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the group's financial statements to be £15,503,000, which is 1.8% of the group's gross operating expenses. We determined materiality for the audit of the pension fund accounts administered by the Council to be £114,405,000, which is 0.75% of the pension fund's net assets.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the group's financial statements on 31 July 2018. We gave an unqualified opinion on the pension fund accounts of the West Midlands Pension Fund on 31 July 2018.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 August 2018.
<b>Certification of Grants</b>	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 2018. We will report the results of this work to the Audit and Risk Committee in our Annual Certification Letter.
<b>Certificate</b>	We are unable to certify that we have completed the audit of the accounts of City of Wolverhampton Council as we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. As the Pension Fund has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements.

## Respective 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 and group's financial statements, including those of the Pension Fund (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 and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

# Audit of the Accounts

## Our audit approach

### Working with the authority

We have delivered a number of successful outcomes working alongside you:

- **An efficient audit** – we delivered an efficient audit with you in May and June, delivering the accounts before the deadline
- **Sharing our insight** – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- **Providing training** – we provided your teams with training on financial accounts

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

### Materiality

In our audit of the group's financial statements (including the pension fund), 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.

### Authority materiality

We determined materiality for the audit of the group accounts to be £15,503,000, which is 1.8% of the group's gross operating expenses. We determined materiality for the audit of the Council's accounts to be £15,426,000, which is 1.8% of the Council's gross operating expenses. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality of £100,000 for senior officer remuneration as we considered these disclosures to be sensitive and of specific interest to the reader of the accounts.

We set a lower threshold of £775,150, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

### Pension Fund Materiality

For the audit of the West Midlands Pension Fund accounts, we determined materiality to be £114,405,000, which is 0.75% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We considered the need to set lower levels of materiality for sensitive balances, transactions or disclosure in the accounts, and determined not to set any lower levels.

### The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts and the narrative report and the annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is based on a thorough understanding of the group'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

## Authority Significant Audit Risks

These are the significant 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	Findings and conclusions
<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including West Midlands Combined Authority, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>Based on the rebuttable we did not consider this to be a significant risk for City of Wolverhampton Council and we identified no issues in respect of revenue recognition in the course of our work.</p>
<p><b>Management override of internal controls</b></p> <p>Under ISA 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented an understanding of the accounting estimates, judgements applied and decisions made by management and</li> <li>• considered their reasonableness</li> <li>• obtained a full listing of journal entries, identify and tested unusual journal entries for appropriateness</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Audit of the Accounts

## Authority Significant Audit Risks (continued)

These are the significant 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	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b> The Council revalues all assets over £1m on an annual basis with the remainder being revalued on a cyclical basis or as considered necessary in order to ensure that all assets are revalued at least every 5 years, in line with the Code requirements.</p> <p>This is to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>considered the competence, expertise and objectivity of any management experts used.</li> <li>discussed with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>We identified that Council Dwellings were understated by £109.6m. The CIPFA Code requires that the fair value of housing stock held for social housing purposes reflects the Existing Use Value for Social Housing. This was 34% when the previous full valuation was carried out in April 2015; however the percentage increased to 40% from 2016/17. When the percentage increase between the April 2015 valuation and the March 2018 valuation was applied to the 2015 valuation, it was not updated to reflect the change in social housing factor from 34% to 40%. This resulted in a £109.6m understatement of Council Dwellings. Management adjusted the financial statements to correct this error.</p>
<p><b>Valuation of the Authority's pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out</li> <li>undertaken procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary</li> </ul>	<p>Our audit work has not identified any issues in respect of the pension fund net liability.</p>



# Audit of the Accounts

## Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including City of Wolverhampton Council as the administering body, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>We did not consider this to be a significant risk for West Midlands Pension Fund and we identified no issues in respect of revenue recognition in the course of our work.</p>
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>The Pension Fund faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li> <li>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Audit of the Accounts

## Pension Fund Significant Audit Risks (continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of level 3 investments</b>                      Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>gained an understanding of the Fund's process for valuing Level 3 investments and evaluated the design of the associated controls</li> <li>reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided by these types of investments.</li> <li>for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, where available, at the latest date for individual investments and agreeing these to the fund manager reports at that date.</li> <li>reconciled those values to the values at 31st March 2018 with reference to known movements in the intervening period.</li> <li>for direct property investments we agreed values in total to the valuer's report and also reviewed title deeds for ownership</li> <li>considered the competence, expertise and objectivity of property valuer's as experts</li> <li>assessed in more detail the arrangements the Fund has for assessing the competence of Fund managers as valuers, monitoring the valuation which they produce and assessing their overall governance and compliance.</li> </ul>	<p>Our work did not identify any significant issues in respect of valuation of Level 3 investments. We concluded the estimates were reasonable. Our testing identified that there was a combined difference greater than our triviality threshold between the estimated level three investment balances in the Pension Fund accounts and the year-end confirmations and audited accounts we received from Fund Managers.</p>

# Audit of the Accounts

## Audit opinion

We gave an unqualified opinion on the group's financial statements on 31 August 2018, in advance of the national deadline.

## Preparation of the accounts

The group presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Risk Committee on 23 July 2018.

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

- We identified that Council Dwellings were understated by £109.6m. The CIPFA Code requires the fair value of housing stock held for social housing purposes to reflect the Existing Use Value for Social Housing. This was 34% when the previous full valuation was carried out in April 2015; however this was uplifted to 40% from 2016/17. This uplift was not reflected in the valuation of the Council Dwellings in the draft financial statements, which resulted in a £109.6m understatement of Council Dwellings. Management adjusted the financial statements to correct this error.
- We noted from our review of maturity of borrowings that the split between current and non-current liabilities was incorrect: current liabilities were understated by £8m with an overstatement of £8m in non-current liabilities. This also led to a number of disclosure adjustments needing to be made to the financial instruments note.
- In performing an analytical review, comparing current year values to prior year, the finance team identified some miscodings of internal recharges in the 'Corporate Services' and 'Corporate Landlord/Housing' lines of the CIES for the year ending 31 March 2017. These have been corrected, and explained in a prior period adjustment note. These are reclassifications only and do not have an impact on the Council's outturn position for the year ending 31 March 2017.
- PFI: The liability disclosed in relation to St Matthias and Heath Park was £1.003m lower than the audit estimate. The Highfield and Penns School PFI liability was £1.6m lower than our estimate. These were not adjusted for on the grounds that it was not considered to be material.

## Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in and/or alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

**Whole of Government Accounts (WGA)** We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement. As required by the NAO, our report set out the unadjusted misstatements already identified (see earlier on this page in relation to the PFI liabilities).

## Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of West Midlands Pension Fund on 31 July 2018.

## Issues arising from the audit of the pension fund accounts

We reported the key issues from our audit of the pension fund accounts to the Chair of the Council's Pensions Committee on 23 and 31 July 2018.

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

- Our main difficulty was in reconciling contributions shown in the accounts to underlying records such as employer statements, the ledger and cash receipting system. This was the first year of employers submitting contribution remittances online and this phased implementation during 2017/18 led to some employers submitting multiple returns in some periods, making reconciliation more difficult. In addition, following the change and transition to a more automated system mid-year, manual journals needed to be posted from automated control sheets from the employer web submissions in the Pensions Management System (UPM). Added to the complexity of system change during the year, following completion of the 2016 actuarial valuation and in line with the Rates and Adjustments Certification certified by the Scheme Actuary, during 2017/18 several employers prepaid contributions in order to obtain cash discounts and this complicated the accounting transactions recorded on the system.

# Audit of the Accounts

- As a result of these difficulties, we identified significant errors in the recording of contributions paid on six of our sample of ten employers. Overall it was identified that employers' contributions income was overstated by £115 million. Employees' contributions were understated by £14 million. The final version of the statement of accounts was amended to correct this. The Fund was able to provide evidence that the issues which arose related to the 6 largest employers who had made pre-payments arrangements of future service contributions. The Fund had 622 employers in total at the year end, submitting monthly returns, and there had been extensive change in the payment arrangements during the year. In aggregate the contribution errors amounted to 0.66% of the total value of the Fund.
- We understand that in 2018/19 controls are being strengthened to ensure that employers can only make one submission per period, all contributions submissions are captured and also quarterly employer statements are being requested which can be reconciled to submissions on a more timely basis.
- Following dialogue with officers, we understood that they had applied a different accounting treatment to that which we were expecting to the pre-payment of future service contributions, and area where there is a lack of directly-applicable accounting guidance. A number of employers paid their contributions early. The relevant contributions were of two types – those relating to past service deficits and those relating to future service. In the draft accounts, all the early payments received in the first category were accounted for as income in 2017/18, but only a third of the latter category was taken as income in 2017/18, with a creditor of £267 million created on the net assets statement to reflect the cash which had been received which would normally have been received in future years. In our view, the accounting treatment should have been the same for both categories, with all the income credited to 2017/18. While we understand that officers were seeking to reflect in the accounting the years to which the service related, our view was that this is not relevant, and the liability (creditor) created in the net assets statement did not meet the Code definition of a liability. We do acknowledge, however, that this is an area of accounting for which there is no directly-applicable guidance. Officers agreed to eliminate the creditor and credit the entire future service amount to income in 2017/18.
- The initial bank reconciliation we reviewed did not provide a clear explanation of why cash shown in the accounts and ledger differed from that shown in bank statements. Further versions were produced before we arrived at a bank reconciliation which was appropriate to audit. This was attributed to the experience of some of the team members following high levels of staff turnover during the year end, plus the significant increase in workload following transition of assets to LGPS Central Ltd. The final reconciliation contained a very large number of reconciling items. The Fund recognises that the bank reconciliation is a fundamental control over the integrity of the accounts and we understand that new procedures are being put in place in 2018/19.
- UK cash deposits were overstated on the Net Assets Statement by £39 million. The Fund has not adjusted for this in the final version of the accounts due to its immateriality.
- In attempting to reconcile a detailed listing of investment sales to that shown in the accounts, we identified that sales also included fund expenses of £47.7 million. The revised note now separates out fees from sales.

We do appreciate that this has been a very difficult year for the Fund with a complete change in the finance team, multiple changes in systems and processes and managing the transition of employees and assets to LGPS Central Ltd, as well as the new earlier audit deadline. We will work with the Fund going forward to ensure that lessons are learned for both the Fund and ourselves so that future audits run more smoothly, and that we identify and communicate any concerns promptly.

## Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of City of Wolverhampton Council in accordance with the requirements of the Code of Audit Practice. We are unable to certify that we have completed the audit of the accounts of City of Wolverhampton Council as we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. As the Pension Fund has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 overleaf.

## Overall Value for Money 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 2018.

# Value for Money conclusion

## Background and key findings

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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.* 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 below.

Risks identified in our audit plan and how we responded to the risk	Findings
<p><b>Medium Term Financial Resilience</b></p> <p>We identified the Council's 'Medium Term Financial Resilience' as a significant risk. We noted that the Council has historically managed its finances well, achieving financial targets and at the time of our planning, was forecasting a small overspend against the general fund of £1.0m for 2018/19. Nevertheless, the Budget and Medium Term Financial Strategy approved by Council on 1 March 2017 identified that the Council would need to find further budget reduction and income generation proposals totalling £20.5 million over the two-year period to 2019/20 (with £14.8 million required for 2018/19). We have reviewed the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used.</p>	<p><b>Consideration of 18/19 and 19/20 budget and savings requirement</b></p> <p>In the Cabinet paper from November 2017, it was noted that the projected outturn for the General Fund was an overspend in the region of £1.0 million. The Council was able to manage its cost pressures in the last 3 month of the year and, as presented in the Revenue Budget Outturn report to Cabinet on 11 July, the actual outturn was a net underspend of £781,000. This was after meeting the net cost of redundancy and pension strain, after the use of capital receipt flexibility, and contributions to essential earmarked reserves.</p> <p>Services had a net budget overspend of £431,000 for the year but this was offset by additional grant and business rate income, enabling the Council to deliver an overall underspend. It is worth noting that while the People Directorate marginally overspent, the Looked After Children part of the directorate overspent by £2.0m against placement budgets. The majority of this was offset by efficiencies elsewhere across the Children's and Young People budget. We have reported on the Council's monitoring its looked after children in past Audit Findings Reports and note that the Council continue to recognise this as a significant cost pressure and are monitoring the demographics associated with this cohort. Whilst Wolverhampton has seen a modest increase in the number of Looked After Children during 2017-2018, the monitoring report that went to Corporate Parenting Board in May 2018 shows that the number of LACs per 10,000 population remains relatively consistent. Understanding and managing the number of Looked After Children is key to the financial stability of the Council.</p> <p>Overall, we are satisfied that the Council has continued to show strong budget management during 2017/18.</p> <p><b>Consideration of 18/19 and 19/20 budget and savings requirement</b></p> <p>The budget as agreed at Cabinet in its February 2018 meeting, demonstrated that balance would be achieved in 2018-2019 without the use of general reserves. It built on a previous report to Full Council in March 2017 which had highlighted that £14.8 million of savings needed to be identified for 2018-19 in order to meet the budget. We have reviewed the assumptions applied to the 2018/19 budget and are not minded to challenge these assumptions as they do not appear unreasonable. This includes a Council Tax increase of 1.99%. We are satisfied from our review that the Council has sufficiency of reserves to bolster its finances should its savings plans not be delivered, but clearly reserves can only be used once.</p> <p>We note that in the <i>Draft Budget and Medium Term Financial Strategy 2019-2020</i> (as reported to Cabinet 11 July 2018) that consideration has been given to a number of savings schemes. The report includes high level "targets" for directorates, as well as some one-off gains. These will enable the Council to reduce its projected shortfall but will be insufficient in the long term as they will not provide recurrent solutions.</p> <p>A number of these plans are in development or rely on decisions by members, such as a 2.99% increase in Council Tax. There will be an updated report presented to Cabinet in October 2018 detailing budget reduction and income generation proposals that will be subject to formal budget consultation during October to December 2018.</p> <p>The Council will need to maintain its focus on savings in 2018/19 and 2019/20 if it is to remain financially resilient.</p> <p><b>Auditor view</b></p> <p>On the basis of the work performed we have concluded that the risk was sufficiently mitigated and we are therefore satisfied that the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>

# Value for Money conclusion

## Key findings continued

Risks identified in our audit plan and how we responded to the risk	Findings
<p><b>Strategic Asset Management</b></p> <p>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 that further action was needed to embed the Strategic Asset Management function and to establish a Strategic Asset Management Plan. It was noted in the 2015/16 and 2016/17 Annual Governance Statement that a Strategic Asset Plan had yet to be developed.</p> <p>We have reviewed the Council's progress against this for 2017/18 to assess whether these actions have been undertaken and are effective</p>	<p><b>Key actions by the Council are:</b></p> <ul style="list-style-type: none"> <li>Data management</li> </ul> <p>Focal365 has been obtained which will function as a Council-wide corporate asset database. This will enable the current Corporate Property Database (SAM), Agresso and Energy Database to report into one place enabling asset performance reports to be produced. The test model provided by Focal365 identified a number of gaps in the data being used. The Council have now employed a dedicated Asset Data Officer to review this data on a line by line basis, and a Business Analyst to ensure the project is delivered. It is anticipated that work on validating and populating information to enable the new system will take place in order for a go live by August 2018.</p> <ul style="list-style-type: none"> <li>Utilisation survey/Commercial Estate</li> </ul> <p>The Council has developed an Asset Challenge programme (the first workshop for which was held in June 2017). The purpose of this programme is to provide challenge as to how buildings are being utilised and the capacity need. Further workshops continued to be held and more recently have focussed on land. The approach being taken to the Asset Challenge is a step-by-step process with the aim of assessing all Council property and determining whether they can be disposed of or used more effectively and efficiently. The disposals programme which has arisen from this continuous asset challenge is in place for both 2018/19 and 2019/20.</p> <ul style="list-style-type: none"> <li>Developing Strategic Asset Plan</li> </ul> <p>The Annual Governance Statement highlights the Corporate Landlord as a governance issue which has not been resolved, and carries forward the risk to 2018/19. It notes that a draft Strategic Asset Plan has been produced but is yet to be finalised. The Plan comprises three documents: Strategy, Policy and Action Plan. These are currently being finalised with external support from CIPFA with an expected completion of July 2018. The Plan is scheduled for reporting to Cabinet in October 2018. The Disposal Programme for 2018-19 and 2019-2020 has been identified and the delivery of the programme is in progress.</p> <ul style="list-style-type: none"> <li>Other issues</li> </ul> <p>The Council has undertaken reviews during the year with regard to the build of Wolverhampton Markets, Wolverhampton train station and Wolverhampton Civic Hall. It has identified deficiencies with regard to the programme management of all three projects. We have considered these as part of our review and concluded that:</p> <p>Markets – while deficiencies with regard to the project exist the project in itself is not material to the VFM conclusion</p> <p>Train station – while deficiencies exist with regard to the project management of the capital build these are not unusual for this type of complex project</p> <p>Civic Hall – the deficiencies appear significant but the final outcome of the project of not clear and the majority of the costs will fall into 2018/19. We will therefore consider this project as part of our 2018/19 audit.</p> <p><b>Auditor view</b></p> <p>There continues to be delays in the production of the Strategic Asset Plan compared to when it was first anticipated to have been provided. This has been due to delays in the establishment of an overall estates strategy. We also note that there have been deficiencies with regard to key projects. However, we also note that the Council has begun to develop a corporate asset database, that the Asset Challenge process is underway and a disposals programme agreed. On the basis of the work performed we have concluded that the risk was sufficiently mitigated and we are therefore satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>

## A. Reports issued and fees

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

### Reports issued

Report	Date issued
Audit Plan	12 March 2018
Audit Findings Report	23 July 2018
Annual Audit Letter	August 2018

### Fees

Report	Planned £	Actual fees £	2016/17 fees £
Statutory group audit	189,428	189,428	189,428
Audit of Pension Fund	48,618	TBC****	48,618
Audit of subsidiary, Wolverhampton Homes Limited	27,000	27,000	N/A**
Audit of subsidiary company Yoo Recruit Limited*	15,000	TBC***	15,000
Audit of subsidiary, City of Wolverhampton Housing Company Limited*	12,000	TBC***	N/A**
Housing Benefit Subsidy Claim	14,128	14,128	16,455
<b>Total fees</b>	<b>257,556</b>	<b>TBC</b>	<b>269,501</b>

\* These companies were not consolidated into the group accounts on the grounds of materiality

\*\* This was our first year as auditors for these subsidiaries

\*\*\* The audits of these companies have yet to take place in respect of the period ending 31 March 2018.

\*\*\*\* We are currently discussing with officers the extra fee needed to cover additional work which we had to carry out in areas such as contributions.

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
• Certification of Housing capital receipts grant – work undertaken in January 2018	2,500
• Compliance audit for Homes and Communities Agency grant – work undertaken in December 2017	2,115
<b>Non-Audit related services</b>	
• Strategic Financial Management Development Programme: attendance of two delegates from the Council – work undertaken in Autumn 2017	5,500
• Agreed Upon Procedures confirming compliance by the City of Wolverhampton College in accordance with the Service Level Agreement in place with the Council – work undertaken in October 2017	7,500

### Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.





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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Audit and Risk Committee</b> 17 September 2018
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<b>Report title</b>	External Audit Progress Report and Sector Update	
<b>Cabinet member with lead responsibility</b>	Councillor Louise Miles Resources	
<b>Accountable director</b>	Claire Nye, Director of Finance	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee(s)</b>	Emma Bland	Finance Business Partner
	Tel	01902 553928
	Email	Emma.Bland2@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	None	

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**Recommendation for noting:**

The Committee is asked to note:

1. The Progress Report and Sector Update provided by Grant Thornton.

## **1.0 Purpose**

- 1.1 To update the Audit and Risk Committee on progress made by Grant Thornton in delivering their responsibilities as the Council's external auditors.

## **2.0 Background**

- 2.1 Annually Grant Thornton customarily report on progress made against their Audit Plan and provide an update on technical matters, sector issues and developments. A copy of the report is attached at Appendix A.

## **3.0 Financial Implications**

- 3.1 The statement, and the audit of those statements by the external auditors, is an important element of the accountability and transparency of the Council's finances.  
[EB/05092018/I]

## **4.0 Legal implications**

- 4.1 The Secretary of State makes the Accounts and Audit Regulations in exercise of powers conferred by the Local Audit and Accountability Act 2014. The Accounts and Audit Regulations 2015 require the 2018-2019 Statement of Accounts be produced in accordance with proper practice.
- 4.2 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 31 May 2019 and published by 31 July 2019.  
[RB/22062017/J]

## **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.

## **8.0 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**

- 9.1 There are no relevant preceding reports.

# Audit Progress Report and Sector Update

City of Wolverhampton Council  
Year ending 31 March 2019  
Page 45  
September 2018



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# Introduction

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**Mark Stocks**

Engagement Lead

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This paper provides the Audit & Risk Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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Members of the Audit & Risk Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk).

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

# Progress at September 2018

## 2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion was issued on the 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have not yet issued the certificate in relation to the audit as we can not certify the audit closed until the pension fund consistency statement has been issued, which is reliant on the pension fund annual report being produced.

Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

## 2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

### Meetings

We met with Finance Officers in July as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Managing Director in July to discuss the Council's strategic priorities and plans.

We will be attending the Council's accounts closedown workshop on 20 November to support officers in working to continue to achieve a smooth closedown in preparation for the 2018/19 audit.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.



# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2018	Complete
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit & Risk Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit & Risk Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

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# Sector Update

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Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit & Risk Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website.

# CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

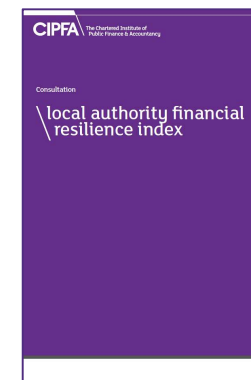
The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

## CIPFA Consultation

### Challenge question:

Has your Director of Finance briefed members on the Council's response to the Financial Resilience Index consultation?



# MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

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With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

## Social Housing Green Paper Consultation



### Challenge question:

What does the Social Housing Green Paper mean for your local authority?



# MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

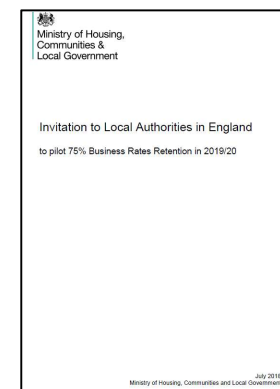
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25<sup>th</sup> September 2018.



# Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

## Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

## Accounting for councils’ revenues

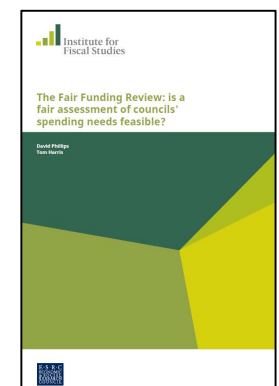
The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

## The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



# National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

**Financial challenges** – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

**Culture and structure** – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

**Strategic issues** – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

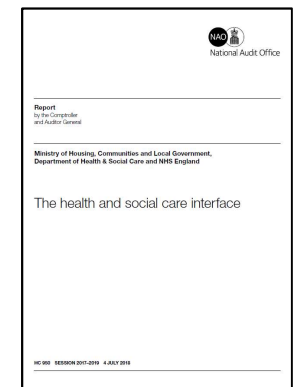
This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:  
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## The health and social care interface

### Challenge question:

Has the Audit and Risk Committee considered the 16 challenges to joint working and what can be done to mitigate these?



# The Vibrant Economy Index

## a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website ([www.granthornton.co.uk](http://www.granthornton.co.uk)) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

### Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea





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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

## National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

## Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/728722/BRR\\_Pilots\\_19-20\\_Prospectus.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf)

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>



<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Audit and Risk Committee</b> 17 September 2018
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<b>Report title</b>	Capital Projects Lessons Learnt – Progress Update	
<b>Accountable director</b>	Claire Nye, Director of Finance	
<b>Originating service</b>	Audit	
<b>Accountable employee(s)</b>	Peter Farrow Tel Email	Head of Audit 01902 554460 <a href="mailto:peter.farrow@wolverhampton.gov.uk">peter.farrow@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Strategic Executive Board	4 September 2018

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**Recommendation for noting:**

The Committee is asked to note:

1. The progress made in implementing the lessons learnt recommendations in respect of the three capital projects that were reported to the Council's Audit and Risk Committee on 25 June 2018.

## 1.0 Purpose

- 1.1 That the Audit and Risk Committee note the contents of this report.
- 1.2 The report provides an update on the progress made in implementing the lessons learnt recommendations made in the following reports:
- Markets Relocation
  - Wolverhampton Interchange (Train Station)
  - Civic Halls Refurbishment
- 1.3 These reports were presented to the Audit and Risk Committee on 25 June 2018. At this meeting it was agreed that regular updates would be provided to the Committee in terms of the progress made in implementing the recommendations.

## 2.0 Background

- 2.1 The Council's former Managing Director commissioned Audit Services to undertake a lessons learnt review for three capital projects, which included the Markets Relocation, Interchange Project (Train Station), and Civic Halls Refurbishment.
- 2.2 As a learning organisation the Council is committed to being open and transparent about what it can learn and improve in the future. Therefore, the former Managing Director took the decision to present all three reports to the Council's Audit and Risk Committee on 25 June 2018.
- 2.3 As a result of all three reports being presented, the Council's Audit and Risk Committee requested that regular updates were provided on the progress made in implementing the recommendations in the reports

## 3.0 Progress, options, discussion

- 3.1 The progress made in implementing the recommendations in the three reports is illustrated in the table below:

Capital Project	Total No. of Recommendations in the report	Total Recommendations Implemented	% Progress made
Markets Relocation	10	9	90
Wolverhampton Train Station	18	12	67
Civic Halls Refurbishment	33	20	61

### *Markets Relocation*

- 3.2 This project is now closed. The only recommendation that remains outstanding relates to a review of the Constitution to ensure changes to key project completion dates, which

provide a risk to the Council, are communicated to Councillors. This work is ongoing and is due to be completed by the Constitution Review Group during February 2019.

#### *Wolverhampton Train Station*

3.3 The main outstanding recommendations in respect of this report are as follows:

- Designated project support from the Council's Projects and Programmes Team is to be reviewed to ensure project documentation is collated centrally, and the Council's project management system (Verto) is kept up to date.
- Whilst there are no further procurement requirements for this project Corporate Procurement will be consulted as and when required.
- Specialist support has been procured from Equib, and as a matter of priority on all future, major capital programmes a methodology is being developed to establish risk-based project budget contingencies. It is anticipated that this work will be completed next month.

#### *Civic Halls*

3.4 The main outstanding recommendations in respect of this report are as follows:

- The Head of Projects and Works is implementing a standard approach to the delivery of capital construction projects. This approach is based on the Royal Institute of British Architects (RIBA) Plan of Work which includes consideration of the Maintenance and Operations strategies at the design stages. It is anticipated that this work will be completed next month.
- A change control process is currently being developed in respect of the Civic Halls programme. This is being developed as part of the work the Head of Projects and Works is undertaking in respect of capital construction projects.
- Specialist support has been procured from Equib, and as a matter of priority on all future, major capital programmes a methodology is being developed to establish risk-based project budget contingencies. It is anticipated that this work will be completed next month.
- The project is currently being redefined and so formal external funding opportunities will be discussed once this has been achieved. Future discussions in respect of this will be captured in the board's agendas and minutes.

3.5 It should be noted that once the standard approach for the delivery of capital construction projects has been revised the majority of open recommendations will be addressed. It should also be noted that the progress of recommendations is monitored by the Civic Halls Board. There will be greater certainty on the project once a number of surveys that are currently underway have been completed.

3.6 Audit Services continue to monitor and track the progress made in implementing these recommendations. In addition, to the lessons learnt recommendations made in these reports, the Council has implemented the following:

- Strategic Executive Board receives regular updates on the progress made in implementing the lessons learnt recommendations and also receives regular updates on the progress of all the Council's major projects and programmes;
- The Council's Project Assurance Group regularly reviews the Council's projects and programmes;
- Councillor updates are provided by a designated Member Reference Group, which has cross party representation; and
- Additional training has been provided for Senior Responsible Officers, which is supported by the requirement to sign an accountable letter which clearly sets out their roles and responsibilities in overseeing the project or programme.

#### **4.0 Financial implications**

- 4.1 There are no direct financial implications arising from the recommendations in this report.  
[CN/06092018/H]

#### **5.0 Legal implications**

- 5.1 There are no legal implications arising from the recommendations in this report.  
[TS/05092018/W]

#### **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 The report outlines the absolute necessity of ensuring that qualified and competent people and organisations are employed and/or deployed onto large capital programmes.

#### **9.0 Corporate landlord implications**

- 9.1 The implications in respect of Corporate Landlord's management of Civic Halls are outlined in the report.

#### **10.0 Schedule of background papers**

- 10.1 None.

CITY OF  
WOLVERHAMPTON  
COUNCIL

# Audit and Risk Committee

17 September 2018

<b>Report title</b>	Strategic Risk Register and Strategic Assurance Map	
<b>Accountable director</b>	Claire Nye, Finance	
<b>Originating service</b>	Audit	
<b>Accountable employee(s)</b>	Peter Farrow Tel Email	Head of Audit 01902 550417 Peter.Farrow@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Corporate Leadership Team Strategic Executive Board	3 September 2018 4 September 2018

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## Recommendations for noting:

The Committee is asked to note:

1. The latest summary of the Council's strategic risk register at appendix 1.
2. The change in the target date for risk 24 – Maximising Benefits from West Midlands Combined Authority (WMCA), to take into account the ongoing work reviewing the arrangements in place to ensure the Council capitalises on opportunities from WMCA.
3. The main sources of assurance available to the Council against its strategic risks at appendix 2.

## 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 July 2018.
- 2.3 The strategic risk register does not include all 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 directorate, programme, project or partnership risk registers in line with the Council's corporate risk management framework.
- 2.4 A summary of the strategic risk register is included at appendix 1 of this report which sets out the status of the risks as at August 2018. 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 2 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 <b>independent</b> challenge to the levels of assurance provided by business operations and oversight functions

## 3.0 Progress, options, discussion, etc.

- 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 32 – Waste Management Services to be called in for the September 2018 meeting. Details regarding this risk are included in the risk register at appendix 1 and the Lead Waste Officer will be attending the meeting to discuss details of the risk with the Committee.



#### **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.  
[MH/30082018/V]

#### **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.  
[TS/28082018/Y]

#### **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 – None**

#### **11.0 Appendices**

11.1 Appendix 1 – Strategic Risk Register

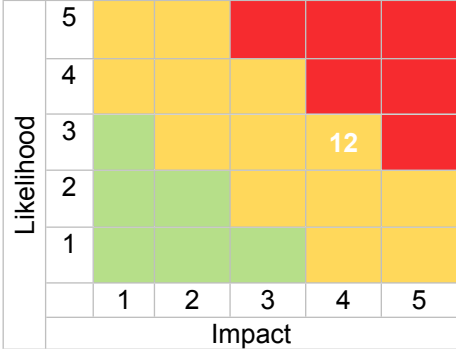

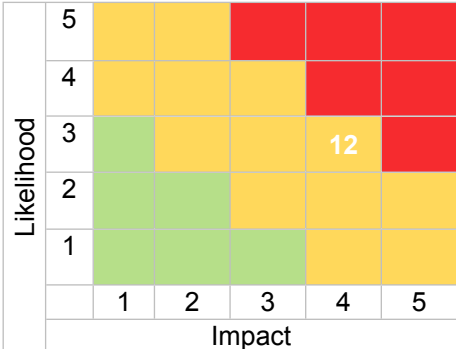

11.2 Appendix 2 – Strategic Risk Assurance Map

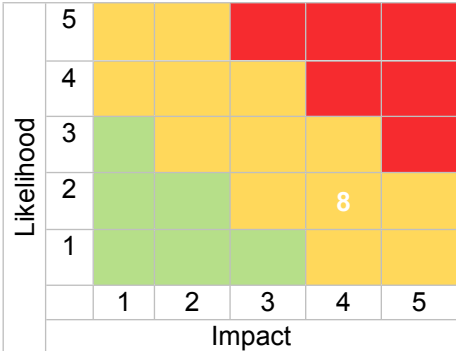

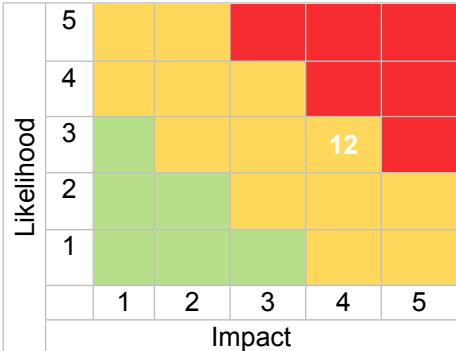

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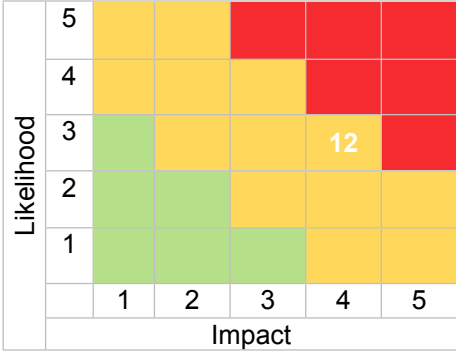

# Appendix 1 – Strategic Risk Register

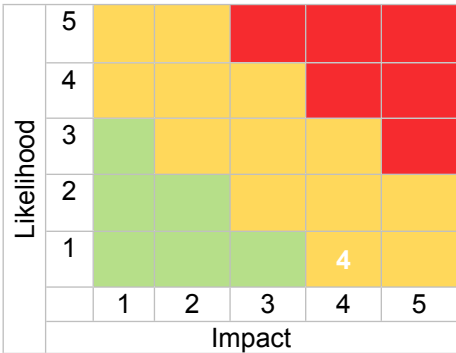

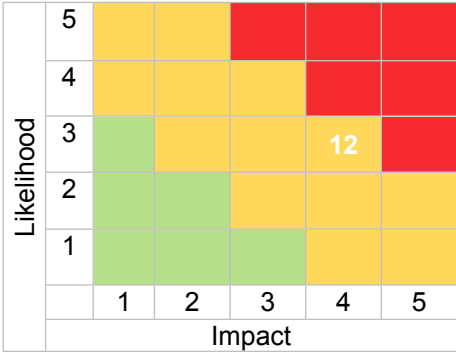
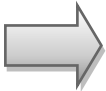
August 2018

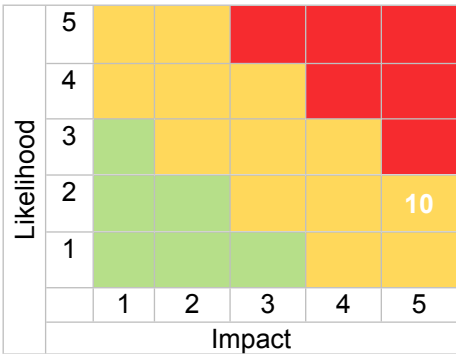

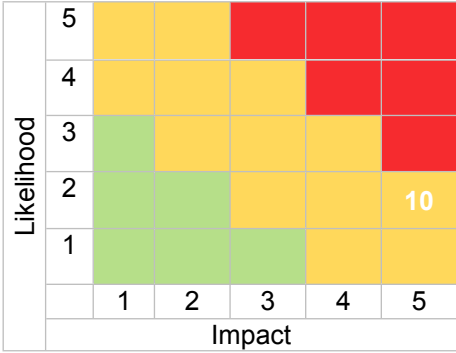



Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date
3 01/14	<p><b>Information Governance (IG)</b></p> <p>If the Council does not put in place appropriate policies, procedures and technologies to ensure:</p> <ul style="list-style-type: none"> <li>that the handling and protection of its data is undertaken in a secure manner and consistent with both the provisions of the Data Protection Act 1998 and the General Data Protection Regulation (GDPR) which came into force during May 2018;</li> <li>compliance with the Freedom of Information Act and Environmental Information Regulations;</li> </ul> <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 Val Gibson</p> 	12 Amber		12 Amber	8 Amber Nov 2018
4 01/14	<p><b>Medium Term Financial Strategy</b></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, such as the transformation of Adults and Children's services then revenues may be exhausted, resulting 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: Claire Nye Cabinet Member: Cllr Louise Miles</p> 	12 Amber		12 Amber	8* Amber On-going

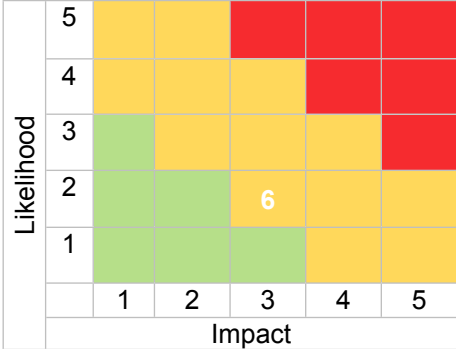

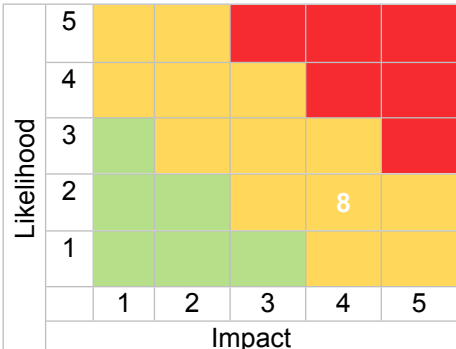
Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date
7 01/14	<p><b>Safeguarding</b></p> <p>If the Council's safeguarding procedures and quality assurance processes are not consistently and effectively implemented then it will fail to safeguard children and vulnerable adults and lead to reputational damage.</p> <p>Risk owner: Emma Bennett Cabinet Member: Cllr Sandra Samuels OBE and Cllr Paul Sweet</p> 	8 Amber		8 Amber	8 Amber On-going
8 01/14	<p><b>Business Continuity Management (BCM)</b></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: John Denley Cabinet Member: Cllr Hazel Malcolm</p> 	12 Amber		12 Amber	8 Amber March 2019

Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date
9 01/14	<p><b>City Centre Regeneration</b></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"> <li>the attraction of private sector investment</li> <li>the creation of space to accommodate new businesses and economic growth</li> <li>the enhancement and creation of visitor attractions</li> <li>the creation of well-paid employment</li> <li>retention of skilled workers</li> <li>the creation of residential opportunities</li> <li>a functioning city centre offer that serves the residents of the City</li> <li>a reduced demand on Council services</li> </ul> <p>Risk Owner: Richard Lawrence Cabinet Member: Cllr John Reynolds</p> 	12 Amber		12 Amber	12* Amber On-going

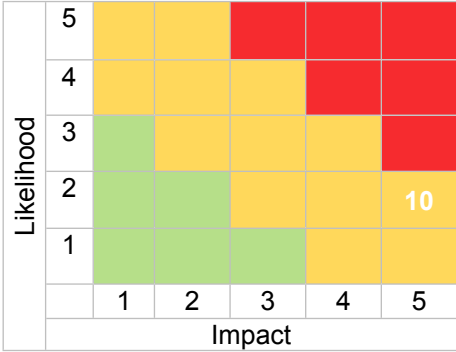

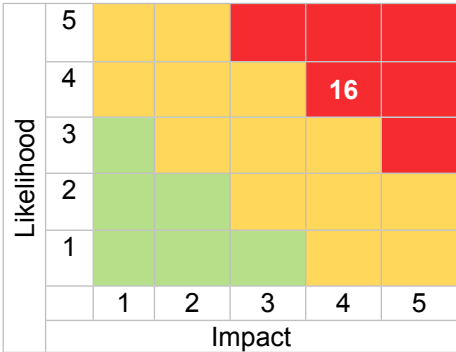

Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date
14 01/14	<p><b>School Improvement</b></p> <p>If the Council does not provide effective support, challenge and appropriate intervention to raise standards in maintained 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: Meredith Teasdale Cabinet Member: Cllr Lynne Moran</p>  <p>*In accordance with the Schools Causing Concern Guidance – February 2018, the Council attend regular meetings with the Regional School Commission and notify them of any concerns surrounding Academies.</p>	4 Amber		4 Amber	4 Amber Target achieved 95% maintained schools @ good or above
15 01/14	<p><b>Emergency Planning</b></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 a major incident. Failure to train sufficient numbers of staff to undertake the roles in our plans that assist our residents in emergencies and protect the council's reputation from damage. Failure to audit the emergency response plans and capabilities of third party organisations that deliver statutory services on behalf of the council.</p> <p>Risk owner: John Denley Cabinet Member: Cllr Hazel Malcom</p> 	12 Amber		12 Amber	8 Amber March 2019

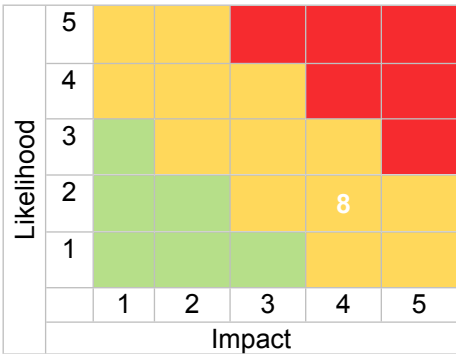

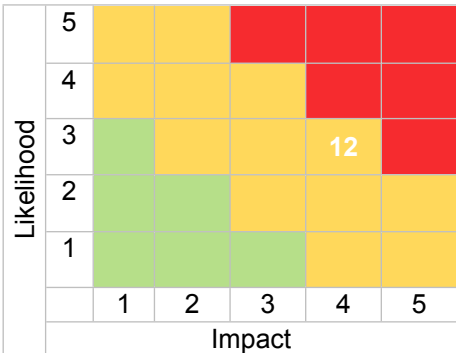

Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date
22 01/17	<p><b>Skills for Work and Economic Inclusion</b></p> <p>If the city residents do not have the appropriate skills that employers require and the Council does not work effectively with its partners to promote and enable growth, high rates of unemployment and economic inclusion will result in increased demand for council services.</p> <p>Risk owner: Meredith Teasdale Cabinet Member: Cllr Lynne Moran</p> 	10 Amber		10 Amber	10 Amber Ongoing
23 01/17	<p><b>Cyber Security</b></p> <p>Failure to maintain a high level of cyber security (technology, processes and awareness) throughout the Council may result in cyber-attacks and theft or loss of confidential data leading to financial penalties, reputational damage and a loss in public confidence.</p> <p>Risk owner: Gail Rider Cabinet Member: Cllr Val Gibson</p> 	10 Amber		10 Amber	10 Amber Ongoing – Dependent on cyber world-wide cyber incidents

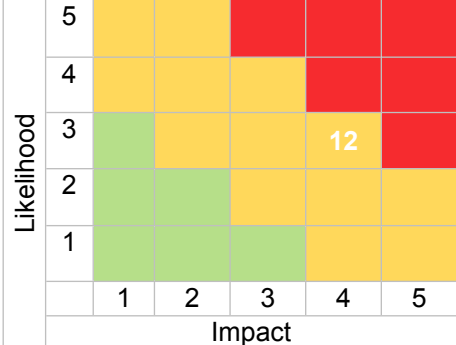



Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date
24 01/17	<p><b>Maximising Benefits from West Midlands Combined Authority</b></p> <p>If the Council does not put in place effective co-ordination arrangements to utilise the opportunities available from being part of West Midlands Combined Authority (WMCA) it will be unable to maximise the benefits and opportunities available to it.</p> <p>Risk Owner: Jennifer Brake Cabinet Member: Cllr Roger Lawrence</p> 	6 Amber		6 Amber	3 Green April 2019
25 03/17	<p><b>Payment Card Industry Data Security Standard</b></p> <p>If the Council does not put in place appropriate systems, procedures and technologies to ensure agent-led telephone payments are compliant with the Payment Card Industry Data Security Standard, there is a risk of data breaches which may result in regulatory action, financial penalties and reputational damage.</p> <p>Risk owner: Claire Nye Cabinet Member: Cllr Louise Miles</p> 	8 Amber		8 Amber	4 Amber April 2019

Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date																																										
27 06/17	<p><b>Safety concerns around the City’s tower blocks</b></p> <p>Following the recent tragic events at Grenfell Tower in London, there is an urgent need for the Council to ensure that the tower blocks in the City do not face the same risks, and that tenants can be assured on this.</p> <p>Risk Owner: Kate Martin Cabinet Member: Cllr Peter Bilson</p> <table border="1" style="margin-top: 10px;"> <tr><td>5</td><td>Yellow</td><td>Yellow</td><td>Red</td><td>Red</td><td>Red</td></tr> <tr><td>4</td><td>Yellow</td><td>Yellow</td><td>Yellow</td><td>Red</td><td>Red</td></tr> <tr><td>3</td><td>Green</td><td>Yellow</td><td>Yellow</td><td>Yellow</td><td>Red</td></tr> <tr><td>2</td><td>Green</td><td>Green</td><td>Yellow</td><td>Yellow</td><td>Yellow</td></tr> <tr><td>1</td><td>Green</td><td>Green</td><td>Green</td><td>Yellow</td><td>5</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	Yellow	Yellow	Red	Red	Red	4	Yellow	Yellow	Yellow	Red	Red	3	Green	Yellow	Yellow	Yellow	Red	2	Green	Green	Yellow	Yellow	Yellow	1	Green	Green	Green	Yellow	5		1	2	3	4	5		Impact					5 Amber		5 Amber	5 Amber Target achieved
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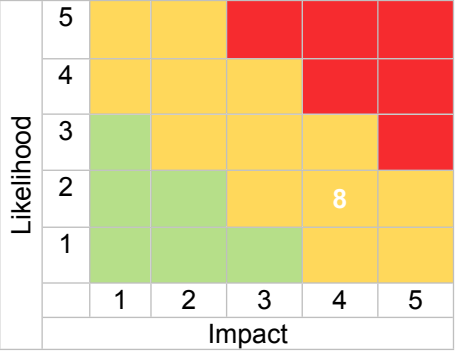
Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date
29 12/17	<p><b>Fire Safety – Public Buildings</b></p> <p>If the Council does not have in place appropriate systems to ensure compliance with the Regulatory Reform (Fire Safety) Order 2005 within public buildings (including schools) there is a risk of injury to members of the public and exposure to regulatory action, financial penalties and reputation damage to the Council.</p> <p>Risk Owner: Andy Moran Cabinet Member: Cllr Peter Bilson</p> 	10 Amber		10 Amber	5 Amber March 2019
30 01/18	<p><b>Civic Halls</b></p> <p>There is a significant reputational and financial risk to the Council and to the City's wider visitor economy if the revised Civic Halls refurbishment programme is not effectively managed in terms of project timings, costs and scope.</p> <p>Risk Owner: Tim Johnson Cabinet Member: Cllr John Reynolds</p> 	16 Red		16 Red	12 Amber Dec 2018

Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date
32 06/18	<p><b>Waste Management Services **</b></p> <p>If the Council does not manage the changes to Waste Service Delivery effectively there is a risk that savings targets will not be delivered, and reputational damage may be incurred due to issues with waste collections.</p> <p>Risk Owner: Ross Cook Cabinet Member: Cllr Steve Evans</p> 	8 Amber		8 Amber	4 Amber Upon full implementation of all the changes to waste management services
33 06/18	<p><b>Governance of Major Capital Projects and Programmes</b></p> <p>The Council will fail to maximise opportunities and incur significant reputational and financial risks if major capital projects are not effectively managed, monitored and reviewed, in terms of project timescales, achievement of milestones and costs.</p> <p>Risk Owner: Tim Johnson Cabinet Member: Cllr John Reynolds</p> 	12 Amber		12 Amber	8 Amber June 2019

Risk ref	Risk title and description	Previous score (June 2018)	Direction of travel	Current score (August 2018)	Target score and date
34 06/18	<p><b>Wolverhampton Interchange Programme (Train Station)</b></p> <p>There is a significant reputational and financial risk to the Council and to the City's wider visitor economy if the Interchange Programme and specifically the train station is not effectively managed in terms of project timings, costs and scope.</p> <p>Risk Owner: Richard Lawrence Cabinet Member: Cllr John Reynolds</p> 	12 Amber		12 Amber	8 Amber Dec 2018

\* 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

\*\* Further details to support the risk called in by Committee are included below.

Risk ref	Risk title and description	Comment
32 06/18	<p><b>Waste Management Services</b></p> <p>If the Council does not manage the changes to Waste Service Delivery effectively there is a risk that savings targets will not be delivered, and reputational damage may be incurred due to issues with waste collections.</p> <p>Risk Owner: Tim Johnson (Ross Cook) Cabinet Member: Cllr Steve Evans</p> 	<p>The Council's Waste Strategy 2018 - 2028 was approved by Cabinet on 6 June 2018. The development and implementation of the Waste Strategy over the next ten years will ensure the timely provision of facilities and services that maximise sustainable benefits for the community and support regeneration and growth.</p> <p>The Waste Strategy sets out the Council's overall vision for the Council's waste service which is as follows: 'To deliver the best most environmentally appropriate and cost-effective service possible for the residents of Wolverhampton to support them to manage their waste in a sustainable way'. Key objectives to enable the Council to deliver their vision are set out below;</p> <ul style="list-style-type: none"> <li>• Lead, encourage and enable behaviour change of our residents through a combination of measures that increase the opportunity and motivation to not only reuse and recycle their waste but to also prevent and repair items to allow them to produce less waste.</li> <li>• Develop and implement a three-year waste and recycling collection service plan to deliver our waste services in a modern, quality and cost-effective way to all residents of the city.</li> <li>• Review our household waste and recycling centre provision in the city and deliver an improvement programme, accounting for: <ul style="list-style-type: none"> <li>• Population size,</li> <li>• Accessibility,</li> <li>• How we can achieve maximum re-use from our centres,</li> <li>• How they can be funded more sustainably.</li> </ul> </li> <li>• Support local businesses and other organisations both small and large within the city to understand their waste responsibilities and to reduce, reuse and recycle their waste appropriately.</li> <li>• Develop a future waste disposal model which builds in flexibility and ensures all future arrangements ensure the long-term stability of waste management for residents of the city through to 2028 and beyond.</li> </ul> <p>Key to these outcomes have been the Council's decisions to:</p> <ul style="list-style-type: none"> <li>• Internally deliver the waste and recycling collections and Household Waste Recycling Centre services from September 2018. Services were transferred from the contractor back to the Council on 1 September 2018. This was a significant programme involving approximately 40 officers to ensure a smooth transition.</li> <li>• Moving to alternate week collections for general waste, this is due to be phased in and commence during October 2018 with an assumption that it will be completed by Christmas 2018. The introduction of a subscription garden waste service that would commence in February 2019. Applications for the service will be taken from October 2018 and the bins for the new service delivered in January 2019.</li> <li>• Improve Household Waste Recycling Centres.</li> <li>• Achieve a target of 50% recycling by March 2020. To support this a major educational programme for residents regarding recycling and the correct use of different coloured household bins will be undertaken.</li> <li>• Commence a major project to develop and deliver waste management facilities.</li> <li>• Consolidation of our collection and support operations onto a single site by September 2021.</li> </ul>

## Strategic Risk Assurance Map – August 2018

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
3	<p><b>Information Governance (IG)</b> If the Council does not put in place appropriate policies, procedures and technologies to ensure:</p> <ul style="list-style-type: none"> <li>that the handling and protection of its data is undertaken in a secure manner and consistent with both the provisions of the Data Protection Act 1998 and the General Data Protection Regulation (GDPR) which came into force during May 2018;</li> <li>compliance with the Freedom of Information Act and Environmental Information Regulations;</li> </ul> <p>then it may be subject to regulatory action, financial penalties, reputational damage and the loss of confidential information.</p>	12 Amber	<p>Internal audit review 2016/17 – Freedom of Information Requests (Substantial Assurance)</p> <p>Internal audit review 2016/17 – Information Governance (Satisfactory assurance)</p> <p>Internal audit Health-Check 2018/19 – GDPR (Satisfactory assurance)</p>	<p>Information risk register and reports to Information Governance Board</p> <p>Performance reports to Cabinet, Scrutiny Board and Strategic Executive Board (SEB)</p> <p>Reporting to the Information Governance Board</p> <p>Performance indicators reported to Cabinet- Number of data breaches</p> <p>Performance indicator - % of Freedom of Information (FOI) requests met within timescales</p> <p>Performance indicator- % of Subject Access Requests (SAR) met within timescales</p> <p>Records Management Programme updates in Verto</p>	<p>Senior Information Risk Officer Annual Report</p> <p>Controls Assurance Statements</p>	<p>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.</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
4	<p><b>Medium Term Financial Strategy</b></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 such as the transformation of Adults and Children's services then revenues may be exhausted, resulting 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>Assumptions of the MTFS</p> <p>Local Government Association (LGA) Finance Peer review- June 2016</p> <p>Audit and Risk Committee review of risk – December 2016</p> <p>Internal audit review Budgetary Control – 2016/17 (Satisfactory assurance)</p> <p>Performance indicator- number of Looked After Children (LAC) per 10,000 population</p> <p>Financial Decision Making Audit Services Review</p> <p>Birmingham City Council – Wolverhampton Adult Social Care Peer Challenge, March 2016</p> <p>Follow up – Wolverhampton Adult Social Care Peer Challenge, April 2017</p> <p>Grant Thornton – Review Significant Risks (2016/17 Audit Findings Report) – Risk sufficiently managed</p> <p>LGA Finance Peer review follow up – September 2017</p> <p>Internal audit review Main Accounting – 2017/18 (Satisfactory assurance)</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>Outcome of Local Government Finance Peer Review Report –Report to 3C Scrutiny Board 14 September 2016</p> <p>Scrutiny review, 3C Scrutiny Board - Update on the implementation on the Local Government Finance Peer Review Report 15 March 2017</p> <p>Resources panel reviews</p> <p>Care panel reviews of placement costs</p>	<p>Management accounts</p> <p>Reports to LAC Budget Monitoring Group (every two months)</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><b>Safeguarding</b></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>	8 Amber	<p>S.11 (Safeguarding self-Assessment) Audit 2016/17</p> <p>Internal audit review 2016/17 – MASH (satisfactory assurance)</p> <p>Children's Services Ofsted Inspection January / February 2017 (Requires Improvement Rating)</p> <p>Audit and Risk Committee review of LAC risk – September 2015</p> <p>Internal audit review 2015/16 – External Placements (substantial assurance)</p> <p>Children's Services Ofsted Inspection January / February 2017 (Good Rating)</p> <p>Grant Thornton – Review Significant Risks (2016/17 Audit Findings Report) - Risk sufficiently managed</p> <p>Independent review of Safeguarding Boards</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>Safeguarding Adults Board Annual Review – Report to Adult and Safer City Scrutiny Panel 31 January 2017</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>Regular updates to the both the Children's and Adult's Board(s) and People management teams with regards to the implementation of recommendations made by Ofsted will provide further assurance.</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
8	<p><b>Business Continuity Management</b></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>	12 Amber	Internal audit review 2015/16 – Business continuity and resilience management (satisfactory assurance) Audit and Risk Committee review of risk – July 2016	Reports from Wolverhampton Resilience Board to SEB Strategic Business Continuity Plan, approved by SEB	Controls Assurance Statement Implementation of the Apprise Co-ordination system Completed Priority 1 Business Continuity Plans Development of tactical loss of building plan	The exercise and testing programme once developed and implemented will provide further assurances on the management of this risk. 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.
9	<p><b>City Centre Regeneration</b></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"> <li>• creation of well-paid employment</li> <li>• retention of skilled workers</li> <li>• sector and economic growth</li> <li>• increased prosperity and</li> <li>• reduced demand on council services</li> </ul>	12 Amber	Internal audit review 2015/16- City centre development (Satisfactory assurance) External advice - Equib	Programme and project risk registers / risk monitoring through Verto Monthly reporting to the City Centre Regeneration Programme Board Stronger City Economy Scrutiny Panel Review 2016/17 – Regeneration programmes Reviews by the Project Assurance Group (PAG)	Reports to Programme Board from project managers Controls Assurance Statement	Regular update reports to Programme Board(s) and Cabinet continue to provide assurance on the management of this risk.
14 Page 81	<p><b>School Improvement</b></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>	4 Amber	Ofsted inspections 2016/17, 2017/18 and 2018/19 to date. School internal audit reviews 016/17, 2017/18 and 2018/19 to date. Audit and Risk Committee review of risk – February 2017 Internal audit review 2016/17 – Vulnerable Pupils	Performance indicator – gaps in educational performance Performance indicator – end of key stage outcomes Report to Children and Young People and Families Scrutiny Panel – School Improvement Strategy July 2016 Report to Children and Young People and Families Scrutiny Panel - Local Authority School Improvement Inspection Self-Evaluation July 2016 Report to Children and Young People and Families Scrutiny Panel- Academy Partnership Protocol April 2016 Report to Children and Young People and Families Scrutiny Panel – Secondary School Sufficiency Strategy April 2016 Report to Children and Young People and Families Scrutiny Panel – Improving Our Schools Annual Report 2016 April 2016 Audits carried out by School Support Advisors and External Governance reviews	Reports to Cabinet Controls Assurance Statement Individual school SFVS statements	The Ofsted inspections and annual report(s) will continue to be the primary source of assurance for this risk.

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15	<p><b>Emergency Planning</b></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 a major incident. Failure to train sufficient numbers of staff to undertake the roles in our plans that assist our residents in emergencies and protect the council's reputation from damage. Failure to audit the emergency response plans and capabilities of third party organisations that deliver statutory services on behalf of the council.</p>	12 Amber	Audit and Risk Committee review of risk – July 2017	<p>Reports to Wolverhampton Resilience Board (WRB)</p> <p>Regular reports from WRB to SEB and C3 Scrutiny Panel</p>	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.
22	<p><b>Skills for Work and Economic Inclusion</b></p> <p>If the city residents do not have the appropriate skills that employers require and the Council does not work effectively with its partners to promote and enable growth, high rates of unemployment and economic inclusion will result in increased demand for Council Services.</p>	10 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>Skills and Employment Board</p> <p>Audit and Risk Committee review of risk – September 2016</p> <p>Black Country performance management framework</p> <p>Grant Thornton – Review Significant Risks (2016/17 Audit Findings Report) - Risk sufficiently managed</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>Performance indicator - % of residents with no qualification</p> <p>Performance indicator - number of work experience/ volunteering/ apprenticeships opportunities provided</p> <p>Monthly unemployment briefings</p> <p>Scrutiny Skills and Employment Update – Report to Stronger City Economy Scrutiny Panel – 20 September 2016</p> <p>Skills and Employment Update(s) regularly presented to Stronger City Scrutiny Panel</p>	<p>Reports to the Wolverhampton Skills and Employment Board growth board</p> <p>Inclusion board</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>
23	<p><b>Cyber Security</b></p> <p>Failure to maintain a high level of cyber security (technology, processes and awareness) throughout the Council may result in cyber-attacks and theft or loss of confidential data leading to financial penalties, reputational damage and a loss in public confidence.</p>	10 Amber	<p>Annual Public Service Network (PSN) certification</p> <p>Independent testing of cyber security technical defences</p> <p>Use of 3<sup>rd</sup> party software to stimulate email phishing attacks</p> <p>Audit and Risk Committee review of risk – July 2017</p> <p>Internal audit review - ICTS Strategic Planning</p>	<p>Information risk register and reports to Information Governance Board</p> <p>Reports to SEB and Cabinet (Performance Monitoring)</p>	<p>Regular maintenance and review of technical defence's i.e. fire walls and virus software.</p> <p>Senior Information Risk Officer Annual Report</p> <p>Appointment of Chief Cyber Security Officer</p> <p>Controls Assurance Statements</p>	Independent testing of the Council's cyber security defences will continue to provide assurance.

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
24	<p><b>Maximising Benefits form West Midlands Combined Authority</b></p> <p>If the Council does not put in place effective co-ordination arrangements to utilise the opportunities available from being part of West Midlands Combined Authority (WMCA) it will be unable to maximise the benefits and opportunities available to it.</p>	6 Amber	<p>SEP monitoring via WMCA SEP Board and Black Country LEP.</p> <p>WMCA Assurance framework</p> <p>Reports to WMCA Board and various Committees</p> <p>City of Wolverhampton Council providing the internal audit service for WMCA</p> <p>Grant Thornton – Review Significant Risks (2016/17 Audit Findings Report) - Risk sufficiently managed</p>	<p>Regular reports to SEB</p> <p>Representation on WMCA Boards and Committee's including Audit Risk and Assurance Committee and Overview and Scrutiny Committee.</p> <p>Update on the West Midlands Combined Authority – Report to Scrutiny Board 17 January 2017</p>	<p>Appointment of Business Support Officer</p> <p>Controls Assurance Statement</p>	<p>Council representation on key WMCA Boards and Committees will continue to provide assurance.</p>
25	<p><b>Payment Card Industry Data Security Standard</b></p> <p>If the Council does not put in place appropriate systems, procedures and technologies to ensure agent-led telephone payments are compliant with the Payment Card Industry Data Security Standard there is a risk of data breaches and which may result in regulatory action, financial penalties and reputational damage.</p>	8 Amber	<p>Advice provided by the Payment Card Industry</p>	<p>Progress reporting to the Hub Management / Customer Services Management Teams</p> <p>Compliance with contract procedure rule / liaison with Corporate Procurement</p>	<p>Controls Assurance Statement</p>	<p>The implementation of a 3<sup>rd</sup> party solution to take and process payment details on behalf of the Council will ensure compliance with the Payment Card Industry standard and transfer the risk of fraud to the 3<sup>rd</sup> party.</p>
27	<p><b>Safety concerns around the City's tower blocks</b></p> <p>Following the recent tragic events at Grenfell Tower in London, there is an urgent need for the Council to ensure that the tower blocks in the City do not face the same risks, and that tenants can be assured on this.</p>	5 Amber	<p>Independent testing by a Government approved laboratory – confirming that tower-blocks have passed fire safety tests.</p> <p>Review of emergency access to tower-blocks by the Fire-Service</p> <p>Audit and Risk Committee review of risk – July 2017</p>	<p>Regular reporting of fire safety issues to weekly fire safety meetings</p> <p>Reports from fire safety meetings to Senior Officers / SEB</p> <p>Reports to Scrutiny Scoping Group – Fire Safety in tower-blocks</p>	<p>Daily fire safety checks</p> <p>Implementation of Fire Risk Assessments (Type 4 FRS's)</p> <p>Continuing compliance with Fire Regulatory (Fire Safety) Reform Order 2005</p> <p>On-going consultation with residents</p>	<p>Joint work with Wolverhampton Homes, the Fire Service and specialist contractors is on-going to review fire safety and provide assurance to residents.</p>
28	<p><b>Health and Safety</b></p> <p>Through failure to use safe working methods the Council may be exposed to regulatory action, financial penalties and reputational damage.</p>	8 Amber	<p>Key Performance Indicators:</p> <ul style="list-style-type: none"> <li>Completed Health and Safety audits</li> <li>Compliance with RIDDOR reporting</li> </ul>	<p>Bi-weekly Health and Safety Meetings Strategic Director Place</p> <p>Senior management briefings and presentations, including reports to Wolverhampton Homes Board</p> <p>Approval of the Health and Safety Plan 2017-19</p>	<p>Regular Health and Safety audits in accordance with audit schedule.</p>	<p>The number of reported incidents will continue to provide assurance in this area.</p> <p>In addition, approval of the Health and Safety plan 2017-19 and monitoring of targets set out within the plan will provide assurance that controls are in place.</p>
29	<p><b>Fire Safety – Public Buildings</b></p> <p>If the Council does not have in place appropriate systems to ensure compliance with the Regulatory Reform (Fire Safety) Order 2005 within public buildings (including schools) there is a risk of injury to members of the public and exposure to regulatory action, financial penalties and reputation damage to the Council.</p>	10 Amber	<p>External inspections by the Fire-Service</p>	<p>Scrutiny review -Fire Safety</p> <p>Monitoring of FRA's by Corporate Landlord</p>	<p>Completion of Fire Risk Assessments</p> <p>Development of online fire logs.</p> <p>Regular Health and Safety audits in accordance with schedule</p> <p>Appointment of Site Duty-Holders.</p>	<p>Work is on-going to ensure that sufficient systems and processes are in place to comply with regulations and public safety.</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
30	<b>Civic Halls</b> There is a significant reputational and financial risk to the Council and to the City's wider visitor economy if the revised Civic Halls refurbishment programme is not effectively managed in terms of project timings, costs and scope.	16 Red	Audit Services Lessons Learnt Review – 2017/18	Ongoing risk assessment / risk register within Verto. Risk workshops PAG reviews and monitoring Reports to Member Reference Group	Establishment of new governance and project management structure.	Regular update reports to Programme Board(s), Cabinet and on-going risk assessments will provide assurance on the management of this risk.
32	<b>Waste Management Services</b> If the Council does not manage the changes to Waste Service Delivery effectively there is a risk that savings targets will not be delivered, and reputational damage may be incurred due to issues with waste collections.	8 Amber	Internal Audit Review – Waste Services and Future Contract Arrangements	Programme and project risk registers / risk monitoring through Verto PAG reviews and monitoring Performance and progress reports to Cabinet, and Strategic Executive Board (SEB) Reports to Member Reference Group Scrutiny review – Changes to Waste Management Services	Establishment of project management structure Project Manager Appointment Lead officer – Waste	Regular update reports to Programme Board(s), Cabinet and on-going risk assessments will provide assurance on the management of this risk.
33	<b>Major Capital Projects and Programmes</b> The Council will fail to maximise opportunities and incur significant reputational and financial risks if major capital projects are not effectively managed, monitored and reviewed, in terms of project timescales, achievement of milestones and costs.	12 Amber	Audit services Lessons Learnt Reports – 2017/18 Audit and Risk Committee monitoring of lessons learnt action plans Independent project gateway reviews Equip – Independent / external project and risk assurance	Programme and project risk registers / risk monitoring through Verto PAG reviews and monitoring Performance and progress reports to Cabinet, and Strategic Executive Board (SEB) Reports to Member Reference Group	Project Management Methodology Controls Assurance Statements	The Audit and Risk Committee will monitor the implementation of all recommendations within the Lessons Learnt Action Plan to ensure that improvements are put in place and adhered to.
	<b>Wolverhampton Interchange Programme (Train Station)</b> There is a significant reputational and financial risk to the Council and to the City's wider visitor economy if the Interchange programme and specifically the train station is not effectively managed in terms of project timings, costs and scope.	12 Amber	Audit services Lessons Learnt Reports – 2017/18 Audit and Risk Committee monitoring of lessons learnt action plans Independent project gateway reviews Equip – Independent / external project and risk assurance	Programme and project risk registers / risk monitoring through Verto PAG reviews and monitoring Performance and progress reports to Cabinet, and Strategic Executive Board (SEB) Reports to Member Reference Group	Project Management Methodology Controls Assurance Statements	Regular update reports to Programme Board(s), Cabinet and on-going risk assessments will provide assurance on the management of this risk.

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Audit and Risk Committee</b> 17 September 2018
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<b>Report title</b>	Internal Audit Update – Quarter 1	
<b>Accountable director</b>	Claire Nye, Finance	
<b>Accountable employee(s)</b>	Peter Farrow Tel Email	Head of Audit 01902 554460 <a href="mailto:peter.farrow@wolverhampton.gov.uk">peter.farrow@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Not applicable	

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**Recommendations for noting:**

The Committee is asked to note:

1. The contents of the latest internal audit update as at the end of quarter one.

## **1.0 Purpose**

- 1.1 The purpose of this report is to update the Committee on the progress made against the 2018 - 2019 internal 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 June 2018 (quarter one) 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. (SR/31082018/B)

## **5.0 Legal implications**

- 5.1 There are no legal implications arising from the recommendations in this report. (TS/28082018/R)

## **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**



# Internal Audit Update Quarter 1 (2018 - 2019)

[NOT PROTECTIVELY MARKED]



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## 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 2018 - 2019 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

9 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	2018/19 (@ Q1)	2017/18	2016/17
Substantial	6	17	19
Satisfactory	3	21	10
Limited	-	9	8



## 2 Summary of audit reviews completed

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

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
<b>2017/18 Audits Completed in this quarter:</b>							
Fixed Assets	High	-	-	2	2	2	Substantial
Main Accounting (Budgetary Control & General Ledger)	High	-	-	5	5	5	Satisfactory
<b>Reported this quarter for the first time:</b>							
Compliance with GDPR Requirements	Medium	-	7	6	13	13	Satisfactory
Senior Officer Remuneration	N/A	-	-	-	-	-	N/A
Direct Payments	High	-	4	2	6	6	Satisfactory
Ashmore Park Nursery School	Medium	-	1	-	1	1	Substantial
Springdale Junior School	Medium	-	1	4	5	5	Substantial
St. Anthony's RC Primary School	Medium	-	1	4	5	5	Substantial
West Park Primary School	Medium	-	3	6	9	9	Substantial
Westacres Primary School	Medium	-	2	4	6	6	Substantial

**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.

Please note a significant amount of time has been spent during quarter one in finalising the three capital project lessons learnt reports that were presented to the Council's Audit and Risk Committee on 25 June 2018. The issues arising from these reviews has led to additional support being provided to the respective programmes/projects and representation on the respective Boards.

### 3 *On-going assurance where reports are not 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*

A member of the team sits on the Council's Information Governance Board in the capacity of providing advice and support.

#### *Commercial Business Improvement Programme (formerly Digital Transformation Programme)*

A member of the team seats on the programme in a project assurance capacity. During the lifecycle of the programme on-going advice is provided on the governance of the programme and the management of associated risks.

#### *Pay Strategy*

A member of the team sits 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.

#### *Project Assurance Group*

A member of the team is involved in this group. The purpose of the group is to ensure that all of the Council's projects and programmes, recorded through the Verto system, are reviewed and scrutinised.

#### *WV Active Improvement Programme*

A member of the team is represented on the programme board. During the lifecycle of the programme on-going advice is provided on the governance of the programme and the management of associated risks.

#### *Counter Fraud Activities*

The Audit Service's team 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 June 2018 and these will be reported upon in later update reports.

## 5 Any key issues arising from our work completed in Quarter 1

There were no limited reports issued during quarter one.

### **General Data Protection Regulations**

An audit of the arrangements in place for the implementation of General Data Protection Regulations (GDPR) was undertaken as part of the approved internal audit plan for 2018 - 2019. The review aimed to provide assurance that the Council has appropriate systems and controls in preparation for the introduction of GDPR legislation which came into effect on 25 May 2018. At the time of our review Information Governance sat as an amber risk on the Council's strategic risk register due to the demands of GDPR.

Our review was based upon the Council's GDPR arrangements as set against the Information Commissioner's '12 steps to take now' guidance document, and we noted that there were many areas of good practice already in place, including:

- Decision makers and employees had been made aware that the law was changing in respect of GDPR.
- A designated Data Protection Officer (DPO) had been appointed in accordance with GDPR regulations.
- A privacy impact assessment had been updated in line with GDPR to manage significant changes to the way in which personal data is handled including the implementation of new projects.
- A GDPR e learning module had been developed and made available on the learning hub.
- A privacy notice had been published on the Council's website in line with the new requirements under GDPR.
- The rights of individuals under GDPR had been set out in the Council's privacy notice with a link being provided to the Information Commissioner's Office for further details.
- Arrangements had been established to action data requests within the new timescales set out under GDPR.
- Contract terms with suppliers were being reviewed by Corporate Procurement to ensure these included the requirement for suppliers to process Council data in accordance with GDPR.

However, we did make recommendations in the following areas:

- All data held throughout the Council had not yet been captured and recorded in information asset registers.
- Only a limited number of action plan matrices which cover GDPR requirements had been updated by services and returned to the Information Governance Team.
- The main privacy notice had been published on the Council's website. However, at the time of review separate privacy notices for adults, children and young people, and for the potentially violent persons register were also required to be published on the Council's website.
- GDPR provides a lawful basis for processing personal data without consent, where processing is necessary for compliance with a legal obligation. However, feedback from training sessions provided by the Information Governance Team had identified that service areas had poor awareness of the legislative framework that they work to.
- The Council's existing incident management policy required review and approval in line with the new requirements of GDPR. It was acknowledged that at the time of our review that the policy was in the process of being reviewed and had been scheduled to be presented to the next Information Governance Board meeting.

## 6 *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. During this quarter we have followed up recommendations in respect of our WV Active E>Returns & Bankings report. We noted that a number of the recommendations in the original audit report, issued in July 2017, had not been implemented. Issues affecting the implementation of outstanding recommendations have been escalated to the Head of Business Management and the WV Active Manager to address. At the time this report was being produced a series of actions were in place to address the outstanding recommendations.

## 7 *Changes to the Audit Plan*

Audit Area	Audits on the Original Plan	Audits added or removed up to Quarter 1	Revised number of audits
Corporate	8	-	<b>8</b>
Key Financial Systems	12	-	<b>12</b>
People	15	-	<b>15</b>
Education	23	-	<b>23</b>
Place	13	-	<b>13</b>
Housing	3	-	<b>3</b>
<b>Total</b>	<b>74</b>	-	<b>74</b>

The audit plan is re-profiled throughout the year as and when the risk profile of the Council changes, and in order to react to emerging issues and specific management requests. At the end of this quarter no amendments had been made to the plan.

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<h1>Audit and Risk Committee</h1> <p>17 September 2018</p>
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<b>Report title</b>	Internal Audit Charter – Annual Review	
<b>Accountable director</b>	Clare Nye	Finance
<b>Originating service</b>	Audit	
<b>Accountable employee(s)</b>	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Not applicable	

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**Recommendations for action or decision:**

The Committee is recommended to:

1. Perform an annual review of and approve the Internal Audit Charter.

## **1.0 Purpose**

- 1.1 The Charter was originally approved by the Committee in September 2013 and is now due for its latest review. The Charter was last reviewed in September 2017 and there have been no changes since this last review.

## **2.0 Background**

- 2.1 There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards' and the Internal Audit Charter reflects this.

## **3.0 Progress, options, discussion**

- 3.1 The Internal Audit Charter will continue to be subject to annual review by the Audit and Risk Committee.

## **4.0 Financial implications**

- 4.1 There are no financial implications arising from the recommendations in this report. (SR/31082018/A)

## **5.0 Legal implications**

- 5.1 There are no legal implications arising from the recommendations in this report. (TS/28082018/W)

## **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 implications in this report.

## **10.0 Schedule of background papers - None**

This report is PUBLIC  
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# Internal Audit Charter

CITY OF  
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### *Definition of internal auditing*

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### *Mission of internal audit*

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

### *Core Principles for the Professional Practice of Internal Auditing*

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement

### *Authority and standards*

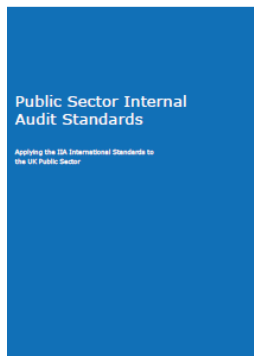
Internal audit is a statutory service in the context of the Accounts and Audit Regulations (Amendment)(England) 2015. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer to have responsibility for those arrangements

The Local Government, England and Wales, Accounts and Audit Regulations 2015 also states that: *“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”*. These Standards have been adopted by the Council's internal audit section.

The responsibility for ensuring that the Council has an effective internal audit has been delegated to the Chief Financial Officer/Section 151 Officer.

In the Council's Financial Procedure Rules, the Section 151 Officer has the responsibility to ensure that an adequate and effective internal audit of all Council activities is carried out in accordance with the most recent CIPFA Statements on Internal Audit Practice and relevant legislation.

Internal audit have the right of access to all records, assets, personnel and premises, including those of partner organisations, and has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.



Public Sector Internal  
Audit Standards

Applying the IIA International Standards to  
the UK Public Sector



Throughout the Public Sector Internal Audit Standards, reference is made to the terms 'Chief Audit Executive', 'board' and 'senior management'. For the purposes of this Charter, the 'Chief Audit Executive' is defined as the Head of Audit the 'board' as the Audit and Risk Committee and 'senior management' as the Strategic Executive Board.

### *Scope and objectives of internal audit activities*

The scope of work of internal audit is to determine whether the Council's risk management, control, and governance processes are adequate and effective in order to ensure that:

- Key risks are identified and managed;
- Key financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Council's control process; and
- Key legislative and regulatory issues impacting the Council are identified and addressed appropriately.

Internal audit's remit extends to the entire control environment of the Council and not just financial controls. Where other internal or external assurance providers may have undertaken relevant assurance and audit work, internal audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

### *Responsibilities*

Internal audit has a responsibility to:

- Provide a cost effective and value added full internal audit service;
- Develop a flexible annual audit plan using a risk-based methodology;
- Implement the annual audit plan;
- Track status of outstanding management actions;
- Provide regular updates on the work of internal audit to the Audit and Risk Committee and where appropriate, senior officers;
- Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation; and
- Work with the External Auditor and other review bodies to share assurance and minimise duplication.

### *Organisational independence*

Internal audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Audit has direct access and freedom to report in his own name to all officers and councillors and particularly to those charged with governance. If required the Head of Audit may request to meet privately with the Audit and Risk Committee.

Internal audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.

Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement.

#### *Accountability, reporting lines and relationships*

The Head of Audit reports on an administrative basis to the Section 151 Officer and reports functionally to the Audit and Risk Committee, the Managing Director and other senior management. An Annual report will also be produced and presented to the Audit and Risk Committee which will include an 'opinion' from the Head of Audit on the adequacy and effectiveness of internal control, risk management and governance within the Council.

A written report will be prepared by internal audit for every internal audit review. The report will be subject to an internal quality review before being issued to the responsible officer and, where appropriate, will include an 'opinion' on the adequacy of controls in the area that has been audited. The responsible officer will be asked to respond to the report in writing. The written response must show what actions have been taken or are planned in relation to each recommendation. Accountability for the response to the advice and recommendation of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

The full role and responsibilities of the Audit and Risk Committee are detailed in their terms of reference, which are based on the model provided by CIPFA in their "Audit Committees – Practical Guidance for Local Authorities".

#### *Internal audit resourcing*

Internal audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience. Internal auditors need to be properly trained to fulfill their responsibilities and should maintain their professional competence. The Section 151 Officer is responsible for the appointment of the Head of Audit, who must be suitably qualified and experienced. The Head of Audit is responsible for appointing all of the other staff to internal audit and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Head of Audit is also responsible for ensuring that the resources of internal audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby it was concluded that resources were insufficient, this must be formally reported to the Section 151 Officer, and, if the position is not resolved, to the Audit and Risk Committee.

#### *Fraud*

Managing the risk of fraud is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal audit may be requested by management to assist with fraud related work. It is a requirement of the council's Anti-Fraud and Corruption Policy that any concerns over suspected fraud and corruption should be raised initially with the Head of Audit Services. Internal audit will then control any such investigations.

*Advisory work*

The standards allow that internal audit effort may, where considered to have the right skills, experience and available resource, sometimes be more usefully focused towards providing advice rather than assurance over key controls. Any such internal audit involvement in consultancy and advisory work, would only take place where it would not constitute a conflict of interest in keeping an independent stance. Any significant additional consulting services will be approved by the Audit and Risk Committee beforehand.

*Review of the internal audit charter*

This charter will be reviewed annually by the Head of Audit Services and the Audit and Risk Committee.

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<h1>Audit and Risk Committee</h1> <p>17 September 2018</p>
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<b>Report Title</b>	Audit Services – Counter Fraud Update	
<b>Accountable Director</b>	Claire Nye	Finance
<b>Accountable employee(s)</b>	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Not applicable	

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**Recommendation 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 Ministry of Housing, Communities and Local Government.

## **3.0 Progress, options, discussion, etc.**

- 3.1 At the last meeting of the Audit and Risk Committee in July 2018, 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. (SR/31082018/F)

## **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. (RB/29082018/D)

## **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 this report.

## **10.0 Schedule of background papers**

- 10.1 None.



# Audit Services Counter Fraud Report @ September 2018

## 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 and Risk 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

### *Counter Fraud Unit Developments*

In November 2017, the Tenancy Fraud Team at Wolverhampton Homes TUPE transferred to the Council and have joined the Counter Fraud Unit. Following the transfer, the team has continued to provide a tenancy fraud investigation service to Wolverhampton Homes under a service level agreement.

The team has also begun to expand their investigatory expertise to investigate new areas of fraud which impacts on the Council. This enhances the Council's ability to tackle fraud.

### *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. This financial year there have been four alerts issued by NAFN, which either involved suppliers used by the Council or are applicable to all Councils. The appropriate sections of the Council have been alerted and in each case, it was confirmed that there was no impact at Wolverhampton. The most common alerts related to Bank Mandate fraud and cyber fraud including ransomware.



As indicated above NAFN has taken a key role in highlighting bank mandate fraud through the regular dissemination of their alerts and maintaining a central repository of reported attempts. More recently they have been working in partnership with Police Scotland and Action Fraud UK to educate the public on mandate fraud and what measures can be taken to prevent becoming a victim. Together they have created a Bank Mandate Fraud Guidance booklet (also available on the NAFN website) to be distributed across the UK and a copy can be found at Appendix 3 of this report.

### *Tenancy Fraud Team Performance*

The Tenancy Fraud Team results for 2017-2018 are shown in the table:

Type of fraud and/or error	2016/2017		2017/2018	
	Cases	*Value £	Cases	*Value £
<b>Tenancy sub-letting</b> – Illegal subletting of properties which were recovered	14	1,302,000	11	1,023,000
<b>Fraudulent housing applications</b> – prevented	8	288,000	8	288,000
<b>Right to buy</b> – preventing fraudulent RTB applications	3	195,000	1	65,000
<b>Other tenancy fraud</b> – succession, abandonment or non-occupation – legal action required where fraudster fails to hand keys back	9	837,000	7	651,000
<b>Totals</b>	<b>34</b>	<b>2,622,000</b>	<b>27</b>	<b>2,027,000</b>

\* The savings figures for tenancy fraud are based on methodology and calculations produced by the Cabinet Office in support of the National Fraud Initiative. The figures include:

**Social housing tenancy fraud** - Notional £93,000 (previously £18,000). The increase in the notional savings recognises the future losses prevented from recovering the property. Previously the calculation only considered one year's loss.

**Social housing application fraud** – Notional £36,000 (previously £8,000). The increase in the notional savings recognises the future losses prevented by not letting the property to an ineligible individual and with the potential of having to place a genuine prospective tenant from the waiting list in expensive temporary accommodation. There is no allowance in this calculation for past value fraud and therefore the notional loss is less than that of social housing tenancy fraud.

**Right to Buy fraud** – Notional £65,000 (previously the exact figure was used). The notional saving for a Right to Buy (RtB) application that has been withdrawn is calculated by the Cabinet Office based on the region in which the property is based, the increases in the maximum RtB cap and the changes in average house prices. This method allows for benchmarking to be carried out.

### *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 current exercise commenced in January 2017 and is now concluding. A total of 13,613 matches were released of which the Cabinet Office has identified 4,583 as recommended matches. The Cabinet Office expects all the recommended matches to be investigated as a minimum. 4,223 matches have been processed, 82 are being investigated. Five frauds have been investigated and 454 errors identified.

Details of the progress made will be brought before the Committee as it becomes known. Examples of the results up to July 2018 are shown below:

Description	Previous value (£)
Housing benefit claimants to student loans	19,781
Housing benefits claimants to pensions	11
Housing benefits claimants to DWP Deceased	73
Council Tax Reduction Scheme to DWP Deceased	3,537
Duplicate records by amount and creditor reference	100,148
Duplicate records by invoice number and amount but different creditor reference and name	1,800
<b>Total</b>	<b>125,350</b>

#### *National Fraud Initiative Business Rates Pilot*

The Council has volunteered to take part in an NFI pilot exercise where Business Rates information from West Midlands Council's is being matched. The results will be investigated and the outcomes reported to future meetings of this committee.

#### *National Fraud Initiative Exercise 2018/19*

The next NFI data matching exercise will commence during October 2018 with the submission of data sets from across the Council. The Council's data will be 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 for investigation at the end of January 2019.

#### *Cabinet Office – Recent National Fraud Initiative Consultation Exercise*

The Cabinet Office recently undertook a consultation exercise on their proposed NFI work programme and scale of fees. There were 21 responses, including Wolverhampton, from 356 councils. The Cabinet Office issued a formal response to the consultation on 9 July 2018, but they also took the opportunity to respond to us at a local level on the issues that we raised.

They were pleased to hear that we continued to find value in the NFI exercise and that we utilise the exercise as part of our local counter fraud strategy. We raised the challenge of the timeliness of the data matches and that going forwards a more real-time exercise would be beneficial. We also raised that we would welcome input from more third party bodies, such as credit reference agencies as it would further enhance the quality of the matches.

In response, they said that in the NFI 2016/17 exercise they worked to introduce Credit Reference data into the NFI exercise as an additional benefit. This is currently available on an individual match basis for all data excluding creditors (enabling a credit reference check to be undertaken on selected matches), or as part of the enhanced council tax single person discount exercise.

Continuing this work, one theme of their NFI strategy was around increasing both the volume and frequency of data that is used in, or accessed through, the NFI. This includes identifying and securing access to additional data (participants and 3<sup>rd</sup> party) that can improve the effectiveness of the NFI exercise, and working with participants and stakeholders to evaluate the options for, and benefits of, more regular, possibly automated, data feeds into the NFI. Having recently secured a new contract with their IT suppliers, they had already begun work on developing these key work streams, with the aim to be able to start implementing some improvements into the NFI 2018/19 exercise. They will also be working with participants to promote use of the NFI solutions on an ongoing rather than on a cyclical basis.

We also raised that there may be a risk going forwards of the NFI becoming less relevant as organisations begin to work together and find their own solutions to tackle fraud. They recognised that many organisations were undertaking more proactive work on fraud detection and prevention, and they support this movement. Their aim is that as this work evolves, they too can evolve their products and services to help aid local initiatives where possible - for example they are committed to working with local authorities to develop and utilise the NFI FraudHub to facilitate more regular local/regional data matching aligned with customer needs. Similarly, their AppCheck and ReCheck products are designed to allow participants to engage more flexibly, and to meet their needs, with the NFI. A key part of this is ensuring they engage with users regularly to help understand what is needed and where improvements can be made.

They have a new user engagement strategy in place which they hope will provide regular and relevant opportunities for their users to input and help drive their key developments. They were therefore pleased that we were willing to engage with them going forwards and they will actively seek our input where opportunities present themselves.

#### *Partnership Working*

The partnership arrangement with Sandwell Metropolitan Borough Council, is continuing with the Fraud Team at Sandwell assisting in the implementation of the Council's Counter Fraud Plan, including carrying out investigations. 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 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.

Counter Fraud Plan Update

Issue	Action	Timescale
Raising counter fraud awareness across the Council	Develop and deliver Fraud Awareness seminars	Fraud based training provided by Natwest Bank June 2017
	Develop on line fraud training for staff.	To be refreshed Autumn 2018
	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.	Autumn 2018
	Hold fraud surgeries to enable staff to report areas of suspected fraud.	Fraud surgeries planned for Autumn 2018
	Use various forms of media to promote fraud awareness across the Council including City People, the intranet and the internet.	Fraud seminars and surgeries will be 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. Latest exercise commenced January 2017
	Complete the annual CIPFA fraud survey.	CIPFA Survey completed June 2018
	Investigate opportunities to develop the use of NFI real time and near real time data matching.	Used for additional Single Person Discount data match
	Participate in CIPFA's technical information service.	On-going
	Maintain membership of the Midlands Fraud Group.	On-going – last meeting June 2018 next meeting Autumn 2018
	Attend external fraud seminars and courses.	Midland Fraud Forum Conference – February 2018  CIPFA Counter Fraud Summit - November 2017

Issue	Action	Timescale
Assess the counter fraud strategy against best practice	Complete national fraud self-assessments, for example:	
	<ul style="list-style-type: none"> <li>• New CIPFA Code of Practice</li> </ul>	June 2015 (the last time required)
	<ul style="list-style-type: none"> <li>• The European Institute for Combatting Corruption And Fraud TEICCAF's- Protecting the English Public Purse</li> </ul>	Annually
	<ul style="list-style-type: none"> <li>• Department for Communities and Local Government – ten actions to tackle fraud against the Council.</li> </ul>	On-going
	<ul style="list-style-type: none"> <li>• Consideration of fraud resilience toolkit</li> </ul>	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.	November 2017 - Wolverhampton Homes Tenancy Fraud Team transfer to Council's Counter Fraud Unit
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.	On-going
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 English Public Purse report, Cipfa's Annual Fraud Tracker Survey 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	Work with Service Areas to develop methods of recognising, measuring and recording all forms of fraud.	Corporate Fraud Group established

Issue	Action	Timescale
professional standards.	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 2018
	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 – planned for Autumn 2018
	Promote and hold fraud surgeries that provide the opportunity for staff to discuss any potential fraudulent activity at the Council.	Fraud surgeries planned for Autumn 2018
	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 @ July 2018*

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 person's 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
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

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**Bank Mandate**

# Fraud

**Guidance Document**

*Business or public, we are all at risk of bank mandate fraud*



# Bank Mandate Fraud Guidance

## Introduction

This guide aims to provide an awareness of bank mandate fraud, reinforcing this through real life case studies and practical advice on fraud prevention.

## Definition

Bank Mandate fraud occurs when an unauthorised request is made to change the details of a bank transfer mandate. Fraudsters may access your bank account and change the details or claim they are a genuine business supplier to your organisation.

Fraudsters will look to identify suppliers of services that you or your organisation use on a regular basis. This can be obtained from details of contracts awarded or other information which is published on websites in line with transparency.

**If the payment is made as requested, the fraud is complete.**



# SERIOUS Organised Crime

Serious organised crime groups are profiting from fraudulent schemes that target organisations and individuals.

Bank mandate fraud is frequently used by these groups as it carries low risk and potentially high rewards.

## RISKS

Bank mandate fraud is constantly evolving and can be cyber enabled. In most cases the victim will lose money that is unlikely to be recovered.

Public sector organisations are particularly at risk due to the high volume of transactions and the opportunity to obtain a significant sum of money in a single transaction.





## Examples of Bank Mandate Fraud

- 1** **Your online bank account** is hacked into by a fraudster and monthly payment details are altered so that the money is transferred to the fraudster's account.
- 2** **You are contacted by someone** pretending to be from an organisation you have a standing order with and they request that you change the order to reflect a change in their banking. The standing order mandate is changed accordingly but next month the actual organisation fails to deliver your products or a membership has been cancelled as they did not receive their payment due to the amendments made the payment went to the fraudster.
- 3** **As a business you are contacted by someone** pretending to be one of your suppliers who inform you they have changed their bank details and request a corresponding change to an existing direct debit. As a result the bank mandate is amended to the fraudster's account provided. Next month you are contacted by your genuine supplier asking what has happened to your monthly payment.

# Real Life Case Studies

**Local Authority example** - A local authority had numerous construction contractors for the refurbishment of schools. They received an apparently genuine letter from one of these contractors stating they had changed their banking details. No checks were conducted and the bank details were updated. Within a week two payments totaling over £2 million were transferred to a bogus bank account.

**Charity example** - An accountant at a charity received a phone call from a male purporting to be from a high street bank. The fraudster's number was 'spoofed' to resemble the bank's phone number and the caller stated there had been attempts by a third party to access their account. The fraudster spent considerable time gaining the confidence of the accountant, even sending a plausible email that looked like it had come from the bank. The fraudster persuaded the accountant to download 'team viewer', which allowed the fraudster remote access to the charity's bank accounts.

The accountant was convinced to provide log in details for a second bank account. The fraudster told the accountant that both accounts would be subject to "ghost transactions" to test their security and the money would not actually leave the accounts. However, this was a lie and a six figure sum was transferred to numerous fraudulent accounts.

**Sports organisation example** - A private sector sport company was undertaking building improvements. They received an email with an attachment purportedly from the construction company. A Trojan virus was unknowingly downloaded via malware which allowed the fraudster remote back door access to all email traffic. Shortly after an email was received from the fraudster pretending to be from the construction company informing them of a change of bank mandate details with a reminder of an upcoming payment. A six figure sum was mistakenly paid to the fraudster's account.

## The Do's and Don'ts

The cost of fraud is at record levels, is often difficult to detect and can be expensive to investigate. Organisations successful in reducing fraud have done so by focusing on pre-empting it through establishing stronger anti-fraud cultures.

It's important to implement and maintain robust processes around fraud prevention and treat it as a "business as usual" activity. You need to be clear about when and where to report all incidents of attempted fraud.

# DO's

- 1** Check it twice or pay the price!  
Carefully check the sender's email address to identify if it exactly matches your known and trusted records.
- 2** Know your top 20 creditors! Mandate fraud is more likely to be perpetrated against a major organisation. Be alert to any requests to alter their bank details.
- 3** Make an 'Open Source' check on the internet of the new bank account sort code and account details to uncover:
  - a. Location of the bank (to be checked against the company address) and
  - b. Whether there are any blogs or reports available to indicate the communication is a scam.
- 4** Validate all requests for bank account changes using established contact details. Never use any of the contact details contained within letters/emails received; whilst many email addresses appear genuine often there is a minor change. If you are concerned about the source of a call, contact the company directly using a known and trusted email address or telephone number.

- 5** Adopt dual control procedures for authorising payments. Ensure that a senior member of your finance team reviews your actions and formally authorises the change of bank account details.
- 6** Regularly reconcile your bank statements and report anything suspicious to your bank immediately.
- 7** If the communication is deemed to be a scam, consider sharing this information with Police Scotland, Action Fraud and the National Anti-Fraud Network (NAFN) who will issue an alert notifying other organisations that may also be affected.
- 8** Regularly review and update your security policies ensuring that all staff are fully briefed and trained to spot potential fraud.
- 9** All attempted fraud, whether successful or not, should be reported to one or more of the organisations listed on the back page of this document.

# DON'Ts

- 1** Do not leave sensitive files like bills lying around. Visitors could look at and record details of standing orders and direct debits.
- 2** Do not give out sensitive information over the phone, via email or in person to anyone that you are unsure of. **Fraudsters will piece together snippets of information from different sources to allow them to commit fraud!** This is known as 'elicitation'.
- 3** Don't feel pressured to disclose information. Bank mandate frauds are often accompanied by routine conversations followed by a 'switch in tempo' and an urgent request. Nothing is so time critical that it cannot wait until you have verified who you are dealing with.
- 4** Do not use social media to disclose business arrangements, personal contacts and working relationships. Fraudsters may use such information to appear genuine.

# Good Practice Example

A Public Sector Organisation has a long standing contract with a local construction company called Construction Solutions Ltd.

The Public Sector Organisation receives an email from Roddy Smith, the finance manager of Construction Solutions Ltd. Roddy advises that their bank account details and sort code have changed. Enclosed is the latest invoice for £252,383.66 with a request for payment before the end of the week to help with cash flow issues.

The email is received by Angela Brown from Public Sector Organisation accounts, who has regular communication with Roddy Smith. He is a 'nice guy' to work with. She is inclined to make a quick adjustment as requested; however, the Public Sector Organisation Finance team has recently reviewed and updated its Serious Organised Crime Prevention processes. This includes significant changes to the process for making payments to suppliers who submit changes to bank account details.

Angela is aware of the new process. She thinks it is quite convoluted but she follows the advice outlined in the 'Do's and Don'ts' set out in this document.

Angela's checks and close scrutiny established that the email from Roddy Smith at Construction Solutions Ltd was fraudulent. Adhering to good practice prevented the Public Sector Organisation from making a payment of £252,383.66, to a Serious Organised Crime group actively involved in bank mandate fraud activity.

# Stop and Think!

## Conclusion

The drive towards transparency, improved online information and poor social media security provide fraudsters with details which enables them to assume false identities to conduct bank mandate fraud. By recognising the tactics used by fraudsters you can protect yourself against bank mandate fraud. All individuals and organisations should acknowledge the risks and adopt a fraud prevention resilience culture.

**Remember...**

**Once the money is gone it is very unlikely that it will be recovered!**

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# Additional Advice Glossary



## Malware

Malware is a general term for malicious software. Malware includes viruses, worms, Trojans and spyware.

## Trojan

A backdoor Trojan allows someone to take control of a user's computer without their permission.

## Spoofing

Spoofing, in general, is a fraudulent or malicious practice in which communication is sent from an unknown source disguised as another in order to deceive.

## Team Viewer

TeamViewer is proprietary computer software for remote control, desktop sharing, online gaming, web conferencing and file transfer between computers.

## Police Scotland:

[www.scotland.police.uk/contact-us/report-fraud](http://www.scotland.police.uk/contact-us/report-fraud)

In Scotland all reports of fraud and any other financial crime should be reported to Police Scotland by calling 101 without delay.

## Take 5:

[takefive-stopfraud.org.uk/advice/](http://takefive-stopfraud.org.uk/advice/)

## Action Fraud:

[www.actionfraud.police.uk/mandate-fraud](http://www.actionfraud.police.uk/mandate-fraud)

In England, Wales and Northern Ireland if you have been a victim of fraud or cyber crime, report it to Action Fraud at [actionfraud.police.uk](http://actionfraud.police.uk) or by calling 0300 123 2040

## Get Safe Online:

[www.getsafeonline.org/ways-you-work/mandate-fraud/](http://www.getsafeonline.org/ways-you-work/mandate-fraud/)

## National Anti-Fraud Network:

[www.nafn.gov.uk](http://www.nafn.gov.uk)

The National Anti-Fraud Network (NAFN Data and Intelligence Services) provides a range of services to support the work of local and public authorities throughout the United Kingdom. NAFN is widely recognised as a provider of data and intelligence to local government, housing associations, NHS and wider public authorities.

If you would like to become a member of NAFN or learn more about its services email [general@nafn.gov.uk](mailto:general@nafn.gov.uk)





<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Audit and Risk Committee</b> 17 September 2018
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<b>Report title</b>	Payment Transparency	
<b>Accountable director</b>	Claire Nye, Finance	
<b>Accountable employee(s)</b>	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Not applicable	

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**Recommendation 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 and Risk Committee in July 2018, there has been one request for information from the public (as an 'armchair auditor'). The request was where to find the transactions over £500 since September 2017. This data is published on the Council's internet site and the requestor was provided with the link to the site.

## **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.  
[GE/04092018/Y]

## **5.0 Legal implications**

5.1 There are no legal implications arising from the recommendation in this report.  
[TS/04092018/Q]

## **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**

10.1 None

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