

## **AUDIT COMMITTEE** **Agenda**

- Date Tuesday 29<sup>th</sup> November 2022
- Time 6.00 pm
- Venue Crompton Suite, Civic Centre, West Street, Oldham, OL1 1NL
- Notes
1. DECLARATIONS OF INTEREST- If a Member requires any advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Paul Entwistle or Peter Thompson in advance of the meeting.
  2. CONTACT OFFICER for this Agenda is Peter Thompson Tel. 0161 770 5151 or email
  3. PUBLIC QUESTIONS – Any member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the Contact officer by 12 Noon on Thursday, 24 November 2022.
  4. FILMING - The Council, members of the public and the press may record/film/photograph or broadcast this meeting when the public and the press are not lawfully excluded. Any member of the public who attends a meeting and objects to being filmed should advise the Constitutional Services Officer who will instruct that they are not included in the filming.

Please note that anyone using recording equipment both audio and visual will not be permitted to leave the equipment in the room where a private meeting is held.

Recording and reporting the Council's meetings is subject to the law including the law of defamation, the Human Rights Act, the Data Protection Act and the law on public order offences.

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Please also note the Public attendance Protocol on the Council's Website

[https://www.oldham.gov.uk/homepage/1449/attending\\_council\\_meetings](https://www.oldham.gov.uk/homepage/1449/attending_council_meetings)

MEMBERSHIP OF THE AUDIT COMMITTEE IS AS FOLLOWS:  
Councillors Ahmad, Alyas, C. Gloster, Islam, Salamat, Arnott, Ball, Hulme  
and Iqbal

Item No

- 1 Apologies For Absence
- 2 Urgent Business  
Urgent business, if any, introduced by the Chair
- 3 Declarations of Interest  
To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.
- 4 Public Question Time  
To receive Questions from the Public, in accordance with the Council's Constitution.
- 5 Minutes of Previous Meeting (Pages 1 - 6)  
The Minutes of the Audit Committee held on 1<sup>st</sup> November 2022 are attached for approval.
- 6 External Audit Update Report  
Report to follow
- 7 Annual Statement of Accounts 2021/2022  
Report to follow
- 8 Counter Fraud and Corruption Policies and Procedures (Pages 7 - 92)
- 9 The Financial Reporting Council (FRC) 2022 Reports (Pages 93 - 162)
- 10 CIPFA Audit Committee Guidance Documents 2022 (Pages 163 - 170)
- 11 Proposed Audit Committee Work Programme for 2022/23 (Pages 171 - 180)
- 12 Exclusion of the Press and Public

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 on the grounds that they contain exempt information under paragraph(s) 1 and 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

- 13 CIPFA Audit Committee Guidance Documents 2022 - Appendices  
Link to confidential appendices to follow
- 14 Update on the Corporate Risk Register (Pages 181 - 188)
- 15 Senior Information Risk Owner - Update (Pages 189 - 196)

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**AUDIT COMMITTEE**  
**01/11/2022 at 6.00 pm**

**Present:** Councillor Islam (Vice-Chair, in the Chair)  
Councillors Ahmad, Alyas, C. Gloster, Salamat and Ball

Also in Attendance:

Karen Murray	Mazars LLP External Auditors
John Miller	Head of Audit and Counter Fraud
Peter Thompson	Principal Constitutional Services Officer
Anne Ryans	Director of Finance
Mark Stenson	Assistant Director of Corporate Governance and Strategic Financial Management
Paul Rogers	Constitutional Services

1           **APOLOGIES FOR ABSENCE**

There were no apologies for absence received.

2           **URGENT BUSINESS**

There were no items of urgent business received.

3           **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4           **PUBLIC QUESTION TIME**

There were no public questions for this meeting of the Committee to consider.

5           **MINUTES OF PREVIOUS MEETING**

Resolved:

That the Minutes of the meeting of the Audit Committee, held on 8 September 2022, be approved as a correct record.

6           **EXTERNAL AUDIT PROGRESS REPORT**

The Committee considered a report of the Council's external auditors, Mazars LLP, which presented to the Council key information that the External Auditor feels appropriate to bring to the Committee's attention. It provided the Committee with an update on progress in delivering their responsibilities as External Auditors. The report linked with the 2021/22 Annual Statement of Accounts Update, Minute No.7 to these Minutes refers.

Karen Murray, External Auditor, advised that the Department of Levelling Up, Housing and Communities has started consultation with regard to the accounting for infrastructure assets and the result of the consultation would be effective from the end of December 2022 after which Mazars will be able to finalise the audit of the 2021/22 accounts. Regarding the Council's value for money arrangements, this was still ongoing and the findings from their work on this issue will be in their Audit Completion Report.

Resolved:  
That the Audit Progress Report produced by Mazars LLP be noted.

7 **2021/2022 ANNUAL STATEMENT OF ACCOUNTS**

The Committee considered a report of the Director of Finance the purpose of which was to present an update on the Council's Statement of Accounts for the financial year 2021/22.

The Committee was informed that the audit of the accounts commenced on 6 June 2022 and is moving to a conclusion. In order to facilitate the audit process, the Council made working papers available to the auditors at an early stage and as part of the Council's interim audit during the financial year. All queries were dealt with as promptly as possible. It is anticipated that the Committee will be able to consider the audited accounts at its next meeting on 29 November 2022, albeit without the finalisation of the issue related to the valuation of infrastructure assets.

The Council has not yet concluded the preparation of its self-assessment for the year ended 31 March 2022 in relation to its arrangements to deliver Value for Money (VFM). This will be completed shortly. This will then enable the External Auditor to finalise work on the VFM opinion.

Also in progress was the finalisation of queries relating to the 2021/22 Accounts although there remains the infrastructure assets issue which is still to be formally concluded and is currently outside of the Council's control. The Committee was informed that the officers had worked to speed up the process for finalising the accounts but that events, particularly Covid, had made that approach more difficult. The Council was however ahead of most other authorities in concluding the 2021/22 Accounts.

Resolved;  
That the Update on the audit of the Council's Statement of Accounts for 2021/22 and related matters be noted.

8 **TREASURY MANAGEMENT MID-YEAR REVIEW 2022/23**

The Committee considered a report of the Director of Finance which advised the Audit Committee of the performance of the Treasury Management function of the Council for the first half of 2022/23 and provided a comparison of performance against the 2022/23 Treasury Management Strategy and Prudential Indicators.

Prior to presenting a Briefing Note for the Committee, the Director of Finance made reference to the market turbulence as a consequence of the Mini Budget and the new incoming Prime Minister which had affected the Council's Treasury Management position.

The Committee was presented with a Briefing Note (attached as Appendix 3 to the report) which had been prepared to advise Members of the Audit Committee as to the key issues within the 2022/23 Treasury Management Half Year Review. The briefing note set out and expanded on the following 8 matters:

- (i) Compliance with Statutory and CIPFA requirement.
- (ii) Change in the Authorised Limit and Operational Boundary.
- (iii) The Council's Capital Expenditure and Financing during the first half of 2022/23.
- (iv) The Council's overall borrowing need.
- (v) Treasury Position at 30 September 2022.
- (vi) Borrowing Outturn.
- (vii) Investment Portfolio.
- (viii) Other Key Issues.

The Briefing Note referred to the repayment of £6.6 million of loan stock which had reached its maturity date at the end of September 2022 thus reducing the level of outstanding debt as the borrowing had not been replaced.

The Director of Finance made particular reference to the volatility of interest rates which have a major bearing on whether current Lender Option Borrower Loans are repaid at their call in date or whether it would be appropriate to accept the increased interest rate on those loans for a further period. It is a case watching the markets and keeping borrowing position under review.

Resolved:

That the Audit Committee commends the following to Cabinet:

- a) Treasury Management activity for the first half of the financial year 2022/23 and the projected outturn position.
- b) Amendments to both Authorised Limit and Operational Boundary for external debt as set out in the table at Section 2.4.5 of the report.
- c) Amendments to the Capital Financing Requirement as set out in the table at section 2.4.5 of the report.

## **UPDATE ON GENERAL MATTERS**

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management which sets out several matters impacting on this Committee in

undertaking its governance role within the Council. It covers external audit matters, the production of local authority accounts and recent key publications which have been publicised. These were covered in Sections 2-4 of the report.

He drew the Committee's attention to paragraph 3.1 of the report regarding the appointment of an Independent Chair to the Audit Committee which would be covered in an item for consideration at the Council meeting on 2 November 2022.

He also made reference to CIPFA's publication – a Position Statement on the Audit Committee. He advised that although not included in the current work plan, (referred to at Minute No.12 to these Minutes) it would be sensible for the Assistant Director of Corporate Governance and Strategic Financial Management to review the publication and, where appropriate, report back to this Committee and incorporate the work into the next update of the Committee's work programme.

Resolved: That

- (i) the Assistant Director of Corporate Governance and Strategic Financial Management to review the publication and, where appropriate, report back to this Committee and incorporate the work into the next update of the Committee's work programme; and
- (ii) the report be noted.

10 **ANNUAL GOVERNANCE STATEMENT 2021/2022**

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management which updated the Annual Governance Statement which is an integral part of the Statement of Final Accounts. The report presents to the Council the Annual Governance Statement for 2021/22. Other than some minor wording changes there are no fundamental changes to the draft Annual Governance Statement which was presented to this Committee on 21 June 2022.

Resolved:  
That the report be noted.

11 **UPDATED AUDIT COMMITTEE WORK PROGRAMME 2022/23**

The Committee considered the Updated Audit Committee Work Programme for 2022/23.

The Assistant Director of Corporate Governance and Strategic Financial Management made reference to Minute No.9 to these Minutes where it was agreed that he would review CIPFA's publication on the Audit Committee and, where appropriate, report back to this Committee and incorporate the work into the next update of the Committee's work Programme.



Resolved: That

- (i) the CIPFA Publication on the Audit Committee be reviewed and where appropriate the review findings be incorporated into the Audit Committee work programme; and
- (ii) the Updated Audit Committee Work Programme for 2022/23 be noted.



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### **2022/2023 INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT**

The Committee considered a report of the Head of Audit and Counter Fraud which provided Members with a high-level summary of progress on the work of the Internal Audit and Counter Fraud team for the 2022/23 financial year.

Reference was made by a Member to Appendix 1 to the report and, in particular, where there is an Inadequate Opinion shown against some departments. It was suggested that the Committee should see further details of these inadequacies.

The Director of Finance informed the Committee that she would look into bringing details of these to Committee.

Resolved: that

- (i) the Director of Finance to look into bringing details where it is shown that there is an Inadequate Opinion shown against some departments more particularly referred to in Appendix 1 to the report; and
- (ii) the report be noted.

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### **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 on the grounds that they contain exempt information under paragraphs 1 and 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

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### **APPOINTMENT OF EXTERNAL AUDITOR 2023/24 - 2027/28**

The Committee considered a report of the Assistant Director of Governance and Strategic Financial Management which presented to the Audit Committee the proposed appointment of the External Auditor via the Public Services Audit Appointments procurement for five financial years between 2023/24 and 2027/28 the Audit Committee.

Resolved:

That the proposed appointment of the Council's External Auditor to Oldham Council for the five year period from 2023/24 as set out in the report recommendation be approved.



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**POTENTIAL RISKS TO THE COUNCIL LINKED INTO NORTHERN ROOTS (OLDHAM) LIMITED**

The Committee considered a report from the Assistant Director of Corporate Governance and Strategic Financial Management the purpose of which was to update Members of the Audit Committee as requested at a previous meeting, on the perceived risks (as set out in Appendix 3 to the report) to the Council associated with the future operation of Northern Roots (Oldham) Limited. This is an update to the report submitted to but not considered at the meeting of the Audit Committee on 8 September 2022, as the meeting had to be adjourned.

A Member suggested that the Committee should receive a 6 monthly dashboard report which gives details of potential risks on all Council associated projects.

Resolved: That

- (i) The Committee notes the key perceived risks as detailed in this report relating to Northern Roots (Oldham) Limited 2); and
- (ii) that 6 monthly update reports advising of the developing risk position be submitted to future meetings.

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**UPDATE ON THE ANNUAL GOVERNANCE STATEMENT FOR 2021/22 AND NEW ISSUES FOR 2022/23**

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management the purpose of which was an Update on the Annual Governance Statement for 2021/22 and New Issues for 2022/23.

Resolved:  
That the report be noted.

The meeting started at 6.00 pm and ended at 7.30 pm



## Report to Audit Committee

# Counter Fraud and Corruption Policies and Procedures

**Portfolio Holder:** Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Low Carbon

**Officer Contact:** Anne Ryans - Director of Finance

**Report Author:** John Miller – Head of Internal Audit and Counter Fraud

**29 November 2022**

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### Reason for Decision

This report sets out the updated Counter Fraud and Corruption Policies and associated planning documents. These documents support the provision of an appropriate Counter Fraud service to minimise fraud risks and to investigate potential fraud and corruption.

### Executive Summary

The Accounts and Audit Regulations 2015 state that the Council must have measures in place “to enable the prevention and detection of inaccuracies and fraud.” In this context, fraud also refers to cases of bribery and corruption.

The Head of Audit and Counter Fraud is responsible for the provision of an appropriate Counter Fraud service to minimise fraud risks and to investigate potential fraud and corruption. The Counter Fraud service at Oldham Council operates as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Cabinet Office also provides guidance on professional Counter Fraud standards across the public sector, and such guidance is followed in Counter Fraud activities undertaken by Oldham Council.

The Director of Finance is responsible for the development and maintenance of the Counter Fraud suite of strategies and for directing the Council's efforts in fraud investigation. The Audit and Counter Fraud Team is responsible for investigating potential fraud, for identifying potential fraud risks, conducting proactive fraud reviews, and for delivering training and awareness to colleagues. In addition, the team maintains the relevant policies and procedures, which are reviewed and updated routinely.

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## **Recommendations**

Members note the contents of this report and approve the updated Policies and Planning documents.

## Counter Fraud and Corruption Policies and Procedures

### 1. Background

- 1.1 The Accounts and Audit Regulations 2015 state that the Council must have measures in place “to enable the prevention and detection of inaccuracies and fraud.” In this context, fraud also refers to cases of bribery and corruption.
- 1.2 The Council’s Financial Procedure Rules Section 6.8: Investigations and Suspected Fraud or Corruption, require the Chief Internal Auditor (Head of Audit and Counter Fraud) to be responsible for the provision of an appropriate Counter Fraud service to minimise fraud risks and to investigate potential fraud and corruption. The Counter Fraud Team at Oldham Council operates in accordance with practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the team also adheres to guidance issued by the Cabinet Office relating to professional Counter Fraud standards across the public sector.
- 1.3 The Audit and Counter Fraud Team is responsible for investigating potential fraud, for identifying potential fraud risks and conducting proactive fraud reviews, and for delivering training and awareness to colleagues. In addition, the team maintains the relevant policies and procedures, which are reviewed and updated routinely. This report sets out the proposed revised policies and planning documentation.

### 2. Current Position: Policies and Procedures

- 2.1 Effective policies and procedures are essential to ensure that all officers and Members are aware of their roles and responsibilities in identifying and managing the risk of fraud. The Audit and Counter Fraud Team will continue to review and update these policies and procedures on an ongoing basis.
- 2.2 During 2022, the following policy and planning documents were reviewed. These are attached to this report as the following Appendices:
  - Appendix 1: Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan
  - Appendix 2: Council Tax and Council Tax Reduction Scheme Sanction Policy
  - Appendix 3: Covid Business Grants Prosecution Policy
  - Appendix 4: Anti-Money Laundering Policy
  - Appendix 5: CIPFA Fighting Fraud and Corruption Locally Checklist
  - Appendix 6: Fraud and Loss Risk Assessment

### 3 Options/Alternatives

- 3.1 The Audit Committee may approve or not approve the attached policies and planning documentation.

### 4 Preferred Option

- 4.1 The Audit Committee approves the attached policies and planning documentation.

### 5 Consultation

- 5.1 N/A.

- 6 **Financial Implications**
- 6.1 N/A.
- 7 **Legal Services Comments**
- 7.1 N/A.
- 8 **Co-operative Agenda**
- 8.1 N/A.
- 9 **Human Resources Comments**
- 9.1 N/A.
- 10 **Risk Assessments**
- 10.1 Risk assessments are considered as part of the Annual Audit and Counter Fraud Planning process and in advance of, and during, proactive reviews and investigations. (Andrew Bloor)
- 11 **IT Implications**
- 11.1 N/A.
- 12 **Property Implications**
- 12.1 N/A.
- 13 **Procurement Implications**
- 13.1 N/A.
- 14 **Environmental and Health & Safety Implications**
- 14.1 N/A.
- 15 **Equity, Community Cohesion and Crime Implication**
- 15.1 N/A.
- 16 **Equality Impact Assessment Completed**
- 16.1 N/A.
- 17 **Forward Plan Reference**
- 17.1 N/A.
- 18 **Key Decision**
- 18.1 N/A.

## 19 **Background Papers**

- 19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are included as Appendices

Officer Name: John Miller

Contact: john.miller@oldham.gov.uk

## 20 **Appendices**

- 20.1 Appendix 1: Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan  
Appendix 2: Council Tax and Council Tax Reduction Scheme Sanction Policy  
Appendix 3: Covid Business Grants Prosecution Policy  
Appendix 4: Anti-Money Laundering Policy  
Appendix 5: CIPFA Fighting Fraud and Corruption Locally Checklist  
Appendix 6: Fraud and Loss Risk Assessment

# Oldham Council Audit and Counter Fraud

Counter Fraud, Anti-Bribery Strategy and  
Counter Fraud Response Plan

29 November 2022





## Version Control

<b>Version</b>	<b>Version Date</b>	<b>Revised by</b>	<b>Description</b>
1	July 2006	Janette Parkin	New Policy
2	July 2012	Andrew Bloor	Revised – Bribery Act 2010
3	July 2015	Andrew Bloor	Revised – Sanctions Policy and Counter Fraud Response Plan
4	August 2019	Andrew Bloor	Revised – Suitability of Offenders for Prosecution
5	November 2022	John Miller	Revised – Fighting Fraud and Corruption Locally.

## Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan

### 1. Introduction

- 1.1 Oldham Council recognises that it has a responsibility to protect the public purse. In order to meet these responsibilities, the Council has an effective Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan and has set out to ensure that it creates a zero-tolerance culture.

### 2. Fraud and Theft

- 2.1 Fraud can be broadly described as acting dishonestly with the intention of making a gain for oneself or another, or inflicting a loss (or a risk of loss) on another; including:
- Dishonestly making a false representation
  - Dishonestly failing to disclose to another person, information which you are under a legal duty to disclose
  - Committing fraud by abuse of position, including any offence as defined in the Fraud Act 2006 (see Annex A).
- 2.2 Theft is defined in the 1968 Theft Act. It is the dishonest taking of property belonging to another person with the intention of permanently depriving the owner of its possession. The maximum sentence is 7 years imprisonment.

### 3. Bribery

- 3.1 The Bribery Act 2010 defines bribery as “the inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of gifts, loans, fees, rewards or other advantages whether monetary or otherwise”.
- 3.2 Corruption is the abuse of entrusted power for private gain. It affects everyone who depends on the integrity of people in a position of authority. The Bribery Act 2010 repealed all Corruption Acts in whole and therefore there is now no offence of corruption. Therefore, whilst corruption exists as a term, it no longer exists as an offence.
- 3.3 Section 7 of the Act creates a new offence of failure by an organisation to prevent a bribe being paid for or on its behalf. It is possible to provide a defence by implementing adequate procedures to prevent bribery occurring within the organisation. If these cannot be demonstrated and an offence of bribery is committed within the organisation, senior officers of the Council can be held accountable. An extract of the Bribery Act is shown at Annex B.

### 4 Aims

- 4.1 The Council has a duty to reduce fraud and bribery to an absolute minimum in order to **protect** its customers and itself. This Strategy sets out the Council’s commitment to preventing, detecting and deterring fraud, corruption, bribery or other irregularity.
- 4.2 By adopting the Strategy, the Council has **acknowledged** the fraud risk. The Strategy aims to improve the integration of fraud awareness, **prevention** and detection into the culture and working practices of the Council, its partnerships and contracts.

4.3 The Strategy requires that adequate and effective **governance** measures are in place, with all perpetrators being **pursued** in order to effect **redress**, recover losses and, where appropriate, **prosecute**.

4.4 The Strategy outlines the Council's stance in implementing a zero-tolerance approach towards fraud and irregularity and actions to **deter** it.

## 5. Approach

5.1 The Council takes the threat of fraud, corruption, financial loss and bribery seriously, in that it has the necessary dedicated and specialist resource, comprising of the Internal Audit and Counter Fraud Team. The team is focussed on co-ordinating the approach that Oldham Council takes in protecting its assets and finances from fraud, financial loss, corruption and bribery.

5.2 Fraud, by its very nature, is hidden, and conducted in such a manner that fraudulent actions are actively concealed. It is therefore vital to provide a strong anti-fraud culture and advocate a zero-tolerance approach. If done effectively this will not only provide a deterrence effect to potential fraudsters, but also encourage an environment where individuals feel comfortable coming forward to raise concerns.

5.3 In compiling the strategy, we have considered the Council's objectives and have also incorporated guidance and best practice of combatting fraud and loss within Local Government from a number of different sources, including:

### a) CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

5.4 The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption identifies five key principles to be adopted in the fight against fraud, these are:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.

### b) Fighting Fraud and Corruption Locally (FFCL) 2020 – 2025 Strategy

5.5 The Fighting Fraud and Corruption Locally 2020 – 2025 Strategy has been developed by Local Government in collaboration with anti-fraud and corruption professionals. There are five key elements of the strategy:

- **Govern:** Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Having a holistic approach to tackling fraud is part of good governance.
- **Acknowledge:** Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.
- **Prevent:** Preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
- **Pursue:** Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters

and developing a more collaborative and supportive local enforcement response.

- **Protect:** Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community. For a Local Authority this will also cover protecting public funds, protecting its organisation from fraud and cybercrime and also protecting itself from future frauds.

5.6 The Fighting Fraud and Corruption Locally (FFCL) 2020 – 2025 Strategy also identifies “six Cs” as central to an effective counter fraud approach:

- **Culture** – creating a culture where fraud and corruption are unacceptable and that is measurable.
- **Capability** – assessing the full range of fraud risks and ensuring that the range of counter fraud measures deployed is appropriate.
- **Capacity** – deploying the right level of resources to deal with the level of fraud risk that is monitored by those charged with governance.
- **Competence** – having the right skills and standards commensurate with the full range of counter fraud and corruption activity.
- **Communication** – raising awareness internally and externally, deterring fraudsters, sharing information, celebrating successes.
- **Collaboration** – working together across internal and external boundaries: with colleagues, with other Local Authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

5.7 In addition to compiling this strategy in line with these principles, the Council also assesses its compliance with them against the self-assessment checklist for Local Authorities contained in FFCL 2020 – 2025.

## 6. Policy Statement

6.1 The Council expects all elected Members, employees, consultants, contractors, service users and any other external and partner organisations to uphold the highest standards of honesty and integrity.

6.2 Elected Members and staff at all levels should be aware of their respective roles in preventing and detecting fraud and lead by example in ensuring adherence to rules, procedures, Codes of Conduct and recommended practices.

6.3 The Council supports and promotes zero tolerance to any form of theft, fraud, bribery or corruption and will pursue perpetrators to the full extent of the law.

6.4 Our strategy to reduce fraud is based on prevention, deterrence, detection, investigation, sanctions and redress within an over-riding anti-fraud culture. We will promote this culture across all our service areas and within the community as a whole.

## 7. Fraud Prevention - the Corporate Framework and Responsibilities

7.1 The corporate framework which underpins this strategy includes the following:

- The relevant Codes of Conduct for elected Members and employees
- The Council’s Constitution including the Finance Procedure Rules, Contract Procedure Rules and the Scheme of Delegation
- The Whistleblowing Policy
- The Anti- Money Laundering Policy

- Sanctions/Prosecutions Policies
- The work by the Audit and Counter Fraud Service in National Anti-Fraud Initiatives (NFI) and the National Anti-Fraud Network (NAFN)
- The ICT Acceptable Use Policy
- Recruitment procedures
- Staff disciplinary procedures
- The Annual Governance Statement to support the production of the Statement of Final Accounts.

7.2 The responsibilities of various parties in relation to managing the risk of fraud and corruption are detailed below.

### **7.3 Responsibilities of Elected Members**

7.3.1 Elected members have a responsibility for approving major policies on the use of the Council's physical, financial and human resources and participating in the governance and management of the Council. All elected Members should be familiar with the Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan and support its application in all activities, in order to help maintain a culture which will not tolerate fraud or corruption. At all times, elected Members must maintain the highest standards of conduct and ethics as the public would expect of their elected representatives and observe the Members' Code of Conduct.

### **7.4 Responsibilities of the Audit Committee**

7.4.1 The role of the Council's Audit Committee in relation to fraud and corruption includes:

- Reviewing and ensuring the adequacy of the Council's Counter Fraud, Anti-Bribery and Counter Fraud Strategy and related documents, and to consider the effectiveness of the arrangements for counter fraud;
- Reviewing and ensuring that adequate arrangements are established and operating to deal with situations of suspected or actual fraud, financial loss and corruption;
- Reviewing the annual Internal Audit work programme to consider the proposed and actual Internal Audit coverage and whether this provides adequate assurance on the main business risks;
- Receiving and considering the Council's Annual Governance Statement.

### **7.5 Responsibilities of Management**

7.5.1 It is acknowledged that fraud may be committed from within the organisation. The responsibility for managing the risk of fraud and corruption lies with management. Management includes all of the Council's Directors, Heads of Service, managers, line managers and supervisors. These are all responsible for establishing and maintaining sound systems of internal control in all of their service's operations to prevent and detect fraud, bribery, corruption and theft.

7.5.2 Management must promote staff awareness of the risk of fraud and corruption and ensure that all suspected or reported irregularities are immediately referred in accordance with the Fraud Response Plan.

7.5.3 Where fraud or corruption has occurred because of a breakdown in the systems or procedures in place, management must ensure that appropriate improvements in systems of control are implemented to prevent a reoccurrence.

7.5.4 Managers must ensure that awareness is raised about the need to register interests and to include in the Register of Gifts and Hospitality any gifts or hospitality. They should also ensure that compliance with procedures is maintained in accordance with the Code of Conduct for Employees.

## **7.6 Responsibilities of All Employees**

7.6.1 The Council expects all elected Members and employees, to act with integrity, and to carry out their duties in accordance with appropriate legal requirements, internal codes, rules and procedures and to act at all times with honesty and probity in the discharge of their functions in line with the Principles of Public Life (The Nolan Principles) shown at Annex C. All employees are expected to give the highest possible standard of service and to act with propriety in the use of public funds. Employees are required to avoid activity that breaches this policy and must:

- Ensure that they read and comply with this policy.
- Report suspicions of theft, fraud, serious and intentional breaches of financial regulations, bribery or corruption.
- Comply with the Council's 'Code of Conduct for Employees'.
- Declare all offers of gifts, hospitality, and potential conflicts of interest.

## **7.7 Responsibilities of Suppliers, Contractors, Consultants, Agency workers, Public and Partner Organisations**

7.7.1 All outside individuals, including suppliers, contractors, consultants, agency workers, public and partner organisations are expected to conduct themselves towards the Council with honesty and integrity, and not do anything that involves fraud or corruption. All those working on behalf of the Council should be aware of procedures to be followed if they suspect that fraudulent or corrupt acts have been committed and must report their concerns.

## **7.8 Role of Internal Audit**

7.8.1 Internal audit provides an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Internal audit work, undertaken by the Audit and Counter Fraud Service, in reviewing the standard of internal control, assists management to fulfil their responsibilities in preventing incidents of fraud and corruption. The Audit and Counter Fraud Service develops and reviews the Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan and, where appropriate, investigates issues reported under the Fraud Response Plan or the Whistleblowing Policy where fraud is suspected.

## **7.9 Role of Counter Fraud Team**

7.9.1 The Counter Fraud Team is a dedicated resource which has been established to investigate potential irregularities in relation to a number of different areas administered by the authority. This includes categories such as Council Tax Discounts, Council Tax Support, Non-Domestic Rates (Business Rates) & Direct Payments. The consideration of sanctions or prosecution of offenders is governed by the Council's Sanctions and Suitability of Offenders for Prosecution Policies. The team forms part of the Audit and Counter Fraud Service and develops and reviews the Council's Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan.

## **7.10 Role of External Audit**

7.10.1 As part of their work plan, the Council's External Auditors are required to identify any risk of material misstatement (whether due to fraud or error) and to reach a conclusion on the Authority's arrangements to secure value for money.

## **8. Deterrence**

8.1 The Council is committed to maintaining a culture which will not tolerate theft, fraud, bribery or corruption and will deal swiftly and firmly with any persons who defraud or attempt to defraud the Council, or who are corrupt. Such action may include:

- Disciplinary action;
- Prosecution;
- Recovery of financial loss;
- Publicising successful prosecutions.

## **8.2 Disciplinary Action**

8.2.1 All cases of fraud, bribery corruption or theft, will be referred for disciplinary investigation and will be treated as gross misconduct. If any allegations are made maliciously or for personal gain, disciplinary action may be taken against the person making the malicious allegation. Any elected Member found to have acted fraudulently or corruptly will also face action. Where appropriate, the Council's Monitoring Officer will be consulted about the action to be taken.

## **8.3 Prosecution**

8.3.1 Where sufficient evidence exists to suggest that a criminal offence may have been committed, it is the policy of the Council to refer the matter for prosecution in line with the Council's Sanctions and Suitability of Offenders for Prosecution policies and seek to recover losses incurred.

## **8.4 Recovery of financial loss**

8.4.1 The Council will seek to recover any financial loss incurred as a result of fraudulent activity. The Council is committed to taking further appropriate action against fraudulent claims submitted for financial assistance in relation to any service which the Council delivers such as Council Tax, Non Domestic Rates (Business Rates) and Social Care. Consideration will be given to either prosecuting or applying alternative sanctions where it is considered appropriate to do so, in accordance with the Council's Sanctions and Suitability of Offenders for Prosecution policies. Disciplinary action will be taken in all cases where employees are found to have either made or participated in the making of fraudulent applications to this or any other public body.

## **8.5 Publicising Successful Prosecutions**

8.5.1 Press releases will be issued in suitable cases to seek to maximise the deterrent effect and raise the level of public fraud awareness. Consideration will be given to the amounts involved, the nature of the offence, public interest and the deterrent value of publicising a particular case.

## **9. Detection**

### **9.1 The Role of Management**

9.1.1 Management must ensure that an effective system of internal control is in place. Controls in place should be adequately documented and implemented. It is the responsibility of management to ensure that appropriate controls are established, and that the operation of all controls is kept under review.

### **9.2 Reporting Suspected Incidents of Fraud or Corruption**

9.2.1 All elected Members and employees have a vital role in the detection of fraud and corruption and must be vigilant against the possibility of fraudulent and corrupt activity. All suspicions of illegality, financial impropriety or breach of procedure should be reported in accordance with the requirements of the Fraud Response Plan.

9.2.2 The Council has a Whistleblowing Policy to give confidence to employees who wish to raise concerns in a confidential manner. The policy provides a framework for reporting, investigating and following up such concerns in accordance with the Public Interest Disclosure Act 1998 (PIDA).

9.2.3 Where any person indicates that they wish to raise a concern in relation to suspected fraud, they should be referred to the contact details shown in the Fraud Response Plan for guidance on how to report their concerns in confidence. Contact details and guidance for reporting fraud are included on the Council website and reflected in the Fraud Response Plan. Any referrals received via these contact details will be allocated accordingly depending on the nature of the allegation received.

9.2.4 A list of common fraud indicators is shown at Annex D.

### **9.3 The Investigation of Incidents of Fraud or Corruption**

9.3.1 The Council's Audit and Counter Fraud Service is responsible for receiving all referrals of suspected theft, fraud and corruption. Responsibility for conducting the investigation will depend on the nature of the alleged offence(s).

9.3.2 The relevant investigating team will liaise with other relevant services, to agree an appropriate approach to ensure that action is taken to research allegations of suspected fraud in accordance with this policy. Account will be taken of the particular circumstances of each case to ensure appropriate services are involved in the process. There will be liaison with the Human Resources team and other functions / individuals as necessary such as Legal Services, relevant service managers and other internal and/or external services.

9.3.3 Where theft, fraud or corruption has occurred, management will be advised about any recommended improvements to systems and procedures as appropriate. The Council's Director of Finance (as the Section 151 Officer) will be informed of all incidents of fraud where it is alleged that the incident involves a member of staff, partner, contractor or councillor. Action for undertaking an investigation will be agreed in liaison with Human Resources in accordance with investigation processes set out as part of the Council's Disciplinary Procedure.



## **9.4 Data Matching**

- 9.4.1 Data Matching Arrangements are in place, and will continue to be developed, which encourage the exchange of information between the Council and other agencies on national and local fraud and corruption activity. This includes participation in the National Fraud Initiative (NFI). All such arrangements will adhere to data protection legislation.

## **10. Sanctions and Redress**

- 10.1 In all cases of theft, fraud, financial misconduct, serious and intentional breach of Financial Procedure Rules or Contract Procedure Rules, bribery or corruption committed by employees the Council will seek disciplinary action for gross misconduct. This includes fraud related to employment with the Council as well as other forms of engagement e.g., through applications for financial assistance made to the Council by employees or members.
- 10.2 Where evidence of fraud exists this will be reported to the Police or the Council's Legal Services where appropriate and considered for criminal prosecution, in line with the Sanctions and Suitability of Offenders for Prosecution Policies. Where a financial loss has been identified, the Council will seek to recover this loss either through civil or criminal processes.
- 10.3 The Council will seek prosecution in all cases involving theft from vulnerable clients or where there is evidence of bribery or corruption of public officials.
- 10.4 The Council's Sanctions Policy (Fraud and Bribery) is shown at Annex E, and the Policy on the Suitability of Offenders for Prosecution (Prosecution Policy) is shown at Annex F

## **11. Fraud Response Plan**

- 11.1 Our staff are our first line of defence against most acts, or attempts, of fraud, corruption, financial loss or bribery. We expect and encourage them to be alert to the possibility of acts of fraud, corruption, potential financial loss or bribery and to raise any such concerns at the earliest opportunity.
- 11.2 Staff have a duty to protect the assets of the Council, including information, as well as property. When an employee suspects that there has been fraud or corruption, they have a duty to report the matter to the Internal Audit and Counter Fraud Team.

## **12. Reporting Lines - Reporting a Fraud**

- 12.1 Suspicions of fraud will be treated seriously and will be reviewed and investigated in accordance with the Public Interest Disclosure Act, the Human Rights Act and the Council's fraud investigation procedures
- 12.2 There are a number of ways that individuals may raise a concern or report suspected fraud or bribery.
- The Council has a dedicated confidential fraud hotline (0161 770 4969) which is monitored by key personnel within the Internal Audit and Counter Fraud Service.

- Concerns may also be raised by writing direct to the Counter Fraud Team, Level 3, Civic Centre, Oldham, OL1 1UT, and by email at [investigations@oldham.gov.uk](mailto:investigations@oldham.gov.uk)

12.3 This Fraud Response Plan is intended to provide employees with an avenue within the Council to raise concerns. If it is felt that the Council has not acted appropriately, the matter may be reported to one of the following:

- The Council's External Auditor.
- One of the Council's recognised Trade Unions, i.e. UNISON or GMB.
- Public Concern at Work (see paragraph 13.3 below).
- Citizens' Advice Bureau.
- Relevant professional bodies or regulatory organisations such as the Health and Safety Executive and utility regulators.
- The police.

If the matter is reported to a person or body outside of the Council, care should be taken not to disclose confidential information.

### **13. Whistleblowing**

13.1 The Council's Whistleblowing Policy encourages employees (and those of contractor and partner organisations) to report concerns that are in the public interest. The Policy outlines the process for raising concerns and the types of conduct that should be reported. For example:

- Criminal offences.
- Failure to comply with legal obligations.
- Actions which endanger the health or safety of any individual.
- Actions which cause damage to the environment.
- Actions which are intended to conceal any of the above.

All referrals are treated in the strictest confidence and callers who wish to may remain anonymous.

13.2 The Council will not tolerate any harassment or victimisation of anyone raising a genuine concern. All such acts of harassment or victimisation will be referred for disciplinary investigation.

13.3 Employees unsure of whether or how to raise a concern or for those who may want confidential advice are advised to contact the independent charity, Public Concern at Work. Public Concern at Work provides free confidential advice on how to raise a concern about serious malpractice at work. Their contact details are:

- Telephone: 020 7404 6609
- Web-site: [www.pcaw.co.uk](http://www.pcaw.co.uk)
- E-mail: [helpline@pcaw.co.uk](mailto:helpline@pcaw.co.uk)

13.4 Where allegations are found to be malicious, they will also be considered for further investigation and subject to appropriate disciplinary action.

### **14. Action by Managers/Heads of Service**

14.1 Managers must take action to deal with suspicions of theft, fraud or corruption. Managers should:

- Listen to the concerns raised by staff and treat every report received seriously and sensitively.
- Make sure that all concerns are given a fair hearing.
- Reassure staff that they will not suffer because they have raised suspicions. The Council will not tolerate any harassment or victimisation (including informal pressures) of anyone raising a genuine concern.
- Get as much information as possible, including any notes and any evidence that may support the allegation.
- Report the matter as outlined in this document.
- NOT interfere with any evidence and make sure it is kept in a safe place.
- NOT try to carry out an investigation. This may hinder any subsequent investigation action that may be taken.

## **15. Fraud Investigation**

- 15.1 The Council's Audit and Counter Fraud Service is responsible for receiving all referrals of suspected theft, fraud and corruption. Responsibility for conducting the investigation will depend on the nature of the alleged offence(s).
- 15.2 The relevant investigating team will liaise with other relevant services, to agree an appropriate approach to ensure that action is taken to research allegations of suspected fraud in accordance with this policy. Account will be taken of the particular circumstances of each case to ensure appropriate services are involved in the process. Liaison will take place with Human Resources and other functions / individuals as necessary such as Legal Services, relevant service managers and other internal and/or external services.
- 15.3 Where theft, fraud or corruption has occurred, management will be advised about any recommended improvements to systems and procedures as appropriate.

## **16. Disciplinary procedure**

- 16.1 Cases of theft, fraud, bribery or corruption by employees will be referred for disciplinary investigation in accordance with the procedures set out in the Council's Disciplinary Policy and will be treated as gross misconduct.
- 16.2 Where sufficient evidence exists, this will be reported to the police in accordance with the Sanctions and Suitability of Offenders for Prosecution Policy.
- 16.3 Where there is evidence that an allegation of misconduct was made maliciously or for personal gain, disciplinary action will be taken against the person making the malicious allegation.

### **List of Annexes**

**Annex A - Summary of the Fraud Act 2006**

**Annex B - Extract from the Bribery Act 2010**

**Annex C - The Principles of Public Life (The Nolan Principles)**

**Annex D - Fraud Indicators**

**Annex E - Sanctions Policy (Fraud & Bribery)**

**Annex F – Suitability of Offenders for Prosecution.**

## Summary of the Fraud Act 2006

### Key areas of the Fraud Act 2006

There are a number of other areas that are not included within this summary. This summary focuses on those issues that are more likely to affect counter fraud investigations in the public sector.

### Section 1 - Fraud

A person is guilty of fraud if he/she is in breach of any of the Sections listed in subsection (2) (which provide for different ways of committing the offence).

The Sections are:

- Section 2 - Fraud by false representation
- Section 3 - Fraud by failing to disclose information
- Section 4 - Fraud by abuse of position
- Section 7 – Making or supplying articles for use in fraud.

Maximum penalty is imprisonment for a term up to 10 years (note: this was previously 7 years).

### Section 2 - Fraud by false representation

A person is in breach of this Section if he/she:

- Dishonestly makes a false representation; and
- Intends, by making the representation to make a gain for himself or another, or to cause loss to another or to expose another to a risk of loss.

#### *Explanatory notes*

- Note a gain need not have taken place, intent suffices
- 'Gain' includes keeping what one has, as well as a gain by getting what one does not have
- 'Loss' means not getting what one might get, as well as losing something that one has
- Importantly the loss can be permanent or temporary (previously the onus was on intention to permanently deprive)
- 'Dishonest' is defined in case law (R v Gosh 1982) and is based upon the two-tier test of whether his behaviour was regarded as being dishonest by the ordinary standards of reasonable and honest people (Clapham Omnibus) and whether the defendant was aware that his conduct was dishonest.

*A representation is false if:*

- It is untrue or misleading; and
- The person making it knows that it is, or might be, untrue or misleading

- The term 'representation' is defined under s.2 (3) of the Act as
- Any representation as to fact or law, including a representation as to the state of mind of the person making it, or any other person.

Subsection (4) states the representation may be expressed or implied.

### **Section 3 - Fraud by failing to disclose information**

A person is in breach of this Section if he/she:

- Dishonestly fails to disclose to another person information which he is under a legal duty to disclose; and
- Intends, by failing to disclose the information, to make a gain for himself or another, or to cause loss to another or to expose another to a risk of loss.

#### *Explanatory notes*

This section applies to all parties where a person is under a duty to disclose something and by not doing so could create some gain (e.g. not disclosing an illness for medical insurance) or where the failure to disclose causes a loss or puts another at a risk of a loss.

This may include verbal or written contracts. The Law Commission's Report of Fraud on the concept of 'legal duty' is as follows:

### **Section 4 - Fraud by abuse of position**

A person is in breach of this Section if he/she:

- Occupies a position, in which he is expected to safeguard, or not act against, the financial interests of another person
- Dishonestly abuses that position; and
- Intends, by means of the abuse of that position to make a gain for himself or another, or to cause loss to another or expose another to a risk of loss.

#### *Explanatory notes*

S.4 (2) A person may be regarded having abused his position even though his conduct consisted of an omission rather than an act.

This offence focuses on those persons who are in positions of financial trust and have insight and possibly control of another's financial situation. There will be some form of relationship or agreement between both parties for the offence to operate: the relationship can be one of client, employee, family, trustee and beneficiary or simple trust. Although the offence focuses on the area of finance of the victim, it appears by the wording of the section that the actual gain to the offender may not be monetary, although it invariably will be.

The following examples are given:

- Where an employee fails to take up a contract to allow a rival company to obtain the contract at the expense of the employee's company
- Where someone is looking after elderly or vulnerable persons and has access to their bank account and abuses their position by removing money from the account.

### **Section 7 – Making or supplying articles\* for use in frauds**

Under section (1) a person is guilty of an offence if he makes, adapts, supplies or offers to supply any article:

- Knowing that it is designed or adapted for use in the course of or in connection with fraud: or
- Intending it to be used to commit, assist in the commission of, fraud.

An article includes any program or data held in electronic form and can also include anything that can be used to make, alter, remove, supply or store something by electronic means in connection with fraud.

Fraud under this section may be manipulating or amending the date on a Blue Badge or photocopying a badge and supplying to another.

**Annex B****Extract from the Bribery Act 2010****1 Offences of bribing another person**

- (1) A person (“P”) is guilty of an offence if either of the following cases applies.
- (2) Case 1 is where—
  - (a) P offers, promises or gives a financial or other advantage to another person, and
  - (b) P intends the advantage—
    - (i) to induce a person to perform improperly a relevant function or activity, or
    - (ii) to reward a person for the improper performance of such a function or activity.
- (3) Case 2 is where—
  - (a) P offers, promises or gives a financial or other advantage to another person, and
  - (b) P knows or believes that the acceptance of the advantage would itself constitute the improper performance of a relevant function or activity.
- (4) In case 1 it does not matter whether the person to whom the advantage is offered, promised or given is the same person as the person who is to perform, or has performed, the function or activity concerned.
- (5) In cases 1 and 2 it does not matter whether the advantage is offered, promised or given by P directly or through a third party.

**2 Offences relating to being bribed**

- (1) A person (“R”) is guilty of an offence if any of the following cases applies.
- (2) Case 3 is where R requests, agrees to receive or accepts a financial or other advantage intending that, in consequence, a relevant function or activity should be performed improperly (whether by R or another person).
- (3) Case 4 is where—
  - (a) R requests, agrees to receive or accepts a financial or other advantage, and
  - (b) the request, agreement or acceptance itself constitutes the improper performance by R of a relevant function or activity.
- (4) Case 5 is where R requests, agrees to receive or accepts a financial or other advantage as a reward for the improper performance (whether by R or another person) of a relevant function or activity.
- (5) Case 6 is where, in anticipation of or in consequence of R requesting, agreeing to receive or accepting a financial or other advantage, a relevant function or activity is performed improperly—

- (a) by R, or
  - (b) by another person at R's request or with R's assent or acquiescence.
- (6) In cases 3 to 6 it does not matter—
- (a) whether R requests, agrees to receive or accepts (or is to request, agree to receive or accept) the advantage directly or through a third party,
  - (b) whether the advantage is (or is to be) for the benefit of R or another person.
- (7) In cases 4 to 6 it does not matter whether R knows or believes that the performance of the function or activity is improper.
- (8) In case 6, where a person other than R is performing the function or activity, it also does not matter whether that person knows or believes that the performance of the function or activity is improper.

### **3 Function or activity to which bribe relates**

- (1) For the purposes of this Act a function or activity is a relevant function or activity if—
- (a) it falls within subsection (2), and
  - (b) meets one or more of conditions A to C.
- (2) The following functions and activities fall within this subsection—
- (a) any function of a public nature,
  - (b) any activity connected with a business,
  - (c) any activity performed in the course of a person's employment,
  - (d) any activity performed by or on behalf of a body of persons (whether corporate or unincorporate).
- (3) Condition A is that a person performing the function or activity is expected to perform it in good faith.
- (4) Condition B is that a person performing the function or activity is expected to perform it impartially.
- (5) Condition C is that a person performing the function or activity is in a position of trust by virtue of performing it.
- (6) A function or activity is a relevant function or activity even if it—
- (a) has no connection with the United Kingdom, and
  - (b) is performed in a country or territory outside the United Kingdom.
- (7) In this section “business” includes trade or profession.

### **4 Improper performance to which bribe relates**

- (1) For the purposes of this Act a relevant function or activity—
- (a) is performed improperly if it is performed in breach of a relevant expectation, and



- (b) is to be treated as being performed improperly if there is a failure to perform the function or activity and that failure is itself a breach of a relevant expectation.
- (2) In subsection (1) “relevant expectation”—
    - (a) in relation to a function or activity which meets condition A or B, means the expectation mentioned in the condition concerned, and
    - (b) in relation to a function or activity which meets condition C, means any expectation as to the manner in which, or the reasons for which, the function or activity will be performed that arises from the position of trust mentioned in that condition.
  - (3) Anything that a person does (or omits to do) arising from or in connection with that person's past performance of a relevant function or activity is to be treated for the purposes of this Act as being done (or omitted) by that person in the performance of that function or activity.

## **5 Expectation test**

- (1) For the purposes of sections 3 and 4, the test of what is expected is a test of what a reasonable person in the United Kingdom would expect in relation to the performance of the type of function or activity concerned.
- (2) In deciding what such a person would expect in relation to the performance of a function or activity where the performance is not subject to the law of any part of the United Kingdom, any local custom or practice is to be disregarded unless it is permitted or required by the written law applicable to the country or territory concerned.
- (3) In subsection (2) “written law” means law contained in—
  - (a) any written constitution, or provision made by or under legislation, applicable to the country or territory concerned, or
  - (b) any judicial decision which is so applicable and is evidenced in published written sources.

## **6 Bribery of foreign public officials**

- (1) A person (“P”) who bribes a foreign public official (“F”) is guilty of an offence if P's intention is to influence F in F's capacity as a foreign public official.
- (2) P must also intend to obtain or retain—
  - (a) business, or
  - (b) an advantage in the conduct of business.
- (3) P bribes F if, and only if—
  - (a) directly or through a third party, P offers, promises or gives any financial or other advantage—
    - (i) to F, or
    - (ii) to another person at F's request or with F's assent or acquiescence,
  - and

- (b) F is neither permitted nor required by the written law applicable to F to be influenced in F's capacity as a foreign public official by the offer, promise or gift.
- (4) References in this section to influencing F in F's capacity as a foreign public official mean influencing F in the performance of F's functions as such an official, which includes—
- (a) any omission to exercise those functions, and
  - (b) any use of F's position as such an official, even if not within F's authority.
- (5) "Foreign public official" means an individual who—
- (a) holds a legislative, administrative or judicial position of any kind, whether appointed or elected, of a country or territory outside the United Kingdom (or any subdivision of such a country or territory),
  - (b) exercises a public function—
    - (i) for or on behalf of a country or territory outside the United Kingdom (or any subdivision of such a country or territory), or
    - (ii) for any public agency or public enterprise of that country or territory (or subdivision), or
  - (c) is an official or agent of a public international organisation.
- (6) "Public international organisation" means an organisation whose members are any of the following—
- (a) countries or territories,
  - (b) governments of countries or territories,
  - (c) other public international organisations,
  - (d) a mixture of any of the above.
- (7) For the purposes of subsection (3)(b), the written law applicable to F is—
- (a) where the performance of the functions of F which P intends to influence would be subject to the law of any part of the United Kingdom, the law of that part of the United Kingdom,
  - (b) where paragraph (a) does not apply and F is an official or agent of a public international organisation, the applicable written rules of that organisation,
  - (c) where paragraphs (a) and (b) do not apply, the law of the country or territory in relation to which F is a foreign public official so far as that law is contained in—
    - (i) any written constitution, or provision made by or under legislation, applicable to the country or territory concerned, or
    - (ii) any judicial decision which is so applicable and is evidenced in published written sources.
- (8) For the purposes of this section, a trade or profession is a business.

## **7 Failure of commercial organisations to prevent bribery**

- (1) A relevant commercial organisation (“C”) is guilty of an offence under this section if a person (“A”) associated with C bribes another person intending—
  - (a) to obtain or retain business for C, or
  - (b) to obtain or retain an advantage in the conduct of business for C.
- (2) But it is a defence for C to prove that C had in place adequate procedures designed to prevent persons associated with C from undertaking such conduct.
- (3) For the purposes of this section, A bribes another person if, and only if, A—
  - (a) is, or would be, guilty of an offence under section 1 or 6 (whether or not A has been prosecuted for such an offence), or
  - (b) would be guilty of such an offence if section 12(2)(c) and (4) were omitted.
- (4) See section 8 for the meaning of a person associated with C and see section 9 for a duty on the Secretary of State to publish guidance.
- (5) In this section—
  - “partnership” means—
    - (a) a partnership within the Partnership Act 1890, or
    - (b) a limited partnership registered under the Limited Partnerships Act 1907,
 or a firm or entity of a similar character formed under the law of a country or territory outside the United Kingdom,
  - “relevant commercial organisation” means—
    - (a) a body which is incorporated under the law of any part of the United Kingdom and which carries on a business (whether there or elsewhere),
    - (b) any other body corporate (wherever incorporated) which carries on a business, or part of a business, in any part of the United Kingdom,
    - (c) a partnership which is formed under the law of any part of the United Kingdom and which carries on a business (whether there or elsewhere), or
    - (d) any other partnership (wherever formed) which carries on a business, or part of a business, in any part of the United Kingdom,
 and, for the purposes of this section, a trade or profession is a business.

## **8 Meaning of associated person**

- (1) For the purposes of section 7, a person (“A”) is associated with C if (disregarding any bribe under consideration) A is a person who performs services for or on behalf of C.
- (2) The capacity in which A performs services for or on behalf of C does not matter.
- (3) Accordingly A may (for example) be C's employee, agent or subsidiary.
- (4) Whether or not A is a person who performs services for or on behalf of C is to be determined by reference to all the relevant circumstances and not merely by reference to the nature of the relationship between A and C.

- (5) But if A is an employee of C, it is to be presumed unless the contrary is shown that A is a person who performs services for or on behalf of C.

**9 Guidance about commercial organisations preventing bribery**

- (1) The Secretary of State must publish guidance about procedures that relevant commercial organisations can put in place to prevent persons associated with them from bribing as mentioned in section 7(1).
- (2) The Secretary of State may, from time to time, publish revisions to guidance under this section or revised guidance.
- (3) The Secretary of State must consult the Scottish Ministers [and the Department of Justice in Northern Ireland] before publishing anything under this section.
- (4) Publication under this section is to be in such manner as the Secretary of State considers appropriate.
- (5) Expressions used in this section have the same meaning as in section 7.

**Annex C****The Principles of Public Life (The Nolan Principles)**

The Council expects all elected Members and employees, to act with integrity, and to carry out their duties in accordance with appropriate legal requirements, internal codes, rules and procedures and to act at all times with honesty and probity in the discharge of their functions. All elected Members and employees of Oldham Council are expected to comply with their relevant Code of Conduct. Underpinning the Codes of Conduct are the seven Principles of Public Life:

1. **Selflessness** — Holders of public office should serve only the public interest and should never improperly confer an advantage or disadvantage on any person.
2. **Integrity** — Holders of public office should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly and should on all occasions avoid the appearance of such behaviour.
3. **Objectivity** — Holders of public office should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefits.
4. **Accountability** — Holders of public office should be accountable to the public for their actions and the manner in which they carry out their responsibilities, and should co-operate fully and honestly with any scrutiny appropriate to their particular office.
5. **Openness** — Holders of public office should be as open as possible about their actions and those of their authority, and should be prepared to give reasons for those actions.
6. **Honesty** - Holders of public office should be truthful.
7. **Leadership** — Holders of public office should promote and support these principles by leadership, and by example, and should act in a way that secures or preserves public confidence.

## Annex D

## Fraud Indicators

A number of frauds can come to light because of suspicions aroused by, for instance, the behaviour of certain individuals. It is impossible to give a definitive list of fraud indicators or warning signs. The following are types of risk factors that may, either alone or cumulatively with other factors, suggest the possibility of fraud and may therefore warrant further investigation or enquiry.

- **Unusual employee behaviour:** Refusal to comply with normal rules and practices, fails to take leave, refusing promotion, managers by-passing subordinates, subordinates by-passing managers, living beyond means, regularly working long-hours, job dissatisfaction/unhappy employee, secretiveness or undue defensiveness.
- **Financial irregularities:** Key documents missing (e.g. invoices, contracts); absence of controls and audit trails; missing expenditure vouchers and official records; general ledger out of balance; bank and ledger reconciliations are not maintained or cannot be balanced; excessive movements of cash or transactions between accounts; numerous adjustments or exceptions; constant overdue pay or expense advances; duplicate payments; ghost employees on the payroll; large payments to individuals; excessive variations to budgets or contracts.
- **Bad procurement practice:** Too close a relationship with suppliers/contractors; suppliers/contractors who insist on dealing with only one particular member of staff; unjustified disqualification of any bidder; lowest tenders or quotes passed over with minimal explanation recorded; defining needs in ways that can be met only by specific contractors; single vendors; vague specifications; splitting up requirements to get under small purchase requirements or to avoid prescribed levels of review or approval.
- **Disorganisation:** Understaffing in key control areas; consistent failures to correct major weaknesses in internal control; inadequate or no segregation of duties.
- **Inadequate supervision:** Policies not being followed; lack of senior management oversight; inadequate monitoring to ensure that controls work as intended (periodic testing and evaluation); low staff morale, weak or inconsistent management.
- **Lax corporate culture:** Management frequently override internal control; climate of fear or a corporate culture; employees under stress without excessive workloads; new employees resigning quickly; crisis management coupled with a pressured business environment; high employee turnover rates in key controlling functions.
- **Poor work practices:** Lack of common-sense controls; work is left until the employee returns from leave; post office boxes as shipping addresses; documentation that is photocopies or lacking essential information; lack of rotation of duties; unauthorised changes to systems or work practices.

## Sanctions Policy (Fraud & Bribery)

### Introduction:

Oldham Council (Oldham) is committed to delivering public services in an efficient and effective way and takes its responsibility for protecting public funds seriously. Oldham has a duty to reduce fraud and bribery to a minimum, the strategy for doing so is detailed within the Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan.

The use of sanctions is governed by this policy and principles.

### Objectives:

The objectives of Oldham are to ensure that:

- Sanctions are applied fairly and consistently
- Sanctions are applied in an effective and cost-effective way
- The sanction decision making process is robust, transparent and fair.

The sanction decision will have regard to Oldham's Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan and the overall impact of any decision on the individual and the wider community.

Oldham has a range of sanctions that will be considered:

- No further action
- Disciplinary action and/or referral to professional bodies
- Civil proceedings
- Criminal proceedings
- Parallel sanctions (i.e. combination of the above options 2- 4).

#### *No further action*

Oldham may consider closing a case without taking any further action. This may be due to the following factors:

- Evidence is not robust or reliable
- The offence is minor
- The cost to pursue the case is not proportionate to the offence committed.

#### *Disciplinary action*

In the event that an allegation is made against an Oldham employee, the Internal Audit and Counter Fraud Team will consult with Human Resources, in accordance with the HR Disciplinary Policy and the relevant Head of Service. Any disciplinary action will be taken in conjunction with Human Resources, and the decision as to whether to refer the issue to any other enforcement agencies, for example, Police, HM Revenue & Customs will be a joint decision between the Director of Finance, the relevant Head of Service and Human Resources.

Sanctions may include warnings or dismissal.

### *Civil Proceedings*

Where it is considered that a criminal prosecution will not be pursued, as evidence is not sufficient to prove a case beyond reasonable doubt, Oldham may consider civil proceedings.

For civil proceedings the standard of proof is on the balance of probabilities.

Where it is evident that Oldham has been defrauded by one of its employees (or service users/customers) – the proceeds of fraud may be preserved through civil proceedings without notice to the subject, by the following measures:

- Freezing/tracing injunctions – an interim measure which restrains a person from removing or dealing with assets located within the jurisdiction
- Search order – an interim order for the preservation of evidence
- Recovery of money.

Regardless of whether or not any sanction action is taken, Oldham Council, will always seek to recover any overpayments or misused monies.

The Accounts Receivable Team will be consulted, and their usual procedures applied, including civil action when necessary.

### *Criminal proceedings*

Where Oldham considers that there is sufficient evidence to indicate that a criminal act has taken place, the Internal Audit and Counter Fraud Team, under the direction of the Assistant Director of Corporate Governance and Strategic Financial Management, would refer the matter in the first instance to either the local Police or via the Action Fraud helpline.

The decision taken by the Police or Crown Prosecution Service will be the final decision as to whether or not to pursue the case. Before a decision is taken whether or not to prosecute, the following factors will be considered:

Evidential criteria – the evidence must be:

- Clear, reliable and admissible in court
- Strong enough for a realistic chance of prosecution, i.e. to prove a case ‘beyond reasonable doubt.’

The Public Interest Test will also need to be considered, i.e. the prosecutor will decide whether there are public interest factors tending against prosecution. In making this decision, the following factors will be considered:

- Seriousness &/or monetary value of the offence
- Cost and proportionality of the prosecution
- Age & medical conditions
- Other social factors
- Vulnerability of subject.

However, Oldham is also empowered, under Section 222 of the Local Government Act, where they consider it ‘expedient for the promotion or protection of the inhabitants of their area’ to:



- Prosecute or defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name, and;
- In their own name, make representations in the interests of the inhabitants at any public inquiry held by or on behalf of and Minister or public body under any enactment.'

Oldham will consider undertaking prosecution through this route if appropriate, usually in exceptional circumstances, as referral to the Police/Action Fraud is the preferred route.

#### *Parallel Sanctions*

As a matter of principle, it would be wrong to assume that any sanction(s) should be held in abeyance to wait for another to proceed to conclusion. The option of pursuing parallel sanctions may be considered.

It is preferable for the appropriate sanctions to proceed simultaneously, but it is not necessary for anyone to await the result of another before concluding. However due consideration must be given to all proceedings to ensure that one does not impact improperly upon another.

In such instances Oldham will carry out an investigation with a view to pursuing criminal prosecution whilst, simultaneously, Human Resources will coordinate an internal disciplinary investigation. The advantage of this approach is that all appropriate action is taken by Oldham at the earliest opportunity to avoid any additional costs that may be incurred e.g. continuing salary whilst subject is on suspension and/or cost of employing replacement staff in the interim.

The decision to run parallel sanctions will be determined on a case by case basis with emphasis, for the majority of cases, on a successful criminal sanction being of the highest priority. In any event advice should always be sought from the Internal Audit and Counter Fraud Team and Human Resources before progressing any course of action.

## **Suitability of Offenders for Prosecution**

When considering whether it is appropriate to instigate proceedings, consideration will be given as to whether there is sufficient admissible evidence to justify bringing a prosecution and if the prosecution is in the public interest.

The following paragraphs outline factors that will be considered, to ensure consistent and equitable treatment of those accused of fraud.

### **Evidential Test**

In making a decision to prosecute, the Local Authority must be satisfied that there is enough evidence to provide a 'realistic prospect of conviction'. A realistic prospect of conviction is an objective test meaning that a jury, Magistrate or Judge hearing a case which, is properly directed in accordance with the law, is more likely than not to convict the defendant of the alleged offence. Evidence must be able to be used in a court of law. It must have been gathered appropriately, in accordance with the law and be from a reliable source.

If a case does not pass the 'evidential test' it must not go ahead no matter how important or serious the offence seems. If the case does pass the evidential stage, then it should move on to the second stage to decide if a prosecution is appropriate in the public interest.

### **Public Interest Test**

Oldham Council will always consider public interest judiciously and will balance the factors for and against prosecution objectively. In making the decision whether it is in the public interest to prosecute, the following factors will be considered.

#### Financial Limits

Careful consideration will be given to commencing a prosecution where the fraudulent activity has not resulted in 'significant financial gain' to the offender, for example the amount of the reduction or discounts overpayment is less than the cost of proceedings.

Where there is no significant financial gain a prosecution could still be considered if it is felt that the fraud was a deliberate attempt to gain (if, for example, the fraud has been discovered after a relatively short space of time and a significant financial gain has not yet occurred), or in the case of a persistent offender or any other case where prosecution would be warranted.

#### Physical / Mental Factors

Consideration will be given to the defendant's mental and physical condition (including age) when deciding whether to prosecute. The Counter Fraud Officer will consider whether there are significant personal or mental problems that may have contributed to the reasons for committing the offence. In addition, due consideration will be given where there is any evidence to suggest that the claimant or partner or a third party (for example a child) would be severely affected by the action.

#### Voluntary Disclosure

It may not be appropriate to prosecute those, whose disclosure of their own free will, has led to the identification of a fraud of which the Council was unaware. Admissions made after enquiries or an investigation had commenced do not constitute voluntary disclosure.

### Previous Incidence of Fraud

Any evidence of previous benefits-related fraudulent activity would form part of the overall "prosecution assessment", regardless of whether any previous offences resulted in prosecution.

### Social Factors

If it is considered that the defendant's failure to declare the correct circumstances has been caused by significant extenuating social or financial factors these would be fully evaluated. (The fact that an individual was in debt or has limited assets would not in itself meet this requirement.)

### Adequacy of Evidence

Substantive evidence is essential to secure any conviction. Proceedings would not be sought if there is any doubt that the required evidence is not available. It must be clear that the fraudulent act was actually committed, that it was committed in the full knowledge of benefit regulations and that it was committed with the clear and deliberate intention to obtain property by deception. Satisfying the requirements of the Code for Crown Prosecutors Evidential Test will ensure that evidence is of the standard required by the courts.

### Failure in Investigation

It should be evident on the case file that all appropriate procedures have been adhered to with regard to satisfying the requirements of the Police and Criminal Evidence Act 1984, Criminal Procedures and Investigations Act 1996 and other relevant legislation. Particular consideration would also be given to any delay in the course of enquiries, which may be considered as unacceptable by the court.

### Failure in Administration

Full account will be taken of poor administration or fault on the part of the Authority that has contributed to the processing of the fraudulent claim and subsequent award of discount or reduction in liability.

### **Authorisation of Prosecution**

Cases being referred for prosecution will be authorised by the Audit and Counter Fraud Manager or the Assistant Director of Corporate Governance and Strategic Financial Management. Cases involving Council Members or employees will also be referred to the Group Solicitor or appropriate Head of Service so that any standards issues can be addressed.

Cases may also referred to the police where it is considered that the nature of the offence, or the procurement of evidence require them to undertake or assist in the investigation.

# Oldham Council Audit and Counter Fraud Service

**Council Tax and Council Tax Reduction Scheme  
Sanction Policy**

**29 November 2022**

## Version Control

<b><i>Version</i></b>	<b><i>Version Date</i></b>	<b><i>Revised by</i></b>	<b><i>Description</i></b>
1	April 2013	Andrew Bloor	New Policy
2	July 2015	Andrew Bloor	Revised Policy
3	June 2019	Andrew Bloor	Revised Policy
4	November 2022	Andrew Bloor	Revised Policy

**Council Tax and Council Tax Reduction Scheme Sanction Policy**

**1. Introduction**

1.1 This policy statement provides the agreed framework for Council officers working on the investigation, sanction and prosecution of cases involving suspected fraud in connection with:

- Reducing the liability for paying Council Tax by inappropriately claiming discounts.
- Inappropriate claims on the Council Tax Reduction Scheme.

The Council is committed to protecting the public funds it administers:

- By making it clear that residents have a responsibility to provide accurate and timely information about claims for reductions, discounts and /or exemptions,
- Through the investigation of suspected fraudulent claims, and
- Through the appropriate sanctioning and prosecution of offenders.

The sanction policy for other areas of fraud can be found in the Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan.

**2. Post-Investigation Considerations**

2.1 Following the receipt of an allegation, or other indicator of fraud, the Audit and Counter Fraud Team will undertake an investigation in liaison with other relevant investigating Authorities as appropriate. Once the Counter Fraud Officer has completed an investigation, it will be passed to the Assistant Manager – Counter Fraud within the Internal Audit and Counter Fraud Team, who will consider each case on its merits applying the criteria in this policy and in the Code for Crown Prosecutors and any other circumstances relevant to the case.

2.2 The Assistant Manager - Counter Fraud will decide whether there is sufficient evidence to provide a realistic prospect of securing a conviction and if so, whether it is in the public interest to recommend prosecution or an alternate sanction.

2.3 To ensure a consistent and equitable application of sanctions and prosecutions the following guidelines, as set out in the paragraphs below, will normally apply.

**3. Cautions**

3.1 A Caution is a warning (of which a written record is made), given in certain circumstances to a person who has committed an offence.

3.2 A Caution can only be considered when:

- there is sufficient evidence to justify instituting criminal proceedings;
- the person has admitted the offence during an interview under Caution and agrees to the Caution;

- there are no previous convictions or Cautions for Council Tax Reduction or national benefit fraud, and;
  - there was no other person involved in the fraud.
- 3.3 A Caution can be offered when there is no loss to public funds following the presentation of a false document. For example: a false statement on an initial claim form that was identified prior to payment being made. Although there is no loss of funds, there may be an offence of making a false statement to obtain a reduction in Council Tax liability.
- 3.4 However, a Caution cannot be offered in cases where there is no loss to public funds following a customer's failure to declare a change of circumstances.
- 3.5 If someone refuses a Caution, the Council's policy is to commence criminal proceedings. The court will be informed that proceedings have been brought because the person refused the offer of a Caution.
- 3.6 If the person is subsequently prosecuted for reducing the liability for Council Tax by inappropriately claiming discounts or another Council Tax Reduction Scheme offence, the Caution may be cited in court.

## **4. Financial Penalties**

- 4.1 Regulation 11 of The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013, allows Oldham Council to offer a person the opportunity to pay a Financial Penalty as an alternative to prosecution where certain conditions are satisfied. The Financial Penalty is laid down in the legislation and is 50% of the excess reduction subject to a:
- minimum of £100; and
  - maximum of £1,000.
- 4.2 In cases where an offence has been committed, but the fraud was discovered before any Council Tax liability is reduced, the Financial Penalty as laid down in the legislation is £100.
- 4.3 The offer of a Financial Penalty may be made where there is sufficient evidence to justify the prosecution of an offence, where the offence is not so serious and where the overpayment is low enough that it would not be in the public interest to prosecute.
- 4.4 A Financial Penalty will only be considered when:
- there is sufficient evidence to justify instituting criminal proceedings,
  - the person has admitted the offence during an interview under caution and agrees to the Caution,
  - there are no previous convictions or Cautions for Council Tax fraud,
  - there was no other person involved in the fraud, and
  - it is clear that the offender can afford to pay a Financial Penalty.

## **5. Civil Penalties – Incorrect Statements**

- 5.1 Regulation 12 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) 2013 allows Oldham Council to impose a penalty of £70 where an incorrect statement or representation has been made.

- 5.2 The £70 penalty can only be imposed where a person has not been charged with a Council Tax Reduction Scheme offence or been offered a Caution or Financial Penalty under regulation 11 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.

## **6. Civil Penalties – Failure to notify change of circumstances**

- 6.1 Regulation 13 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) 2013 allows Oldham Council to impose a penalty of £70 where without reasonable excuse; there is a failure to report a relevant change of circumstances promptly.

- 6.2 The £70 penalty can only be imposed where a person has not been charged with a Council Tax Reduction Scheme offence or been offered a Caution or Financial Penalty under regulation 11 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.

## **7. Civil Penalties – Council Tax**

- 7.1 Schedule 3 of the Local Government Finance Act 1992 allows Oldham Council to impose a penalty of £70 where a person fails to comply with certain requirements as to the supply of information.

- 7.2 A penalty can be imposed on any person who:

- has been requested by the Council to supply information to identify the liable person for Council Tax and has failed to supply this information; or
- has knowingly supplied information, with regard to identifying the liable person, which is inaccurate in a material particular; or
- has failed, without reasonable excuse, to notify the Council that the dwelling will not be, or was no longer an exempt dwelling; or
- has failed, without reasonable excuse, to notify the Council that the chargeable amount is not subject to a discount or is subject to a discount of a lesser amount.

## **8. Prosecution**

- 8.1 Prosecutions relating to this policy are pursued by the Director of Legal Services and involve cases where an individual has committed an offence either to receive Council Tax Reduction inappropriately or reducing the liability for Council Tax by inappropriately claiming a discount.

- 8.2 The Council is likely to prosecute a Council Tax Reduction scheme offence in the following circumstances where:

- the alleged offence involves a flagrant breach of the law;
- the excess Council Tax Reduction exceeds £2,000;
- there is a history of similar offences.
- the offender refuses to accept a Council Tax Reduction scheme penalty or Caution.

A Council Tax Reduction scheme offence means:



- making a false statement to obtain a Council Tax Reduction, or:
- knowingly failing to give a prompt notification of a change in circumstances affecting Council Tax Reduction.

8.3 Prosecution of an offender will take place in a Magistrates or Crown Court.

## 9. Suitability of Offenders for Prosecution

9.1 When considering whether it is appropriate to instigate proceedings, consideration will be given as to whether there is sufficient admissible evidence to justify bringing a prosecution and if the prosecution is in the public interest.

9.2 The following paragraphs outline factors that will be considered, to ensure consistent and equitable treatment of those accused of fraud.

### Evidential Test

9.3 In making a decision to prosecute, the Local Authority must be satisfied that there is enough evidence to provide a 'realistic prospect of conviction'. A realistic prospect of conviction is an objective test meaning that a jury, Magistrate or Judge hearing a case which, is properly directed in accordance with the law, is more likely than not to convict the defendant of the alleged offence. Evidence must be able to be used in a court of law. It must have been gathered appropriately, in accordance with the law and be from a reliable source.

9.4 If a case does not pass the 'evidential test' it must not go ahead no matter how important or serious the offence seems. If the case does pass the evidential stage, then it should move on to the second stage to decide if a prosecution is appropriate in the public interest.

### Public Interest Test

9.5 Oldham Council will always consider the public interest judiciously and will balance the factors for and against prosecution objectively. In making the decision whether it is in the public interest to prosecute, the following factors will be considered.

#### (a) Financial Limits

Careful consideration will be given to commencing a prosecution where the fraudulent activity has not resulted in 'significant financial gain' to the offender, for example the amount of the reduction or discounts overpayment is less than the cost of proceedings.

Where there is no significant financial gain, a prosecution could still be considered if it is considered that the fraud was a deliberate attempt to gain (if, for example, the fraud has been discovered after a relatively short space of time and a significant financial gain has not yet occurred), or in the case of a persistent offender or any other case where prosecution would be warranted.

#### (b) Physical / Mental Health Factors

Consideration will be given to the defendant's mental and physical condition (including age) when deciding whether to prosecute. The Counter Fraud Officer will consider whether there are significant personal or mental health

concerns that may have contributed to the reasons for committing the offence. In addition, due consideration will be given where there is any evidence to suggest that the claimant or partner or a third party (for example a child) would be severely affected by the action.

(c) Voluntary Disclosure

It may not be appropriate to prosecute those, whose disclosure of their own free will, has led to the identification of a fraud of which the Council was unaware. Admissions made after enquiries, or an investigation had commenced do not constitute voluntary disclosure.

(d) Previous Incidence of Fraud

Any evidence of previous benefits-related fraudulent activity would form part of the overall "prosecution assessment", regardless of whether any previous offences resulted in prosecution.

(e) Social Factors

If it is considered that the defendant's failure to declare the correct circumstances has been caused by significant extenuating social or financial factors these would be fully evaluated (the fact that an individual was in debt or has limited assets would not in itself meet this requirement).

Adequacy of Evidence

- 9.6 Substantive evidence is essential to secure any conviction. Proceedings would not be pursued if there is any doubt that the required evidence is not available. It must be clear that the fraudulent act was actually committed, that it was committed in the full knowledge of Council Tax Reduction regulations and that it was committed with the clear and deliberate intention to obtain Council Tax Reduction by deception. Satisfying the requirements of the Code for Crown Prosecutors Evidential Test will ensure that evidence is of the standard required by the courts.

Failure in Investigation

- 9.7 It should be evident on the case file that all appropriate procedures have been adhered to with regard to satisfying the requirements of the Police and Criminal Evidence Act 1984, Criminal Procedures and Investigations Act 1996 and other relevant legislation. Particular consideration would also be given to any delay in the course of enquiries, which may be considered as unacceptable by the court.

Failure in Administration

- 9.8 Full account will be taken of poor administration or fault on the part of Authority that has contributed to the processing of the fraudulent claim and subsequent award of discount or reduction in liability.

## **10. Authorisation of Prosecution**

- 10.1 Cases being referred for prosecution will be authorised by the Head of Audit and Counter Fraud or the Assistant Director of Corporate Governance and Strategic Financial Management. Cases involving Council Members or employees will also be

referred to the Group Solicitor or appropriate Head of Service so that any standards issues can be addressed.

- 10.2 Cases may also be referred to the Police where it is considered that the nature of the offence, or the procurement of evidence, require them to undertake or assist in the investigation.

## **11. Proceeds of Crime Act 2003**

- 11.1 The Council will refer all suitable cases for financial investigation with a view to applying to the courts for restraint and/or confiscation of identified assets. A restraint order prevents a person from dealing with specified assets. A confiscation order enables the Council's agents to seek to recover its losses from assets found to be the proceeds of crime.

## **12. Recovery of Debt**

- 12.1 In addition to any criminal proceedings or sanction it may impose in respect of offences committed, the Council will use all methods available to vigorously recover any overpayment arising from fraud, including taking action in the civil courts if necessary.

## **13. Publicity**

- 13.1 Press releases will be issued in suitable cases to seek to maximise the deterrent effect and raise the level of public fraud awareness. Consideration will be given to the amounts involved, the nature of the offence, public interest and the deterrent value of publicising a particular case.

## **14. Review of Policy**

- 14.1 The policy will be reviewed in the light of any legislative changes; trends or other factors that impact on the effectiveness of the policy.

# Oldham Council Audit and Counter Fraud Service

**Covid Business Grants Prosecution Policy**

**29 November 2022**

**Version Control**

<b><i>Version</i></b>	<b><i>Version Date</i></b>	<b><i>Revised by</i></b>	<b><i>Description</i></b>
1	April 2020	Andrew Bloor	New Policy
1	May 2020	Anne Ryans	Reviewed Policy
2	November 2022	Andrew Bloor	Reviewed and updated

# Covid Business Grants Prosecution Policy

## 1. Introduction

- 1.1 In response to the COVID-19 pandemic the Government placed a requirement on the Council to administer the grant schemes it introduced to assist small businesses and retail, leisure and hospitality businesses with cash flow during the pandemic. The Council was expected to follow the guidance produced by Central Government to aid relevant Authorities in administering the grants.
- 1.2 Initially the Department for Business, Energy and Industrial Strategy (BEIS) directed Local Authorities to prioritise the speed of the grant payments, subject to minimal pre-payment checks.
- 1.3 In order to assist in undertaking pre-payment checks, the Cabinet Office made available to the Council its Spotlight Tool. This was utilised by Oldham Council for undertaking pre-payment checks on all applications for business grants.
- 1.4 This policy statement provides the agreed framework for Council officers involved in investigation, sanction and prosecution following appropriate pre and post payment checks of the:
  - Small Business Grant Fund
  - Retail, Hospitality and Leisure Grant Fund
  - Local Authority Discretionary Grant Fund
  - Restart Scheme
  - Local Restrictions Support Grant
  - Additional Restrictions Grant Fund
  - Omicron Hospitality and Leisure Grant scheme

The range of Business Grants regimes ran from March 2020, with the last payments made in March 2022.

- 1.5 The Council is committed under its wider fiduciary duty to protect the public funds it administers. As such the Council has agreed this policy which supports the Council's approach of zero tolerance to all fraud and loss.
- 1.6 Central Government indicated in the "frequently asked questions" section of the available guidance (number 63) that it "will not accept deliberate manipulation and fraud – and any business caught falsifying their records to gain additional grant money will face prosecution and any funding issued will be subject to claw back, as may any grants paid in error."

## 2. Risk Assessment of Loss due to Fraud on Grant Payments

- 2.1 The Council, in developing its agreed procedures to administer these grants, has followed the direction of the Department of Business, Energy and Industrial Strategy (BEIS). There were several categories of organisation/individual entitled to these payments including:
  - Limited Companies.
  - Sole Traders who were also the Property Owners.
  - Sole Traders who were leasing the property from a third party.

- Sports and Athletic Clubs.

- 2.2 One challenge to the Council in administering these payments was the initial data quality on its Academy System used to administer Business Rates linked into Small Rates Business Relief. These businesses had not been required to pay business rates since 2017 and as such any contact to amend the records held by the Council on its systems only occurred when instigated by the business. An added benefit from the payment of these grants is that it has improved the quality of data held to support the administration of Small Business Rate Relief.
- 2.3 The system therefore adopted by the Council to mitigate this risk of the initial poor data quality required applicants to complete an on-line form and make an appropriate declaration that they were entitled to receive the grant and provide evidence of a current bank account (preferably in the name of the business) to demonstrate they were currently operating. This was required as a pre-payment check to demonstrate the business was still operating before payment and businesses would only be paid on the production of such information. A further requirement (where applicable) was to include a VAT number, although the provision of such information was not mandatory.
- 2.4 Prior to payment, the Council, in undertaking pre-payment checks, utilised the Spotlight System provided by the Cabinet Office. This tool enabled a decision to be made on the status of a limited company, and whether it was in operation during the relevant period. As such the pre-payment checks for this type of payee gave reasonable assurance that it was a reasonable risk to pay the grant. For other organisations, such as Sole Traders, Spotlight did not enable such a decision to be made so the specific pre-payment check relied upon by the Council was the submission of bank account details to demonstrate the business was currently operating. In following the Government advice to prioritise speed of payment over further checks, a policy decision was taken not to continue to undertake further checks, such as searching social media, to demonstrate businesses such as Sole Traders were still operational before the grant payment was made. In doing so the Council has followed the Government advice which stated “Provided they are an eligible ratepayer with an eligible rating assessment then they will qualify.”.
- 2.5 In order to process the payments, the Council took the decision not to wait until the provider of the Academy system developed an automated payment facility. This enabled the Council to act in line with Government policy to speed up the payment process. It did however present extra risks to the Council which needed to be managed, such as potential duplicate payments for multiple grant applications relating to a single property. It also added to the Council’s routine administration as the payments made needed to be reconciled to both its Academy system and Financial Ledger.
- 2.6 Under the Transparency Agenda the Council published grant payments in excess of £500. This allowed further fraud scrutiny by members of the public.
- 2.7 The Authority made an assessment of the risk of fraud based upon the agreed level of pre-payment checks undertaken and the need to utilise its Agresso system to make the grant payments. This Risk Assessment was maintained by the Counter Fraud Manager and was used to determine the post payment checks of the grant payments undertaken by the Internal Audit and Counter Fraud team.
- 2.8 It is anticipated that any inappropriate payments, including those assessed as fraudulent, which cannot be recovered will be borne by Central Government.

### **3. Investigation of Suspected Inappropriate Grant Payments**

- 3.1 All allegations of suspected inappropriate grant payments will be investigated by the Audit and Counter Fraud Function. Following investigation, a report is produced with a recommendation of whether to prosecute or not in relation to fraud. The standard of the investigation enables a criminal prosecution to be undertaken if appropriate. This will be reviewed by the Head of Audit and Counter Fraud who will agree the decision on whether to prosecute or not.

### **4. Prosecution**

- 4.1 Prosecutions relating to this policy following the review of the investigation are to be pursued by Oldham Council's Director of Legal Services and involve cases where someone who has committed an offence in order to receive one or more of the Covid Business Rates Grants. The presumption of the Council, given the value of the grant payments, is to prosecute in all cases.
- 4.2 Prosecution of an inappropriate grant claimant will take place in a Magistrates or Crown Court.

### **5. Suitability of Offenders for Prosecution**

- 5.1 When considering whether it is appropriate to instigate proceedings, consideration will be given as to whether there is sufficient admissible evidence to justify bringing a prosecution and if the prosecution is in the public interest.
- 5.2 The following paragraphs in Section 5 outline factors that will be considered, to ensure consistent and equitable treatment of those accused of fraud.

#### **Evidential Test**

- 5.3 In making a decision to prosecute, the Local Authority must be satisfied that there is enough evidence to provide a 'realistic prospect of conviction'. A realistic prospect of conviction is an objective test meaning that a jury, magistrate or judge hearing a case which, if properly directed in accordance with the law, is more likely than not to convict the defendant of the alleged offence. Evidence must be able to be used in a court of law. It must have been gathered appropriately, in accordance with the law and be from a reliable source.
- 5.4 If a case does not pass the 'evidential test' it must not go ahead no matter how important or serious the offence seems. If the case does pass the evidential stage, then it should move on to the second stage to decide if a prosecution is appropriate in the public interest.

#### **Public Interest Test**

- 5.5 Oldham Council will always consider public interest judiciously and will balance the factors for and against prosecution objectively. In making the decision whether it is in the public interest to prosecute, the following factors will be considered.

#### **Financial Limits**

- 5.6 Careful consideration will be given to commencing a prosecution where the fraudulent activity has not resulted in 'significant financial gain' to the offender.



### **Physical / Mental Health Factors**

- 5.7 Consideration will be given to varying factors when deciding whether to prosecute. Officers will consider whether there are significant personal or mental health issues that may have contributed to the reasons for committing the offence. In addition, due consideration will be given where there is any evidence to suggest that the claimant or partner or a third party (for example a child) would be severely affected by the action. Other remedies are available to the Council where prosecution is deemed unsuitable.

### **Voluntary Disclosure**

- 5.8 It may not be appropriate to prosecute those, whose disclosure of their own free will, has led to the identification of a fraud of which the Council was unaware. Admissions made after enquiries, or an investigation had commenced do not constitute voluntary disclosure.

### **Previous Incidence of Fraud**

- 5.9 Any evidence of previous fraudulent activity would form part of the overall "prosecution assessment", regardless of whether any previous offences resulted in prosecution.

### **Social Factors**

- 5.10 If it is considered that the failure to declare the correct circumstances has been caused by significant extenuating social or financial factors these would be fully evaluated. (The fact that an individual was in debt or has limited assets would not in itself meet this requirement.)

### **Failure in Investigation**

- 5.11 It should be evident on the case file that all appropriate procedures have been adhered to with regard to satisfying the requirements of the Police and Criminal Evidence Act 1984, Criminal Procedures and Investigations Act 1996 and other relevant legislation. Particular consideration would also be given to any delay in the course of enquiries, which may be considered as unacceptable by the court.

### **Failure in Administration**

- 5.12 Full account will be taken of poor administration or fault on the part of the Authority that has contributed to the processing of the fraudulent claim and subsequent award of the grant.

## **6. Authorisation of Prosecution**

- 6.1 Cases being referred for prosecution will be authorised by the Head of Audit and Counter fraud. Cases involving Council Members or employees will also be referred to the Director of Legal Services or appropriate Head of Service so that any standards issues can be addressed.
- 6.2 Cases may also be referred to the police where it is considered that the nature of the offence, or the procurement of evidence, require them to undertake or assist in the investigation.

## **7. Proceeds of Crime Act 2003**

- 7.1 The Council will refer all suitable cases for financial investigation with a view to applying to the courts for restraint and/or confiscation of identified assets. A restraint order prevents a person from dealing with specified assets. A confiscation order enables the Council's agents to seek to recover its losses from assets found to be the proceeds of crime.

## **8. Recovery of Debt**

- 8.1 In addition to any criminal proceedings or sanction it may impose in respect of offences committed, the Council will use all methods available to vigorously recover any overpayment arising from fraud, including taking action in the civil courts if necessary.

## **9. Publicity**

- 9.1 Press releases will be issued in suitable cases to seek to maximise the deterrent effect and raise the level of public fraud awareness. Consideration will be given to the amounts involved, the nature of the offence, public interest and the deterrent value of publicising a particular case.

## **10. Review of Policy**

- 10.1 The policy will be reviewed in the light of any legislative changes; trends or other factors that impact on the effectiveness of the policy.

# Oldham Council Audit and Counter Fraud Service

## Anti-Money Laundering Policy

A guide to the Council's anti-money laundering safeguards and reporting arrangements.

29 November 2022



## Version Control

<b><i>Version</i></b>	<b><i>Version Date</i></b>	<b><i>Revised by</i></b>	<b><i>Description</i></b>
1	September 2008	Mark Stenson	New Policy
2	August 2019	Andrew Bloor	Revised – Money Laundering Guidance 2017
3	November 2022	Andrew Bloor	Revised – Money Laundering Guidance 2020

# Anti-Money Laundering Policy

## 1. Introduction

The Money Laundering and Terrorist Financing (Amendment) Regulations 2019 came into force on 10 January 2020. The 2019 Regulations introduced changes to the Government's 2017 Money Laundering Regulations (MLRs). The changes update the UK's Anti Money Laundering regime to incorporate international standards set by the Financial Action Task Force (FATF). The 2019 Regulations can be found here:

- [The Money Laundering and Terrorist Financing \(Amendment\) Regulations 2019 \(legislation.gov.uk\)](https://www.legislation.gov.uk)

As an overview, the changes incorporate requirements to:

- keep an up-to-date list of exact functions that qualify as prominent public functions
- the requirement for enhanced due diligence when working with high-risk countries
- the requirement to maintain registers of beneficial owners
- introduce a reduced limit of pre-paid cards and electronic money
- apply enhanced due diligence on virtual currencies, crypto currencies, digital tokens
- bring letting agency activities within the scope of Anti Money Laundering Regulations

Although Anti Money Laundering legislation does not specifically cover Local Authorities, it is implied best practice that we assess the risk and put sufficient controls in place to prevent the Council from being used for money laundering purposes.

We are required to:

- assess the risk of Oldham Council being used by criminals to launder money
- check the identity of our customers
- check the identity of 'beneficial owners' of corporate bodies and partnerships
- monitor our customers' business activities and report anything suspicious to the [National Crime Agency](https://www.nca.gov.uk) (NCA)
- make sure we have the necessary management control systems in place; keep all documents that relate to financial transactions, the identity of our customers, risk assessment and management procedures and processes for a period of 5 years
- make sure our employees are aware of the regulations and have had the necessary training
- have policies to undertake risk assessments prior to the launch or use of new products or business practices, as well as new technologies

## **2. Scope of the Policy**

This Policy applies to all employees whether permanent or temporary and Members of the Council. Its aim is to enable employees and Members to respond to a concern they have in the course of their dealings for the Council. Individuals who have a concern relating to a matter outside of work should contact the Police.

Not all of the Council's business is "relevant" for the purposes of the legislation. However, the safest way to ensure compliance with the law is to apply it to all areas of work undertaken by the Council; therefore, all staff are required to comply with the reporting procedure.

Failure by a member of staff to comply with the procedures set out in the Policy should be escalated for appropriate action to be taken.

## **3. What is Money Laundering?**

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

In addition, it is possible that the proceeds of crime may be received from individuals or organisations that do not realise that they are committing an offence. It is no defence for the payer or the recipient to claim that they did not know that they were committing an offence if they should have been aware of the origin of the funds.

There are two main types of offences which may be committed:

- Money laundering offences.
- Failure to report money laundering offences.

The main types of money laundering offences are:

- Acquiring, using or possessing criminal property.
- Handling the proceeds of crimes such as theft, fraud and tax evasion.
- Being knowingly involved in any way with criminal or terrorist property.
- Entering into arrangements to facilitate laundering criminal or terrorist property.
- Investing the proceeds of crime in other financial products.
- Investing the proceeds of crimes through the acquisition of property/assets.
- Transferring criminal property.

Under the legislation if staff assist an individual to launder funds from a criminal source, they may be guilty of an offence and, if found guilty, could be subject to a fine or a prison sentence up to 14 years. It is important therefore that staff are aware of the rules and procedures that the Council has in place to ensure that they comply with the relevant legislation and approach taken by the Council as set out in this policy.

#### **4. What are the Obligations on the Council?**

Organisations conducting “relevant business” must appoint a Money Laundering Reporting Officer (“MLRO”) to:

- receive disclosures from employees of money laundering activity (their own or anyone else’s);
- implement a procedure to enable the reporting of suspicions of money laundering;
- maintain client identification procedures in certain circumstances; and
- maintain record keeping procedures.

#### **5. The Money Laundering Reporting Officer**

The Officer nominated to receive disclosures about money laundering activity within the Council is:

Assistant Director of Corporate Governance and Strategic Financial Management  
Oldham Council  
Level 3  
Civic Centre  
Oldham  
OL1 1UH

#### **6. Identification of potential money laundering situations**

Criminals have various ways of concealing, moving and legitimising the proceeds of crime. It is not possible to give a definitive list of ways in which to identify money laundering or how to decide whether to make a report to the MLRO. The following are types of risk factors which may, either alone or cumulatively with other factors, suggest the possibility of money laundering activity:

- Use of cash where other means of payment are normal.
- Unusual transactions or ways of conducting business.
- Use of shell companies.
- Payment of deposits which are subsequently requested back.
- Lack of ‘traceability’ of persons involved.
- Individuals and companies that are insolvent yet have funds.
- Payment of a substantial sum in cash over £10,000, or lower amount where any member of staff has reasonable grounds to believe that money laundering is taking place or is being attempted.
- A new customer.

- A secretive customer, e.g. refuses to provide requested information without a reasonable explanation.
- Concerns about the honesty, integrity, identity or location of a customer.
- Illogical third-party transaction such as unnecessary routing or receipt of funds from third parties or through third party accounts.
- Involvement of an unconnected third party without logical reason or explanation.
- Overpayments by a customer.
- Absence of an obvious legitimate source of funds.
- Movement of funds overseas, particularly to a higher risk country or tax haven.
- Transactions which are out of the line of normal expectations, without reasonable explanation.
- A transaction without obvious legitimate purpose or which appears uneconomic, inefficient or irrational.
- The cancellation or reversal of an earlier transaction.
- Requests for release of customer account details other than in the normal course of business.
- Transactions at substantially above or below fair market values.
- Poor business records or internal accounting controls.
- A previous transaction for the same customer which has been, or should have been, reported to the MLRO.

In addition to the money laundering offences, the legislation sets out further offences of failure to report suspicions of money laundering activities. Such offences are committed where, in the course of conducting relevant business in the regulated sector, you know or suspect, or have reasonable grounds to do so (even if you did not know or suspect), that another person is engaged in money laundering and you do not disclose this as soon as is practicable to the MLRO.

## **7. Reporting Procedure**

If you know or suspect that money laundering activity is taking place, has taken place, or that your involvement in a matter may amount to a prohibited act under the legislation, this must be disclosed immediately to the MLRO. This disclosure should be within hours of the information coming to your attention, not weeks or months later. If you do not disclose information immediately, then you may be liable to criminal prosecution.

Your disclosure should be made using the form MLRO1, Money Laundering Suspicion Report Form, which is attached at Annex A. The disclosure report must contain as much detail as possible, for example:

- Where known, full details of the people involved (including yourself if relevant), e.g. name, date of birth, address, company names, directorships, phone numbers, etc.
- Full details of the nature of your and their involvement.



- The types of money laundering activity suspected.
- The dates of such activities, including whether the transactions have happened, are ongoing or are imminent.
- Where they took place.
- How they were undertaken.
- The (likely) amount of money/assets involved.
- Why, exactly, you are suspicious?

You should also supply any other available information to enable the MLRO to make a sound judgement as to the next steps to be taken and you should enclose copies of any relevant supporting documentation.

If you are a legal adviser and consider that legal professional privilege may apply to the information, you should explain fully in the MLRO1 form the reasons why you contend the information is privileged. The MLRO, in consultation with the Director of Legal Services, will then decide whether the information is exempt from the requirement to report suspected money laundering to the National Crime Agency (NCA).

Once you have reported the matter to the MLRO you must follow any directions they may give you. You must NOT make any further enquiries into the matter yourself. Any necessary investigation will be undertaken by the NCA. All employees will be required to co-operate with the MLRO and the investigating authorities during any subsequent money laundering investigation.

At no time, and under no circumstances, should you voice any suspicions to the person(s) whom you suspect of money laundering or to any other individual without the specific consent of the MLRO. If you do so you may commit the offence of 'tipping off'.

Do not make any reference on records held to the fact that you have made a report to the MLRO. If a customer exercises their right to see their record, any such note would obviously tip them off to the report having been made and may render you liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.

In all cases no further action must be taken in relation to the transaction(s) in question until either the MLRO or NCA (if applicable) has specifically given their written consent to proceed.

## **8. Record Keeping**

The MLRO will retain all disclosure reports referred to them and reports made by them to the National Crime Agency (NCA) for a minimum of five years.

## **9. Conclusion**

The legislative requirements concerning anti-money laundering procedures are lengthy and complex. This document has been written to enable the Council to meet the legal requirements in a way that is proportionate to the risk to the Council of contravening the legislation. Should you have any concerns whatsoever regarding any transactions then you should contact the MLRO. This policy will be reviewed and updated/amended when new legislation/guidance is issued.

Referral to Money Laundering Responsible Officer (MLRO1)

<b>MONEY LAUNDERING REPORTING OFFICER DISCLOSURE FORM (MLRO1)</b>
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Date of Disclosure	
Officer making the disclosure (including job title)	
Contact details	

<b>Subject Details</b>	
Surname	
Forename(s)	
Date of Birth (if known)	

<b>Or if the matter relates to a company</b>	
Company Name	
Address	
Company Number (if known)	

<b>Reason for Disclosure</b>



**Oldham**  
Council

# Oldham Council Audit and Counter Fraud Service

**CIPFA Fighting Fraud and Corruption Locally (FFCL) 2020 – 2025  
checklist and action plan**

**29 November 2022**

## 1 Background

- 1.1 In developing the Council's Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, the Council incorporated guidance and best practice of combatting fraud within Local Government from the Fighting Fraud and Corruption Locally (FFCL) 2020 – 2025 Strategy.
- 1.2 The Fighting Fraud and Corruption Locally (FFCL) 2020 – 2025 Strategy has been developed by Local Government in collaboration with anti-fraud and corruption professionals as part of a Joint Taskforce. The Joint Fraud Taskforce is a partnership between banks, law enforcement agencies and Government to deal with economic crime. FFCL 2020-2025 contains a checklist against which Local Authorities can measure their compliance with the strategy. Local Authorities are required to assess their performance against this checklist annually
- 1.3 The completed checklist on the pages which follow meets this requirement by identifying both the Council's current assessment of its performance against the FFCL checklist and, where areas for improvement have been identified, an Action Plan to address these areas.
- 1.4 The Audit and Counter Fraud Service will lead on the improvements identified in the Action Plan. Progress against these actions will be reviewed within 12 months.

Ref	Statement	Response	Conclusion	Action Plan
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its Senior board and its members.	The Council undertakes an annual Fraud and Loss Risk Assessment including mitigating actions to address the risks identified. This information feeds into the annual Internal Audit and Counter Fraud Plan which is approved by the Audit Committee each year. The Head of Audit & Counter Fraud reports regularly to the Audit Committee on counter fraud progress. Internal Audit and Counter Fraud regularly test the operation of internal controls in key areas.	Satisfied	
2	The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. The assessment includes the understanding of the harm that fraud may do in the community.	The Council undertakes an annual Fraud and Loss Risk Assessment including mitigating actions to address the risks identified. This information feeds into the annual Internal Audit and Counter Fraud Plan which is approved by the Audit Committee each year. The Head of Audit & Counter Fraud reports regularly to the Audit Committee on counter fraud progress. Internal Audit and Counter Fraud regularly test the operation of internal controls in key areas. The Council also produces an annual Anti-Fraud and Corruption Strategy which acknowledges, in line with FFCL 2020, the harm that fraud may do in the community.	Satisfied	
3	There is an annual report to the Audit Committee, or equivalent detailed assessment, to compare against FFCL 2020 and its checklist.	Assessment against FFCL 2020 – 2025 (this checklist) reported to the Audit Committee in November 2022.	Satisfied	

4	The relevant portfolio holder has been briefed on fraud risks and mitigation.	The Deputy Leader/Cabinet Member for Finance and Low Carbon (Portfolio Holder) is briefed on the Internal Audit and Counter Fraud Plan, including any emerging fraud risks.	Satisfied	
5	The Audit Committee supports Counter Fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources.	The Audit Committee considers Counter Fraud activity on a regular basis and has the opportunity to challenge and discuss counter fraud activity via the Audit and Counter Fraud Progress Reports to Audit Committee. Fraud and Direct Payment audit figures are the subject of regular questions by Members when reported via the Audit and Counter Fraud updates to Audit Committee.	Satisfied	
6	There is a counter fraud and corruption strategy applying to all aspects of the local authority business which has been communicated throughout the local authority and acknowledged by those charged with governance.	The Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan is updated annually and presented to the Audit Committee. It is, however, not specifically communicated to all staff and key partners.	Review /Action Required	Explore opportunities to publicise the Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan more widely across the Authority.

7	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	The Council has, and adheres to, a number of governance policies and codes including The Council Constitution, Local Code of Corporate Governance, Employee and Member Codes of Conduct, Contract Procedure Rules, Financial Procedure Rules which help to ensure that the Council conducts its business in a transparent and ethical manner.	Satisfied	
8	The risks of fraud and corruption are specially considered in the local authority overall risk management process.	The Council undertakes an annual Fraud and Loss Risk Assessment including mitigating actions to address the risks identified. This information feeds into the annual Internal Audit and Counter Fraud Plan which is approved by the Audit Committee each year. The Head of Audit & Counter Fraud reports regularly to the Audit Committee on counter fraud progress. Internal Audit and Counter Fraud regularly test the operation of internal controls in key areas. The Council also produces an annual Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan. Any areas identified as high risk to the Council are detailed in the Annual Governance Statement. There is no specific fraud and corruption risk register within the present Risk Registers recorded on the Corporate Performance System.	Review /Action Required	Explore options for inclusion of a separate fraud and corruption risk register in the Council's Corporate risk management framework.
9	Counter Fraud Staff are consulted to fraud-proof new policies, strategies and initiatives across departments, and this is reported upon to committee.	The Assistant Director of Corporate Governance and Strategic Financial Management is required to provide risk management comments on new policies and strategies prior to formal approval by the Council. The Internal Audit and Counter Fraud Team undertake fraud proofing on policies/documents where applicable or when consulted upon directly.	Review /Action Required	Explore options for reporting on this type of consultative activity as part of periodic Audit Progress reports to Audit Committee.



10	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	Appropriate cases have been reported with appropriate sensitivity via the Audit Committee. The Internal Audit and Counter Fraud Team will continue to work with the Communications Teams where appropriate to highlight publicly the outcome on successful investigations.	Review /Action Required	Examine current communications policy in this area.
11	The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.	The Council has adopted the Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, Anti-Money Laundering Policy, all of which are approved by the Audit Committee, and the Whistleblowing Policy, approved by full Council. Fraud figures are regularly reported to the Audit Committee.	Satisfied	
12	<p>The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:</p> <ul style="list-style-type: none"> <li>• Codes of conduct including behaviour for counter fraud, anti-bribery and corruption,</li> <li>• register of interests,</li> <li>• register of gifts and hospitality.</li> </ul>	Officers Code of Conduct includes section on the Principals of Public Life (The Nolan Principles), Whistleblowing, Hospitality and Gifts, Access to information and IT, Financial and Non-Financial interests and Criteria for Politically Restricted Posts. Members also have their own Code of Conduct.	Review /Action Required	<p>Explore options for collecting data and reporting on:</p> <ul style="list-style-type: none"> <li>• Standards of Conduct / Breaches.</li> <li>• Uptake of Anti-Fraud training and awareness raising events.</li> <li>• Register of Interests.</li> <li>• Register of Gifts and Hospitality.</li> </ul>

13	The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2020 to prevent potentially dishonest employees from being appointed.	Standard recruitment procedures are in place to vet staff prior to them being employed by the authority. These include taking up 2 references, DBS checks where appropriate, verification of qualifications, declaration of interests and right to work checks. An HR Officer can be requested to sit in on the interview panel if required.	Review / Action required	Consider Internal Audit Review of Recruitment Processes.
14	Members of staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to Audit Committee.	This is covered by the closedown exercise under final accounts as part of the year end process for elected Members. Expanding this exercise to encompass Officer declarations as part of an annual audit is to be explored.	Review /Action Required	Explore options for collecting data and reporting on: <ul style="list-style-type: none"> <li>• Standards of Conduct / Breaches.</li> <li>• Uptake of Anti-Fraud training and awareness raising events.</li> <li>• Register of Interests.</li> <li>• Register of Gifts and Hospitality.</li> </ul>

15	There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by Counter Fraud experts.	The Internal Audit and Counter Fraud Team have a planned programme of work throughout the Directorates, including co-ordinating the Council's work in connection with the National Fraud Initiative and investigation of returned data matches. These areas of risk are covered in the Fraud and Loss Risk Assessment and Internal Audit and Counter Fraud Plan.	Satisfied	
16	There is an independent and up to date whistleblowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressures.	There is a Whistleblowing Policy in place, last reviewed May 2020, the policy is available on the intranet and internet. All whistleblowing cases are treated seriously and investigated in line with the policy. The Monitoring Officer has overall responsibility for ensuring that this takes place. Internal Audit and Counter Fraud undertake a Public Interest Disclosure Act (PIDA) assessment, record receipt of Whistleblowing cases and monitor progress.	Satisfied	
17	Contractors and third parties sign up to the whistleblowing policy and there is evidence of this. There should be no discrimination against whistleblowers.	The policy applies to all employees of Oldham Council and Agency Workers. The Council's Standard Terms cover areas such as corruption but do not make it a contractual obligation for the supplier to sign up to the principles of whistleblowing.	Review /Action Required	Examine whether the Council's Standard Contract Terms can be amended to allow suppliers to voluntarily "sign up" to the Council's whistleblowing policy.
18	Fraud resources are accessed proportionality to the risk the local authority faces and are adequately resourced.	The Internal Audit and Counter Fraud Team was structured based on current and emerging fraud risks. Resources appear adequate at the present time but will be reviewed on an ongoing basis.	Satisfied	

<b>19</b>	There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.	The annual Audit and Counter Fraud Plan is in place and approved by the Audit Committee. The plan is based on the Audit Needs Assessment and emerging fraud risks.	Satisfied	
<b>20</b>	Statistics are kept and reported by the fraud team which covers all areas of activity and outcomes.	The Internal Audit and Counter Fraud Team report performance on a regular basis to the Audit Committee on a range of key deliverables, including fraud.	Satisfied	
<b>21</b>	Counter Fraud Officers have unfettered access to premises and documents for the purposes of counter fraud investigations.	Counter Fraud Officers have access to premises and documentation for the purposes of counter fraud investigations through their links with Internal Audit. The Counter Fraud Team has access to external information through the National Anti-Fraud Network (NAFN) and powers such as the Local Government Finance Act 1992.	Satisfied	
<b>22</b>	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the Councils communication team.	Results of counter fraud activity are published regularly to members via the Audit Committee where it is appropriate to do so.	Review /Action Required	Examine current communications policy in this area.

23	All allegations of fraud and corruption are risk assessed.	A Counter Fraud Risk Assessment is in place and is adopted for all allegations received. A Public Interest Disclosure Act 1998 assessment is undertaken on all Whistleblowing cases.	Satisfied	
24	The fraud and corruption response plan covers all areas of counter fraud work namely prevention, detection, investigation, sanctions and redress	The Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan covers all areas of counter fraud work.	Satisfied	
25	The fraud response plan is linked to the audit plan and is communicated to senior managers and members.	Collaboration between the Internal Audit and Counter Fraud Team and the Departmental Management Teams ensures appropriate risks are captured in the Fraud and Loss Risk Assessment, Internal Audit and Counter Fraud Plan and the Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan. This information feeds into the Annual Audit and Counter Fraud Plan.	Satisfied	
26	Asset recovery and civil recovery is considered in all cases.	Yes. The Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan notes that prioritising fraud recovery is key. The use of civil penalties, civil proceedings, criminal proceedings are all reasonable measures to recover any losses from fraudulent activity.	Satisfied	

27	There is a zero-tolerance approach to fraud and corruption which is always reported to committee.	A zero-tolerance approach is specified in the Counter Fraud, Ant-Bribery and Counter Fraud Response Plan. Any identified incidences are reported to the Director of Finance (Section 151 Officer), The Head of Internal Audit and Counter Fraud and Audit Committee.	Satisfied	
28	There is a programme of proactive counter fraud work which covers risks identified in assessment.	There is a proactive programme of counter fraud work which is included in planned activity in the Internal Audit and Counter Fraud Plan, e.g. National Fraud Initiative (NFI).	Satisfied	
29	The Counter Fraud Team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activities.	The Counter Fraud Team uses a multi-agency approach when undertaking investigations, including DWP. The Counter Fraud Team work closely with Greater Manchester Police and have contacts within Greater Manchester councils to seek advice and intelligence as appropriate.	Satisfied	
30	The local authority shares data across its own departments and between other enforcement agencies.	The Internal Audit and Counter Fraud team have a working relationship with Greater Manchester Police and acts as the Single Point of Contact (SPOC) for Police Data Protection Requests. Service Level Agreements are in place for such sharing of data. The Council shares data and co-ordinates actions internally across Departments to respond to and address fraud risks on an individual basis, and also as an organisation as a whole in the prevention and detection of fraud by taking part in the annual NFI exercises.	Satisfied	

31	Prevention measures and projects are undertaken using data analytics where possible.	Data analytic techniques are used where applicable. The Council partakes in the National Fraud Initiative which shares data across other organisations for the purpose of detecting fraud and error.	Satisfied	
32	The counter fraud team has registered with the knowledge hub so it has access to directories and other tools.	The Counter Fraud Team have access to resources from their professional bodies and local/national networks, including the Knowledge Hub.	Satisfied	
33	The counter fraud team has access to the FFCL regional network	The Counter Fraud Team have access to resources from their professional bodies and local/national networks, and attend training/conferences.	Review /Action Required	Explore membership of FFCL regional network.
34	There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they must be trained in this area	The Counter Fraud Officers hold the Accredited Counter Fraud Specialist qualification (Professionalism in Security). The qualification is accredited by the University of Portsmouth. The team regularly undertake CPD training to keep abreast of new ways of working and emerging fraud risks. The Head of Internal Audit and Counter Fraud also holds a certified Counter Fraud Technician qualification.	Satisfied	
35	The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas	The Counter Fraud Team have adequate knowledge in all areas of the local authority. The team work side by side with Internal Audit who are able to provide advice and guidance when required.	Satisfied	

36	The counter fraud team has access (through partnership/other local authorities/or funds to buy in) to specialist staff for surveillance, computer forensics, asset recover and financial investigations.	Any need for specialist resources would be considered on a case by case basis. Requests in this area are rare but may be required from time to time.	Satisfied	
37	Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.	Fraud and Corruption weaknesses are identified as part of the Internal Audit process. Outcomes of Counter Fraud work are reported to the Head of Internal Audit and Counter Fraud, the service area in question (to effect improvements), and consideration is given to undertaking a review of the affected area.	Satisfied	





**Oldham**  
Council

# Oldham Council Audit and Counter Fraud Service

Fraud and Loss Risk Assessment

29 November 2022

## 1 Background

- 1.1 In developing the Council's Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, the Council incorporated guidance and best practice of combatting fraud within Local Government from a number of different sources, as follows:
- **Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Managing the Risk of Fraud and Corruption**
  - **Fighting Fraud and Corruption Locally (FFCL) 2020 – 2025 Strategy**
- 1.2 The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption requires that, in Local Authorities fraud risks are routinely considered as part of the organisation's risk management arrangements.
- 1.3 The Fighting Fraud and Corruption Locally (FFCL) 2020 – 2025 Strategy has been developed by Local Government in collaboration with anti-fraud and corruption professionals as part of a Joint Taskforce. The Joint Fraud Taskforce is a partnership between banks, law enforcement agencies and Government to deal with economic crime. FFCL 2020-2025 contains a checklist against which Local Authorities can measure their compliance with the strategy.
- 1.4 This fraud and loss risk assessment meets these requirements by identifying both the risks of fraud and loss to the Authority, and the actions (risk mitigation) the Council has in place to address these risks. This risk assessment informs the work of the Audit and Counter Fraud Service.

**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p><b>Grant Fraud/Misuse</b></p>	<p><b>False information provided to secure grant funding –</b> External parties provide false or inaccurate information in order to qualify for grants/loans for which they are not entitled to or will use for other purposes.</p> <p><b>Grant Collusion –</b> An applicant colludes with a member of staff in order to obtain a grant for personal use to which they are not entitled.</p> <p><b>Failure to use Grant for intended purpose –</b> Applicant deliberately uses the grant provided for purposes other than that for which it was intended.</p> <p><b>Council misuse of ring-fenced grants –</b> Ring-fenced grants not used for the purpose for which they were intended.</p>	<p>Pre-payment checks undertaken prior to grant payment.</p> <p>Grant assurance reviews and Chief Internal Auditor sign off where appropriate.</p> <p>Undertake investigations/reviews into referrals received from Whistleblowers / the Council's Senior Management Team.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>
<p><b>Bribery</b></p>	<p><b>Corporate Bribery –</b> The Council fails to take appropriate steps to prevent bribery and is held accountable by law which can be punishable by a prison sentence.</p> <p><b>Bribery –</b> Officers/Members accepting bribes to act improperly in order to influence Council policy, procurements, processes or procedures for the benefit of themselves or another.</p>	<p>Pre-employment checks, including take up of references.</p> <p>Employee Code of Conduct.</p> <p>Members Code of Conduct.</p> <p>Register of gifts and hospitality (Officers and Members).</p> <p>Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, and Sanctions Policies.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p> <p>Register of Interests (Officers and Members).</p>

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**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<b>Blue Badge Fraud</b>	<p><b>Application</b> – False or exaggerated information submitted in order to secure a blue badge parking permit.</p> <p><b>Inappropriate Usage</b> – The use of a blue badge by those not entitled to use them and without the company of the badge holder.</p> <p><b>Deceased Usage</b> – Blue badges are used or sold on after the badge holder has deceased.</p> <p><b>Fake or Amended</b> – Blue badges in use are fake or have been amended (i.e. dates) in order to abuse the system.</p>	<p>Cabinet Office (National Fraud Initiative) data match against the DWP Mortality Register.</p> <p>Reacting to referrals from Whistleblowers, Council Officials and Parking Services.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>
<b>Money Laundering</b>	<p><b>Money Laundering</b> – The Council and its cash handling arrangements are abused by a third party wishing to launder money. This can include the payment of accounts in cash and then requesting an electronic repayment because accounts have been overpaid.</p>	<p>Review of the Money Laundering Policy.</p> <p>Undertake investigations as directed by the Money Laundering Officer.</p> <p>Pre-employment checks, including take up of references.</p> <p>Employee Code of Conduct.</p> <p>Members Code of Conduct.</p> <p>Register of gifts and hospitality (Officers and Members).</p> <p>Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, and Sanctions Policies.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p> <p>Register of Interests (Officers and Members).</p>

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**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p><b>Council Tax Reduction/Council Tax/Discounts Fraud/Misuse</b></p>	<p><b>Failure to report a change in circumstances</b> – Failure to report a change in circumstance that could result in increased/continued discounts to individuals.</p> <p><b>Fail to register for Council Tax</b> – Failure to register a property that should be subject to Council Tax.</p> <p><b>Exemptions/Discounts</b> – Fraudulently providing incorrect information in order to gain a reduction in Council Tax (e.g. Single Person Discount).</p> <p><b>No Recourse to Public Funds</b> – Customers using false documentation to obtain benefits and discounts.</p>	<p>Cabinet Office (National Fraud Initiative), Real Time Information and Housing Benefit Matching Series – data matching exercises against numerous data sets.</p> <p>Fundamental Financial Systems Audit by Internal Audit.</p> <p>Counter Fraud Team to undertake investigations on a risk-based approach.</p> <p>Assist colleagues in the fraud proofing of Council Tax documentation issued by the Council.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>
<p><b>Housing Benefit Fraud</b></p>	<p><b>Failure to report a change in circumstances</b> – Failure to report a change in circumstance that could result in increased/continued discounts to individuals.</p> <p><b>False Representation</b> – Providing incorrect information in order to claim benefits.</p> <p><b>No Recourse to Public Funds</b> – Customers using false documentation to obtain benefits and discounts.</p>	<p>Cabinet Office (National Fraud Initiative), Real Time Indicators and Housing Benefit Matching Service – Series of data matching exercises against numerous data sets. Counter Fraud Team to undertake investigations on a risk-based approach, with referral back to DWP as appropriate.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>

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**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<b>NDR Fraud</b>	<p><b>Failure to report a change in circumstances</b> – Failure to report a change in circumstance that could result in increased/continued discounts to individuals.</p> <p><b>Failure to Register for Business Rates</b> – Failing to register a property for business rates payments.</p> <p><b>False or inaccurate claims for discounts or exemption</b> – providing false or inaccurate information to qualify for reductions to which they are not entitled.</p> <p><b>Insolvency</b> – Businesses going to into liquidation only to set up again under a different name in order to avoid NDR liability.</p> <p><b>Avoidance</b> – Avoidance of empty NDR through periods of artificial/contrived occupation (including charities).</p>	<p>Fundamental Financial Systems Audit by Internal Audit.</p> <p>Counter Fraud Team to undertake investigations on a risk-based approach.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>

**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p><b>Bank Mandate</b></p>	<p><b>Mandate Fraud</b> – External parties target the Council by pretending to be from a legitimate supplier and attempt to change bank account details in order to remove funds to their own bank account.</p>	<p>Fundamental Financial Systems Audit by Internal Audit.</p> <p>Bank Mandate Fraud alerts received from the National Anti-Fraud Network and the Barclays Bank Security Team will be forwarded to key stakeholders within the Council.</p> <p>Independent verification of mandate change requests.</p> <p>Pre-employment checks, including take up of references.</p> <p>Employee Code of Conduct.</p> <p>Members Code of Conduct.</p> <p>Register of gifts and hospitality (Officers and Members).</p> <p>Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, and Sanctions Policies.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p> <p>Register of Interests (Officers and Members).</p> <p>Identified as a Risk in the Annual Governance Statement.</p>

**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p>Procurement Fraud</p>	<p><b>Inflated Invoices</b> – External parties inflate invoices in order to receive additional funds or charge VAT for services when they are not VAT registered.</p> <p><b>Duplicate Invoices</b> – External parties submit multiple invoices for payment.</p> <p><b>Payment to fictitious suppliers</b> – Staff request set up of a fictitious supplier in order to obtain funds.</p> <p><b>Conflict of interest</b> – Employees fail to declare conflicts of interest or gifts to award contracts to related companies for their own benefit.</p> <p><b>Contract splitting to avoid tender threshold</b> – Split of contracts into smaller amounts to avoid thresholds.</p>	<p>Contract Procedure Rules.</p> <p>Undertake as much procurement activity as possible through “The Chest” procurement system to prevent abuse of the procurement cycle.</p> <p>Cabinet Office (National Fraud Initiative) data match reviewing Duplicate Payments, Duplicate Suppliers and Incorrect VAT payments.</p> <p>Fundamental Financial Systems Audit by Internal Audit.</p> <p>Pre-employment checks, including take up of references.</p> <p>Employee Code of Conduct.</p> <p>Members Code of Conduct</p> <p>Register of gifts and hospitality (Officers and Members).</p> <p>Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, and Sanctions Policies.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p> <p>Register of Interests (Officers and Members).</p> <p>Duplicate payments review exercise (Meridian)</p>



**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 85</p> <p><b>Social Care Fraud</b></p>	<p><b>Inaccurate or Incomplete financial information and hidden assets</b> - false or inaccurate information in order to qualify for support towards care costs and residential / homecare.</p> <p><b>Direct Payment Misuse</b> – payments are misused by social care clients or those responsible for their finances.</p> <p><b>Financial Misuse</b> – Personal Assistants and/or Family Members claiming money for time they had not worked or were spending the allocated budget inappropriately.</p>	<p>Direct Payment Audit Function to review 100% of Adult and Children’s Direct Payments on an annual basis.</p> <p>Implementation of the Adult Social Care and Counter Fraud Protocol.</p> <p>Counter Fraud Team to undertake investigations on a risk-based approach.</p> <p>Fraud/Finance skills training for Social Care Staff.</p> <p>Assist colleagues in the fraud proofing of Social Care documentation issued by the Council.</p> <p>Fundamental Financial Systems Audit by Internal Audit.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>

**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p><b>Insurance Fraud</b></p>	<p><b>False claim for slips and trips</b> – Individuals or groups submit claims for compensation relating to incidents that did not occur or are exaggerated.</p> <p><b>Collusion with Accident Management Companies</b> – Employees collude with management companies to exploit known weaknesses on roads.</p>	<p>Dedicated Risk and Insurance function.</p> <p>Pre-employment checks, including take up of references.</p> <p>Employee Code of Conduct.</p> <p>Members Code of Conduct.</p> <p>Register of gifts and hospitality (Officers and Members).</p> <p>Counter Fraud Anti-Bribery Strategy and Counter Fraud Response Plan, and Sanctions Policies.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p> <p>Register of Interests (Officers and Members).</p>
<p><b>Educational Fraud</b></p>	<p><b>Placement Fraud</b> – Families provide false information about their families and residency information in order to ensure that they get their child into the chosen school.</p> <p><b>Ghost Students/Nursery Placing</b> – Schools and Nurseries submit inflated pupil numbers in order to artificially increase budgets.</p> <p><b>Schools</b> – Lack of regular scrutiny by Senior Management and Governors.</p>	<p>Schools Audit reviews by Internal Audit.</p> <p>Counter Fraud Team to undertake investigations on a risk-based approach.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>

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**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<b>Housing Fraud</b>	<p><b>Subletting</b> – Properties are illegally sublet by tenants for personal gain.</p> <p><b>False Succession</b> – Succession of tenancies by persons not entitled to the property.</p> <p><b>False Information</b> – Information provided by applicants when applying for social housing in order to qualify for housing to which they may not be entitled.</p> <p><b>Right to Buy</b> – Individuals submit false information in order to purchase a council property or receive a right to buy discount to which they are not entitled.</p>	<p>Inclusion of “Right to Buy” data in National Fraud Initiative data matching exercise and undertake investigations where applicable.</p> <p>National Fraud Initiative – Housing tenant details matched to identify potential duplicate tenants between and with the Local Authority.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>
<b>Car Parking Fraud</b> <span style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 87</span>	<p><b>Concessionary Parking Permits</b> – The abuse of residential parking permits for personal gain.</p> <p><b>Pop Up Car Park</b> – emerging fraud risk of unauthorised use of Council land to charge car parking and illegal clamping fees.</p>	<p>Undertake investigations into any reported abuse of Blue Badge or residential parking permits.</p> <p>National Fraud Initiative – Blue badge and Residential Parking permits data matched to identify potential duplicate/fraudulent permits between and within the local authority.</p> <p>Internal Audit review of the Council’s Estates function including issues around encroachment.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>

**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p><b>Right to Work</b></p>	<p><b>Right to Work</b> – False identity/right to work documentation in order to gain Council employment.</p>	<p>Cabinet Office (National Fraud Initiative) data match reviewing immigration data against payroll data.</p> <p>Pre-employment checks, including take up of references.</p> <p>Employee Code of Conduct.</p> <p>Members Code of Conduct.</p> <p>Register of gifts and hospitality (Officers and Members).</p> <p>Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, and Sanctions Policies.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p> <p>Register of Interests (Officers and Members).</p>

**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p><b>Cash Handling</b></p>	<p><b>Theft of Cash</b> – Employees/Third parties dishonestly take monies with the intent to deprive the Council.</p>	<p>Rolling programme of Fundamental Financial Systems Audits by Internal Audit.</p> <p>Investigate referrals received by the Counter Fraud and Human Resources Teams, including the use of CCTV where appropriate.</p> <p>Financial Procedures Rules.</p> <p>Pre-employment checks, including take up of references.</p> <p>Employee Code of Conduct.</p> <p>Members Code of Conduct.</p> <p>Register of gifts and hospitality (Officers and Members).</p> <p>Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, and Sanctions Policies.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p> <p>Register of Interests (Officers and Members).</p>

**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 90</p> <p><b>Cyber Fraud</b></p>	<p><b>External hosted systems</b> – unauthorised access to Council systems in order to obtain personal data, or commercially sensitive data.</p> <p><b>Vishing</b> – the use of telephone systems by external parties to obtain personal or sensitive information that can be used for identity theft.</p> <p><b>Phishing</b> – personal information by a cyber-attack for personal gain.</p> <p><b>Smishing</b> – the use of SMS by external parties to obtain personal or sensitive information that can be used for identity theft.</p> <p><b>Malware</b> – the introduction of malicious software via spam emails and pop up websites.</p> <p><b>Electronic Data theft</b> – theft of electronic data by electronic means (i.e. key loggers).</p>	<p>Specialist Computer audit reviews by Salford Computer Audit Service.</p> <p>Cyber and information security training.</p> <p>Fraud awareness training</p> <p>PSN certification.</p>

**Fraud and Loss Risk Assessment  
2022/2023**

Risk Area	Risk Description	Risk Mitigation
<p>HR/Payroll Fraud</p>	<p><b>Falsification</b> – Falsification of expenses, overtime, additional hours, flexitime etc.</p> <p><b>False sickness absences</b> – working whilst on sick leave.</p> <p><b>Ghost Employees</b> – the creation of false employees in an attempt to exploit monies from the Council</p> <p><b>False documentations</b> – False identity documents, references, qualifications, right to work etc. in order to obtain employment.</p> <p><b>Agency/Contractor</b> – False or exaggerated payments for agency workers by the individual or by collusion with their line manager.</p> <p><b>Failure to declare something of relevance</b> – i.e. conflict of interest, criminal convictions etc.</p>	<p>Cabinet Officer (National Fraud Initiative) data match reviewing immigration data against payroll data.</p> <p>Fundamental Financial Systems Audit by Internal Audit.</p> <p>Counter Fraud Team to undertake investigations on a risk-based approach.</p> <p>Pre-employment checks, including take up of references.</p> <p>Employee Code of Conduct.</p> <p>Members Code of Conduct.</p> <p>Register of gifts and hospitality (Officers and Members).</p> <p>Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, and Sanctions Policies.</p> <p>Whistleblowing Policy.</p> <p>Fraud awareness training.</p>

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**Report to Audit Committee**

## **The Financial Reporting Council (FRC) 2022 reports**

**Portfolio Holder:** Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Low Carbon

**Officer Contact:** Anne Ryans - Director of Finance

**Report Author:** John Miller – Head of Internal Audit and Counter Fraud

**29 November 2022**

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### **Reason for Decision**

This report presents the latest position paper on the Financial Reporting Council's (FRC) transition to the Audit, Reporting and Governance Authority (ARGA) setting out how trust will be restored in local public external audit, and the FRC's report concerning the quality of Local Authority and National Health Service (NHS) audits across the UK Public Sector, both issued during 2022.

### **Executive Summary**

During 2022 the FRC has issued two documents relevant to external audit in the UK public sector, including Local Authorities, as follows:

- FRC Position Paper – “Restoring Trust in Audit and Corporate Governance”, published in July 2022.
- FRC Major Local Audits – “Audit Inspection Report” published in October 2022.

The FRC Position Paper sets out how the Financial Reporting Council (FRC) will support the Government's reforms as the FRC transitions into ARGA. The legislation to enact the creation of ARGA is still awaited but, in preparation, the FRC in September 2022 recruited a Director of Local Audit.

This FRC Audit Inspection Report sets out the principal findings arising from a review of both the 2020/21 and 2021/22 accounts and Value for Money opinions at all six audit firms completing major local audits in England for both Local Authorities and the NHS (the firms), and how the firms should respond to the FRC findings. It also incorporates the findings of the Quality Assurance Division of the Chartered Institute of Chartered

Accountants for England and Wales who reviewed a selection of the firms undertaking public audit.

The positive finding from this independent review is that for both Mazars LLP (who audit the Council's Statement of Final Accounts) and KPMG LLP (who provide direct grant audit for both Housing Benefit Subsidy and Teachers Pension Agency contributions) the audit quality was found to be good on the audits reviewed.

What is difficult to interpret is whether, because of previously reported inspections by FRC, the overall standard of the audits has improved. The reported quality of the audits from the sample identified for review has improved from the previous report. However, the report alludes to the original sample changing due to the challenges at some organisations in having both the Accounts ready for audit and then completing the audits. As such the audits reviewed have been for those organisations who perhaps have less challenging governance issues.

### **Recommendations**

That Members of the Audit Committee note the contents of the latest FRC position paper and report.

**The Financial Reporting Council (FRC) 2022 reports****1. Background and Summary of FRC Position Paper “Restoring Trust in Audit and Corporate Governance”**

- 1.1 The Financial Reporting Council (FRC) is the independent body responsible for monitoring the quality of major local public audits. This monitoring is performed by the FRC’s Audit Quality Review (AQR) team. Their inspection of major local audits aims to hold external audit firms to account for making the changes needed to safeguard and improve audit quality.
- 1.2 Auditors play a vital role in upholding trust and maintaining public confidence in Local Authorities by auditing financial statements, satisfying themselves that proper arrangements are in place to secure Value for Money (VfM) and, where necessary, exercising additional powers and duties.
- 1.3 The FRC’s objective is to achieve consistently high audit quality across the UK so that the public can have confidence in the work of local auditors. To support this objective, they have powers to:
- Inspect the quality of major local public audits.
  - Set eligibility criteria for local auditors and oversee delegated regulatory tasks carried out by professional bodies, such as qualification, training, registration and monitoring of non-major local audits.
  - Consider the implications of poor audit quality and bring enforcement action against auditors, if appropriate, in cases of a breach of the relevant requirements.
- 1.4 In May 2022, the Department for Levelling Up, Housing & Communities (DLUHC) published the Government’s response to ‘Local Audit Framework: technical consultation’. This set out the next steps to implement the recommendations of the Redmond Review, including improving the oversight of local audit and the transparency of local authority financial reporting.
- 1.5 The Government has indicated that the Audit, Reporting and Governance Authority (ARGA) will be the systems leader for local authority financial reporting and audit. Legislation is required to ensure that ARGA has the powers it needs to hold to account those responsible for delivering the required improvements.
- 1.6 In July 2022, the FRC published its position paper setting out the next steps in its transition to ARGA. A Director of Local Audit, who started in September 2022, has been recruited to make preparations to take on the role of systems leader in shadow form. FRC priorities are currently:
- Carrying out stakeholder outreach to determine priorities and early action areas for ARGA.
  - Working with the Department for Levelling Up, Housing and Communities (DLUHC) and the National Audit Office to facilitate the transfer of the Code of Audit Practice, when legislation allows.
  - Working with the DLUHC, HM Treasury and CIPFA Local Authority (Scotland) Accounts Advisory Committee (LASAAC) to determine whether the current complex financial reporting framework for Local Authorities can be simplified, whilst still meeting HM Treasury’s reporting requirements in support of the Whole of Government Accounts.
  - Building on the success of Practice Note 10 for the Central Government Sector by consulting on proposals for a specific practice note for local public audit in England.

## 2. Summary of FRC “Audit Inspection Report” findings published in October 2022

2.1 The latest FRC Audit Inspection Report sets out the principal findings arising from both the 2020/21 and 2021/22 Statement of Final Accounts reviewed in the 2021/22 cycle of inspections at all six audit firms completing major local public audits in England (the firms), and how the firms should respond to the FRC findings.

2.2 The FRC reports that timeliness of local auditor reporting is poor. Timeliness is a key matter and it promotes transparency and accountability. Audited bodies, local auditors and those with regulatory responsibilities must continue to work together to restore timely completion of audits so that public confidence is not further diminished. The report identifies three issues preventing timely reporting namely:

- A lack of resources at the firms to undertake the audit.
- The increased complexity of the financial statements.
- Unresolved accounting Issues (Infrastructure Assets is one such issue).

Interestingly one firm, BDO Stoy Hayward, cites that one reason why it did not bid for future local public audit work was lack of staffing resources.

2.3 Table 1 below summarises the findings of the FRC reviews by firm with regard to the work carried out in connection with their audit of both their clients’ financial statements, and their work on Value for Money opinions. What is difficult to interpret is whether because of previously reported inspections by FRC, the overall standard of the audits has improved. The reported quality of the audits from the sample identified for review has improved from the previous report. However, the report alludes to the original sample changing due to the challenges at some organisations in having both the Accounts ready for audit and then completing the audits. As such, the audits reviewed have been for those organisations who perhaps have less challenging governance issues. The positive finding from this independent review is that for both Mazars LLP (who audit the Council’s Statement of Final Accounts) and KPMG LLP (who provide direct grant audit on both the Housing Benefit Subsidy and Teachers Pension Agency contributions) the audit quality was found to be good on the audits reviewed.

2.4 The firms are listed in order of that with the highest number of major local audit engagements, Grant Thornton UK LLP, down to the firm with the least, Deloitte LLP. The percentage figures in bold represent the percentage of those engagements reviewed by the FRC where the firm’s work was assessed as either “good or limited improvements required”. The higher this percentage figure therefore, the better. The explanatory text underneath each percentage expands on this outcome to show the size of the sample and further details of the results.

2.5 The more major local audits undertaken by the firm, the larger and, arguably, more representative the sample is likely to be of the firm’s work as a whole. However, as can be seen in Table 1 below, there are some notable differences in results with only Mazars LLP and KPMG LLP achieving a “clean sheet”, and BDO LLP appearing to perform somewhat less favourably overall.

**Table 1: FRC inspection results by category and firm**

<b>Firm</b>	<b>Audit Inspection Results</b>	<b>VfM Inspection Results</b>
<b>Grant Thornton UK LLP</b>	<b>71%</b>  (Five of the seven audits inspected were assessed as either good or limited improvements required)	<b>100%</b>  (All four VfM arrangements inspections were assessed as good or limited improvements required)
<b>Ernst &amp; Young LLP</b>	<b>50%</b>  (Two of the four audits inspected were assessed as requiring more than limited improvements)	<b>100%</b>  (All three VfM arrangements inspections were assessed as good or limited improvements required)
<b>Mazars LLP</b>	<b>100%</b>  (All three financial statement audits inspected were assessed as good or limited improvements required)	<b>100%</b>  (All three VfM arrangements inspections were assessed as good or limited improvements required)
<b>KPMG LLP</b>	<b>100%</b>  (The two financial statement audits inspected were assessed as good or limited improvements required)	<b>100%</b>  (The two VfM arrangements inspections were assessed as good or limited improvements required)
<b>BDO LLP</b>	<b>50%</b>  (One of the two financial statement audits inspected was assessed as requiring significant improvements)	<b>0%</b>  (The one VfM arrangements inspection was assessed as requiring significant improvements)
<b>Deloitte LLP</b>	<b>50%</b>  (One of the two financial statements audits inspected was assessed as requiring significant improvements)	<b>100%</b>  (The one VfM arrangements inspection was assessed as good or limited improvements required)

2.6 The report also includes details of the Quality Assurance Division (QAD) of the Institute of Chartered Accountants for England and Wales (ICAEW). ICAEW's reviews are risk-based, with the aim of reviewing a representative sample of a firm's local audit portfolio over a six-year cycle. ICAEW adopts a cyclical approach to the monitoring of registered local auditors. As a result, not all firms are reviewed every year. In 2021/22 ICAEW undertook reviews of Grant Thornton UK LLP (eight files), Ernst & Young LLP (eight files) and PricewaterhouseCoopers LLP (one file). PricewaterhouseCoopers LLP has no major local audits and so isn't included elsewhere in this report, but the audit reviewed by ICAEW was graded 'good'.

2.7 Overall, the audit work of Grant Thornton UK LLP which ICAEW reviewed was of a good standard. Seven of the eight files reviewed were either good or generally acceptable, but one file required improvement. ICAEW concluded that one file needed improvement due to the insufficient challenge of management's expert on long-term asset valuations. This file was a 2019/20 audit and therefore, does not reflect recent improvements the firm has made in this area, following feedback from external reviews in 2020. VfM work was good on each of the files reviewed, and ICAEW did not identify any issues with this aspect of the firm's work.

2.8 Overall, the audit work of Ernst & Young LLP which ICAEW reviewed was of a good standard. Of the eight files reviewed, seven were either good or generally acceptable, but one file required significant improvement. In the file needing significant improvement, the audit team needed to improve the work done to assess the classification of certain assets as investment properties and whether the negative investment property valuations were appropriate and complied with accounting standards. Improvement was also required on the same file in relation to the audit team's consideration of the cashflow statement, with the ICAEW review identifying two material errors.

### 3 **Options**

3.1 The Audit Committee can either:

- a) choose to note the contents of the latest FRC position paper and report.
- b) decline to note the contents of the latest FRC position paper and report.

### 4 **Preferred Option**

4.1 The preferred option is option (a), that the Audit Committee notes the contents of the latest FRC position paper and report.

### 5 **Consultation**

5.1 N/A.

### 6 **Financial Implications**

6.1 N/A.

### 7 **Legal Services Comments**

7.1 N/A.

### 8 **Co-operative Agenda**

8.1 N/A.

### 9 **Human Resources Comments**

9.1 N/A.

### 10 **Risk Assessments**

10.1 N/A.

### 11 **IT Implications**

11.1 N/A.

### 12 **Property Implications**

12.1 N/A.

### 13 **Procurement Implications**

13.1 N/A.

14 **Environmental and Health & Safety Implications**

14.1 N/A.

15 **Equity, Community Cohesion and Crime Implication**

15.1 N/A.

16 **Equality Impact Assessment Completed**

16.1 N/A.

17 **Forward Plan Reference**

17.1 N/A.

18 **Key Decision**

18.1 N/A.

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are included as Appendices 1 and 2
Officer Name:	John Miller
Contact:	john.miller@oldham.gov.uk

20 **Appendices**

20.1 The following Appendices are available to support this Report:

- **Appendix 1:** FRC Position Paper - Restoring Trust in Audit and Corporate Governance, July 2022
- **Appendix 2:** FRC Major Local Audits – Audit Inspection Report October

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# Position Paper

## Restoring Trust in Audit and Corporate Governance

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# Introduction

1. The publication of the Government Response to the consultation on strengthening the UK's Corporate Governance, Corporate Reporting and Audit systems sets out the Government's policy positions responding to the three independent reviews on the audit product (Brydon<sup>1</sup>), statutory audit services market (Competition and Markets Authority<sup>2</sup>), and the Regulation of that market (Kingman<sup>3</sup>). The Government Response sets out the reforms the Government proposes to legislate for and covers the respective responsibilities of directors and their responsibilities for governance, internal control, and corporate reporting; preparers of financial and non-financial information (usually professional accountants); auditors and providers of assurance services, and actuaries.
2. In its response, the Government has indicated that it intends to implement policy through a range of measures. Some will require primary legislation, and the Government has indicated in its briefing for the Queen's Speech that work will begin to draft a Bill for publication, which it will take forward subject to the availability of Parliamentary time. Other measures will be addressed through secondary legislation, changes to existing regulatory measures (including Codes, Standards and Guidance), and market driven measures.
3. This Position Paper sets out how the Financial Reporting Council (FRC) will support the Government's reforms as we transition into the Audit, Reporting and Governance Authority (ARGA). This focuses on five broad areas:
  - Revisions and additions to the existing suite of Codes, Standards and Guidance to implement reforms;
  - The development of new standards in shadow form to allow for voluntary adoption ahead of legislation e.g., Minimum Standards for Audit Committees;
  - Setting expectations for the markets we regulate to drive behavioural changes ahead of statutory powers, following the successful approach we have taken regarding the Operational Separation of the Audit Practice in the largest UK Audit Firms;
  - The development of guidance to address issues set out in the Government Response, subject to that guidance meeting the bar set by Sir John Kingman, that ARGA should be sparing in its issuance of guidance and focused on those areas where it has expertise; and
  - Setting high-level expectations around the future supervision and monitoring activities which will flow from the proposed revisions to existing Codes, Standards and Guidance and the creation of any new such documents.
4. As the Government moves forward with legislation, we expect there will be further actions that the FRC needs to undertake support the transition to ARGA, in particular to address revised statutory regulatory requirements for directors and preparers. As these become clear, we will communicate our proposals to stakeholders publicly.
5. For the sake of completeness, the reform package also covers two additional areas – regulation of the Actuarial Profession and the Institute and Faculty of Actuaries, and the development of ARGA as the Systems Leader for Local Authority Financial Reporting and Audit, in response to the recommendations made in Sir Tony Redmond's independent review<sup>4</sup>. Regulation of the accountancy profession is not covered in this paper, which deals primarily with actions the FRC intends to take ahead of legislation.
6. The purpose of this Position Paper is to provide clarity on how the FRC will address issues in the Government Response which currently fall within our remit. It allows our stakeholders to understand how that work will be delivered, by building on the "what" in the Government Response and explaining "how" and over what period. Our stakeholder engagement will also allow us to ensure that the reforms do not contain unforeseen consequences (for instance, changes to Corporate Governance may have knock-on implications for Audit), and ultimately that they

<sup>1</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/852960/brydon-review-final-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852960/brydon-review-final-report.pdf)

<sup>2</sup>[https://assets.publishing.service.gov.uk/media/5d03667d40f0b609ad3158c3/audit\\_final\\_report\\_02.pdf](https://assets.publishing.service.gov.uk/media/5d03667d40f0b609ad3158c3/audit_final_report_02.pdf)

<sup>3</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/767387/frc-independent-review-final-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf)

<sup>4</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/916217/Redmond\\_Review.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf)

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can be delivered by those that we regulate in a way that meets legitimate public expectations but without disproportionate cost or burden.

7. Many stakeholders recognised the importance of the Government's original consultation White Paper addressing concerns across the whole corporate eco-system. This paper covers proposed reforms affecting Corporate Governance, Corporate Reporting and Audit. It also sets out how we will incorporate into the reforms, developments in international standard setting, so that we only have to open up each Code, Standard or piece of Guidance once to address the total reform. That requires some complex sequencing to ensure that revisions to Codes, Standards and Guidance can be addressed in a single pass.
8. The FRC already operates a rigorous due process covering the development of Codes, Standards and Guidance. All the proposals set out in this paper will follow that due process including public consultation and stakeholder outreach, and the publication of a feedback statement setting out how we have addressed stakeholder responses and how our proposed action supports the public interest.
9. The focus of this paper is mainly on the FRC's Regulatory Standards work. However, as set out in our 3-Year Plan we will also continue to develop our capacity in Supervision, Enforcement and Corporate Services to support our transition to ARGAs, and in particular the implications for directors and preparers arising from the reforms.
10. The FRC is committed to acting as a proportionate and principles-based regulator and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality corporate governance, reporting, audit, and assurance work to maintain investor and wider stakeholder confidence.

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# Corporate Governance and Stewardship

11. The UK Corporate Governance Code is a highly effective driver of good governance in the companies that adopt it, either as a requirement of the Listing Rules, or because they choose to do so voluntarily. The Code has been copied in many other jurisdictions and has been successful in our view because it is principles-based and flexible. It is important, therefore, in revising the Code, that it is not used as a convenient vehicle to add requirements that diverge from its underlying principles.
12. The focus of revisions to the Code will be as follows:
- Providing additional support in the existing Code Provisions, where reporting is currently weaker, taking account of issues raised in our recent research and reports. These areas are outlined in our most recent annual report on the use of the Code<sup>5</sup> and Culture report<sup>6</sup>;
  - Revising those parts of the Code which deal with the need for a framework of prudent and effective controls to provide a stronger basis for reporting on and evidencing the effectiveness of internal control around the year end reporting process;
  - Making necessary revisions to reflect the wider responsibilities of the Board and Audit Committee for expanded Sustainability and ESG reporting and, where commissioned by the company, appropriate assurance in accordance with a company's audit and assurance policy;
  - Including a Provision for boards to consider how audit tendering undertaken by the company takes account of the need to expand market diversity; and
  - Updating the Code to ensure that it covers proposed changes to legal and regulatory requirements as set out in the Government Response, including strengthening reporting on malus and clawback arrangements.
13. The revised Code will be supported by updated guidance – we will revise the *Guidance on Audit Committees* and *Guidance on Board Effectiveness* to align with the revised Code and to support the reforms in the Government Response. We will also revise the *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting* specifically to take account of changes to Principles and Provisions on internal control and its effectiveness.
14. In response to the recommendation made by the Competition and Markets Authority (CMA), we will develop for use initially on a voluntary basis a set of Minimum Standards for Audit Committees, setting out expectations on how Audit Committees should work to address the issues raised by the CMA in its report. We propose to hold round tables with stakeholders in the second half of 2022 to develop these standards, so they are available to Committees for 2023 financial year ends. Where possible these standards will consolidate multiple pieces of existing guidance and provide a single source of information. These standards will also address how Audit Committees can support greater market resilience and diversity when tendering for audit services ahead of legislation. Supervision against the standards will commence in c. 2024, subject to legislation.
15. Our intention is that the revised Code will apply to periods commencing on or after 1 January 2024 to allow for sufficient implementation time. That will mean we consult on a revised Code and supporting material from Q1 of 2023.
16. When ARGAs are created, the Government's intention is that the scope of our Supervision Division's Corporate Reporting Review team will extend to include the whole annual report and accounts. Whilst the precise legislative detail regarding the content which will constitute the 'annual report' for these purposes has yet to be published, we expect that corporate governance disclosures will be in scope. We intend therefore to commence formal inclusion

<sup>5</sup> [https://www.frc.org.uk/getattachment/b0a0959e-d7fe-4bcd-b842-353f705462c3/FRC-Review-of-Corporate-Governance-Reporting\\_November-2021.pdf](https://www.frc.org.uk/getattachment/b0a0959e-d7fe-4bcd-b842-353f705462c3/FRC-Review-of-Corporate-Governance-Reporting_November-2021.pdf)

<sup>6</sup> [https://www.frc.org.uk/getattachment/9fc6c466-dbd2-4326-b864-c2a1fc8dc8b6/FRC-Creating-Positive-Culture-Report\\_December-2021.pdf](https://www.frc.org.uk/getattachment/9fc6c466-dbd2-4326-b864-c2a1fc8dc8b6/FRC-Creating-Positive-Culture-Report_December-2021.pdf)

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of these disclosures from the first year of Code implementation. In the meantime, we will continue our inclusion of corporate governance reporting in a sample of routine reviews, initiate an initial pilot for remuneration reporting, and seek to engage with companies on a voluntary basis.

17. We are not proposing to consider any further revisions to the Stewardship Code in this period. The Government has confirmed that the FRC – working with the Financial Conduct Authority, the Department for Work and Pensions and the Pensions Regulator – will carry out a review of the regulatory framework for effective stewardship including the operation of the Code in the latter part of 2023, to allow two full years of reporting under the revised Code.

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# Corporate Reporting

18. The changes proposed in the Government Response will require either primary or secondary legislation. However, we will work in support of the reforms by developing a number of pieces of guidance referred to. These will provide implementation guidance for:
- The Resilience Statement;
  - Fraud Reporting by Directors;
  - The Audit and Assurance Policy and related disclosure requirements;
  - Capital Maintenance and Dividends, including distributable profits – to succeed the existing ICAEW/ICAS guidance.
19. We will also revise our guidance on the Strategic Report, in recognition of the significant changes and the expansion in proposed reporting to ensure that the Strategic Report is a source of decision-ready information. To minimise the need to revisit guidance, we will delay the completion of this work until the Government has set out its policy in respect of the use of International Sustainability Disclosure Standards in the UK, so that this can also take account of reporting changes that will be driven by their implementation. In finalising the timing for this work, we will be informed by our stakeholder engagement and market needs. If we find that there are issues that need more urgent attention, we will seek to address this.
20. On sustainability reporting – we strongly support the efforts of the International Sustainability Standards Board (ISSB) to develop a global baseline to support sustainability reporting. We will actively engage with the ISSB to raise the profile of its work and to make recommendations to further their proposals, working closely with other international regulators and standard setters.
21. More broadly, as the Government considers its legislative programme, we will work closely with colleagues at the Department for Business, Energy and Industrial Strategy to propose, for their consideration, ways to reduce the current non-financial reporting burden on companies. We have already been looking at potential opportunities to simplify and improve reporting requirements, whilst making sure the quality of information available to users of corporate reporting including both financial statements and the front half of the annual report is not affected.
22. Subject to the extension of Corporate Reporting Review powers, we intend to include new reporting disclosures in our review processes from the date at which any new reporting requirements commence. As mentioned above, we are piloting the inclusion of some non-financial reporting such as corporate governance disclosures and remuneration reporting ahead of legislation. We also intend to expand our “What Makes a Good...” series to include “What Makes a Good Annual Report and Accounts”. We will continue to publish CRR case outcomes on a quarterly basis, including reference to any findings related to non-financial disclosures where appropriate. These cases represent the outcomes of our work reviewing the published directors’ reports and accounts of public and large private companies for compliance with the law, including any substantive correspondence entered into and actions taken by companies as a result of that correspondence.
23. To further support implementation, the FRC Lab will carry out a series of projects to assist with the development of the new reporting requirements set out in the Government Response (including resilience statements, capital maintenance disclosures and audit and assurance policies). These projects will set out how companies might apply new reporting requirements to provide useful and meaningful information to users.

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# Audit

24. Audit has been the subject of significant regulatory activity and intense political and public scrutiny in recent years. The fundamentals of what an audit is will remain unchanged, as the Government has chosen not to expand the scope of an audit. However, we will consult on changes to address some of the policy points in the Government Response through revisions to standards, including revisions to our Ethical Standard to reflect stakeholder feedback, evidence gathered through our inspection programme and our enforcement work. There are also significant changes to ethical requirements driven by changes to the International Code of Ethics, not least a revised global public interest entity definition, which includes market traded entities. We have already taken forward a project to develop a Professional Judgement Framework, which we published on 23 June. This will help with the application of professional judgement in the context of an audit, which was recommended in the Brydon Report. Our Supervision division will continue to build on its engagement and outreach with Audit Committees, seeking improvement in audit quality outcomes and we will continue to work on non-legislative developments in our Audit Quality Review team, with a view to providing a more effective and efficient AQR process. Supervision will also implement the new PIE auditor registration process and undertake a project on improving auditor education.
25. Significant changes to the Ethical Standard will include:
- Revisions to take account of the new proposed framework that contains three levels of public interest entities: historical; new proposed UK public interest entities; and new public interest entities caught as a result to the changes to the international definition;
  - Changes to address those situations where the role of Those Charged with Governance is discharged by the Board, in the absence of an Audit Committee;
  - A consultation on whether it is desirable to exclude sustainability assurance work carried out in accordance with a performance standard adopted by the FRC from the UK aspect of the non-audit services fees cap;
  - Revisions driven by international changes to the fees and non-audit services sections of the Code of Ethics;
  - Consulting on whether to maintain the 'Other Entity of Public Interest' definition;
  - Revisions to simplify and clarify provisions incorporated as a result of European Law in 2016;
  - Necessary revisions to address issues identified as a result of our Supervision and Enforcement work; and
  - Any changes necessary to address the expansion of audit-related assurance work driven by sustainability and ESG, and the proposals around an audit and assurance policy.
26. Our intention is that the effective date for changes will align with the effective date for changes to the Code of Ethics<sup>7</sup>. This will mean consulting on a revised Standard in Q1 of 2023. Supervision against any new or revised standards, including the Ethical Standards will follow the respective commencement dates.
27. Significant thought has been given in the Government Response to the useability and informativeness of the audit process to stakeholders. Addressing these issues will require consultations on a number of existing ISAs (UK). However, in doing so, our approach will be to minimise divergence between the UK and international standards. The scope of those revisions will mainly focus on:
- Revisions to Auditor Reporting Standards – ISAs (UK) 700, 701 and 720;
  - Revisions to Auditor Communication Standards – ISAs (UK) 260 and 265;

<sup>7</sup> Periods commencing on or after 15 December 2024.



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- Revisions to Auditing Standards covering Law and Regulation and Reporting to Regulators, to include Brydon's recommendations on a 'duty to report' – ISAs (UK) 250 Sections A and B;
  - Conforming amendments to other ISAs (UK); and
  - Necessary updates to Bulletins and Practice Notes in support of revised standards, and to provide illustrative reports.
28. We will also consult on proposed guidance in the form of performance standards to support a consistent approach to assuring internal controls reporting and the new resilience statement. Our expectation is that although new standards will be developed over the next 18 months, the effective date would align with the revised Ethical Standard, with the development of guidance following the development of revised standards.
29. Linked to the Audit Committee proposals in paragraph 12 of this paper, and the references included in our proposals for the Corporate Governance Code, we will develop and consult on a policy paper setting out our approach in respect of the Government's proposed market resilience/ competition objective for ARGAs, and the work we will be doing to prepare ahead of legislation. This will include a framework for ARGAs' competition objective, and how we propose to set success measures for the effectiveness of market opening measures.
30. Having consulted on a new PIE auditor registration process in Spring 2022, we expect to transition to the new process from Autumn 2022 onwards. We will continue to develop our audit firm supervision model, including assessing the Big Four firms' progress in voluntarily implementing operational separation. Ahead of legislation, we will start to develop the policies and procedures necessary to deliver on the full set of audit supervision powers, including the use of expert reviews.
31. The FRC views a high-quality, well-respected audit profession which attracts and retains the brightest and best candidates as an essential ingredient for a functioning audit system and improved audit quality. The Government Response noted that "the Government expects the existing professional bodies to make substantial improvements to audit qualification, training and skills" over the next five years. This work is not dependent on legislation, and a project led by our Professional Oversight Team will engage with the professional bodies on their plans for these improvements. We expect this will involve consultation in late 2022/early 2023 and implementation across 2023 to 2024.
32. We also propose to use our newly developed Audit Sandbox to assist with the implementation of new or revised requirements in auditing and ethical standards, and how policy drives enhanced audit quality, innovation, and competition within the marketplace. The Sandbox will provide a safe regulatory space to allow for auditor-regulator dialogue on audit and competition policy related issues.

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# Actuarial Regulation

33. Actuarial work underpins many aspects of our society: members of pension schemes and insurance policy holders rely on the actions of individuals who make decisions based on actuarial information. Increasingly, actuarial work is used in emerging fields, a key example would be how actuaries have contributed to the analysis of and debate on pandemic modelling during the Covid 19 pandemic. It is therefore critical, in the public interest, that actuarial information is of an appropriate standard. The public has a right to expect such information to be reliable.
34. The Government Response provides a sound foundation to address the weaknesses in the current regulatory regime for actuarial work, originally raised in Sir John Kingman's review. Currently the FRC undertakes its actuarial regulatory roles in the UK on a contractual basis (likewise the regulation of accountants). The government intends to strengthen that regime by putting it on a statutory footing, similar to other regulated professions, including a risk-based monitoring scheme to assess the quality of actuarial work. In doing so we are keen to engage with existing regulated actuarial communities and any new stakeholders which will come into scope in the preparation for ARGA.
35. Pending legislation, we will commence to implement the new regime in time for ARGA's effective date. This work will include:
- Establishing what actuarial work should be considered as being of public interest, and therefore within ARGA's statutory regulatory scope;
  - Concluding our post implementation review of the FRC's Technical Actuarial Standards to ensure that they are consistent with ARGA's regulatory objectives and remit;
  - Developing and implementing a risk-based monitoring framework. We would look to conduct a pilot exercise ahead of full implementation, to road-test new processes and procedures and give informal feedback;
  - Reviewing the actuarial disciplinary scheme and preparing new guidance and operating procedures for ARGA's actuarial enforcement role which will be subject to public consultation;
  - Setting out the regulatory standards that ARGA, in its statutory oversight role, will expect actuarial professional bodies to adhere to; and
  - Preparation of new Memoranda of Understanding with other sectoral regulators (e.g., TPR, PRA, FCA).
  - Carrying out work to design and implement a proportionate monitoring and oversight regime

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## Local Audit Systems Leader

36. The Government has indicated that ARGA will be the systems leader for local authority financial reporting and audit. The financial reporting landscape is complex, and the timeliness of reporting is poor, and the audit market is far from resilient. We have recruited a director to lead this work, and our priorities are currently:
- Carrying out stakeholder outreach to determine priorities and early action areas for the systems leader;
  - Working with colleagues in the Department for Levelling Up, Housing and Communities (DLUHC) and the National Audit Office to facilitate the transfer of the Code of Audit Practice, when legislation allows;
  - Working with the DLUHC, HM Treasury and CIPFA LASAAC to determine whether the current complex financial reporting framework for local authorities can be simplified, whilst still meeting HM Treasury's reporting requirements in support of the Whole of Government Accounts; and
  - Building on the success of Practice Note 10 for the Central Government Sector, by consulting on proposals for a specific practice note for local public audit in England.
37. We have issued revised guidance to the Recognised Supervisory Bodies for recognising Key Audit Partners for local audit, which is applicable now. Taking on the systems leader role in shadow form, our new Director of Local Audit will join in September 2022 to develop an industry-led workforce strategy, with support from DLUHC.

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# Transfer of Independent Supervision of the Comptroller and Auditor General to Parliament

38. Sir John Kingman noted the inconsistency and potential conflict which exists whereby the FRC fulfils the role of Independent Supervisor of the Comptroller & Auditor General, when the Auditor General is an officer of the House of Commons. He recommended that new arrangements be made to place responsibility for Independent Supervision into the hands of Parliament, who can then determine who is best placed to carry out the oversight work on their behalf.
39. The Professional Oversight Team will support the transition of the Independent Supervisor role to an appropriate Parliamentary body, working with BEIS to achieve this, and subject to legislation. Shadow arrangements have been in place for the 2021 reporting cycle, and these will continue in 2022.

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# Funding

40. The Government intends to give ARGAs statutory funding so that it can operate on a sustainable and independent basis. ARGAs will be empowered to make rules requiring that market participants pay a levy to meet the costs of carrying out its regulatory functions. Implementing a new statutory funding model is a complex exercise, and we therefore intend to invite views this Summer on the high-level principles on which ARGAs' funding model should be based.

## Government proposals requiring legislation

41. A significant proportion of the proposals contained in the Government Response require legislation to take effect. In particular, the proposed new definition of a public interest entity will not commence without the requisite primary legislation being passed. We have described in this paper the work we intend to do which is within our existing remit to commence. Some of these activities are dependent on the timing of secondary legislation which the Government has indicated it intends to bring forward when Parliamentary time allows, which is outside of the FRC's control. We are publishing this early view of our intentions, to support the planning and engagement activities of our stakeholders, many of whom are keen to have greater certainty on when and how various aspects of reform will happen. We will use our annual 3-Year Plan and other key publications to provide progress updates as needed, and ensure that wherever possible, our stakeholders have a reasonable period of time in which to prepare for future regulatory changes that may impact them.

**Financial Reporting Council**

**July 2022**



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# Major Local Audits

## Audit Quality Inspection



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## Introduction: FRC's objective of enhancing audit quality

The Financial Reporting Council (FRC) is the independent body responsible for monitoring the quality of major local audits.<sup>1</sup> This monitoring is performed by the FRC's Audit Quality Review (AQR) team. Our inspection of major local audits aims to hold firms to account for making the changes needed to safeguard and improve audit quality.

Auditors play a vital role in upholding trust and maintaining public confidence in local public bodies (principally local authorities and health bodies other than Foundation Trusts<sup>2</sup>) by auditing financial statements, satisfying themselves that proper arrangements are in place to secure Value for Money (VfM) and, where necessary, exercising additional powers and duties.<sup>3</sup>

The FRC's objective is to achieve consistently high audit quality so that the public can have confidence in the work of local auditors. To support this objective, we have powers to:

- Inspect the quality of major local audits.
- Set eligibility criteria for local auditors and oversee delegated regulatory tasks carried out by professional bodies, such as qualification, training, registration and monitoring of non-major local audits.
- Consider the implications of poor audit quality and bring enforcement action against auditors, if appropriate, in cases of a breach of the relevant requirements.

The timeliness of local auditor reporting is poor. Timeliness really matters, as it promotes transparency and accountability. As local public bodies face financial pressure and some engage in increasingly commercial activity, it is essential that high-quality financial reporting and the audit process identify and respond to risks on a timely basis. Audited bodies, local auditors and those with regulatory responsibilities must continue to work together to restore timely completion of audits so that public confidence is not further diminished.

In May 2022, the Department for Levelling Up, Housing & Communities (DLUHC) published the Government's response to 'Local Audit Framework: technical consultation'. This set out the next steps to implement the recommendations of the Redmond Review, including improving the oversight of local audit and the transparency of local authority financial reporting.

Legislation is required to ensure that the new regulator – the Audit, Reporting and Governance Authority (ARGA) – has the powers it needs to become the systems leader for local audit and hold to account those responsible for delivering the required improvements. In July 2022, The FRC published its position paper setting out the next steps in our transition to ARGA.<sup>4</sup> This included the recruitment of the Director of Local Audit, who started in September 2022, to make preparations to take on the role of systems leader in shadow form.

This report sets out the principal findings arising from the 2021/22 cycle of inspections at all six audit firms completing major local audits in England (the firms), and how the firms should respond to our findings.

1 The Local Audit (Professional Qualification and Major Local Audit) Regulations 2014 defines a major local audit as one which meets the following criteria:

- Total income or expenditure of at least £500 million, or
- For a local authority pension scheme, at least 20,000 members or gross assets in excess of £1,000 million.

2 The FRC is not responsible for audit quality monitoring at NHS Foundation Trusts. This is the responsibility of NHS England.

3 Further information on auditor's additional powers and duties is available in Auditor Guidance Note 4 issued by the National Audit Office (NAO) can be found [here](#).

4 The FRC position paper can be found [here](#).



## The FRC



The purpose of the FRC is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them.



We have responsibility for the public oversight of statutory auditors.



The FRC engages with key local audit stakeholders, such as DLUHC, NAO, ICAEW, CIPFA and PSAA, in order to contribute to sector-wide initiatives and governance.



## AQR



We monitor the audit quality of major local audits (which include the larger health and local government bodies).



We promote continuous improvement in audit quality.



Our team of over 50 professional and support staff has extensive audit expertise to provide rigorous inspection of audit firms completing major local audits.

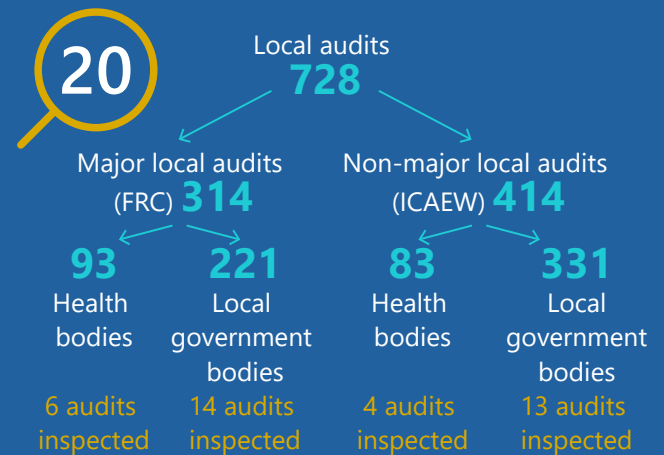


## The firms



Audit firms undertaking local audits	Number of major local audits (within scope of AQR inspection)	Market share %	Reviewed by AQR in 2021/22
Grant Thornton UK LLP	125	39.8%	7
Ernst & Young LLP	72	22.9%	4
Mazars LLP	55	17.5%	3
KPMG LLP	24	7.7%	2
BDO LLP	21	6.7%	2
Deloitte LLP	17	5.4%	2
<b>Total</b>	<b>314</b>		<b>20</b>

## Our inspection process



We inspected the auditors' work on VfM arrangements at 14 bodies.



We work closely with audit committee chairs to improve the overall effectiveness of our reviews.



We assess the overall quality of the audit work inspected.



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As part of our 2021/22 inspection work, we inspected a sample of individual audits and assessed elements of the firms' quality control systems. This report sets out the FRC's findings on key matters relevant to audit quality at the firms.

Our risk-based selection of audits for inspection provided coverage of each of the audit firms in the market and selected audits with higher-risk attributes. We focused, for example, on audits we had not been able to previously inspect (due to the timeliness of auditor reporting); with qualified audit opinions; where the auditor's additional powers or duties were exercised; of entities experiencing financial difficulties or with material account balances related to commercialisation.

The scope of each individual inspection was also risk based and informed by a range of factors, including previous inspection findings, discussions with audit committee chairs and matters considered significant in the sector. Examples of matters considered significant in the sector included expenditure on services; the disclosure of senior officer remuneration; the appropriateness of capital expenditure; investment property valuation; and, in local government, adjustments between accounting basis and funding basis, such as minimum revenue provision.

Entity management and those charged with governance can make an important contribution to a robust audit. A well-governed entity, with effective internal controls and reporting that is accurate, transparent and timely helps underpin a high-quality audit. While there is some shared responsibility for the quality of audits, we expect firms to achieve high-quality audits, regardless of any identified risk in relation to management, those charged with governance or the entity's financial reporting systems and controls.

Higher-risk audits are inherently more challenging, requiring audit teams to assess and conclude on complex and judgemental matters. Professional scepticism and sector expertise are especially important in such audits. Our focus on higher-risk audits means that our findings may not be representative of audit quality across a firm's entire audit portfolio or on a year-by-year basis.

This report also considers other, wider measures of audit quality. The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of the firms' local audits that do not meet the definition of a major local audit, the results of which are set out on page 10. The firms also conduct internal quality reviews. A summary of the firms' internal quality review results is included at Appendix 2. These results, together with our inspection findings, provide an overall view of the quality of local audits.

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The FRC does not accept any liability to any party for any loss, damage or costs however arising, whether directly or indirectly, whether in contract, tort or otherwise from action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

# 1 Overview

## Inspection results: arising from our review of individual financial statement audits

Our selection of audits to inspect was impacted by the timeliness of local auditor reporting.

Figures compiled by Public Sector Audit Appointments Limited (PSAA) showed that 91% of 31 March 2021 audits of local government bodies were not completed by the target date of 30 September 2021 (42% were completed by 30 June 2022). The backlog of earlier audits is also concerning, with 19% of the 31 March 2020 audits incomplete by 30 September 2021. The incomplete audits include many that we would assess as being higher risk. The firms have informed us of many reasons for this lack of timeliness, including their own resourcing constraints among local audit specialists; the increased complexity of financial statements; delays caused by management; and unresolved accounting issues, such as those related to infrastructure assets.

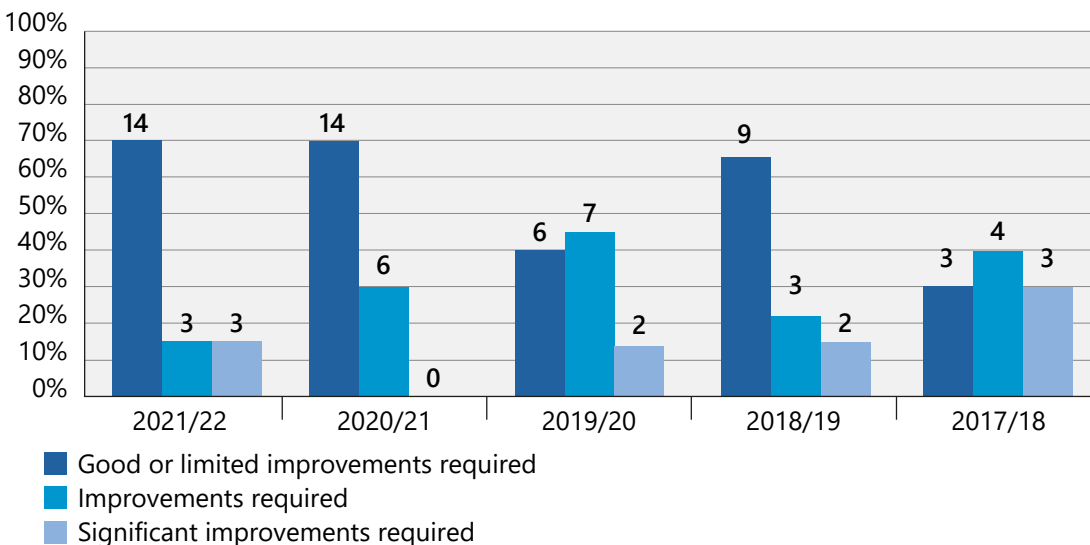
The impact was that seven of the 14 local government audits we initially selected for inspection based on risk had to be replaced because neither the 31 March 2021 nor the 31 March 2020 audits were finalised.

Including replacements, we inspected a total of 20 audits this year across the six firms, six were health bodies and 14 were local government bodies. The local government audits included two pension funds, 11 councils and one other body.

We inspected six 31 March 2020 year-end audits that had not been completed in time for us to previously inspect. All other audits we inspected were for the year ended 31 March 2021.

We replaced half of the local government audits we initially selected for inspection because neither the 31 March 2021 nor the 31 March 2020 audits were finalised.

### All financial statement reviews – for the firms inspected



**The number of audits categorised as good or limited improvements required has remained consistent with the prior year. However, the increased number of audits assessed as requiring significant improvements is unacceptable. Inconsistency is preventing firms from eradicating poor quality audits.**

We assessed 70% of financial statements audits as requiring no more than limited improvements, the same as in the previous year. This is an improvement on the 46% average over the preceding three years.

We continue to identify inconsistency in the quality of audits inspected. The increased number of audit inspections categorised as significant improvements required (15% in 2021/22 and none in 2020/21) and the significance of the underlying findings is unacceptable and concerning. The findings which contributed to this deterioration were inadequate financial statements review procedures, ineffective evaluation of identified misstatements and insufficient justification for issuing a qualified audit opinion. The firms must review their individual quality action plans to ensure this deterioration is addressed and that consistently high-quality audits are delivered.

We were encouraged to identify a range of good practice in risk assessment, execution of the audit, and completion and reporting.

Further details of key findings and good practice are set out in Section 2.

## **Inspection results: arising from our review of auditors' work on Value for Money arrangements**

The auditors' work considers whether or not a body has put in place proper arrangements to secure value for money in its use of resources.

Audit firms had to comply with the new requirements of the National Audit Office (NAO) Code of Practice, applicable for the year ended 31 March 2021. The work of auditors in this area was refocused to:

- Promote more timely reporting of significant issues to local bodies.
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas.
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness.
- Provide clearer recommendations to help local bodies improve their arrangements.

**70%**

The number of audits categorised as good or limited improvements required has remained consistent with the prior year.

**15%**

of audits were assessed as requiring significant improvements. This is unacceptable.

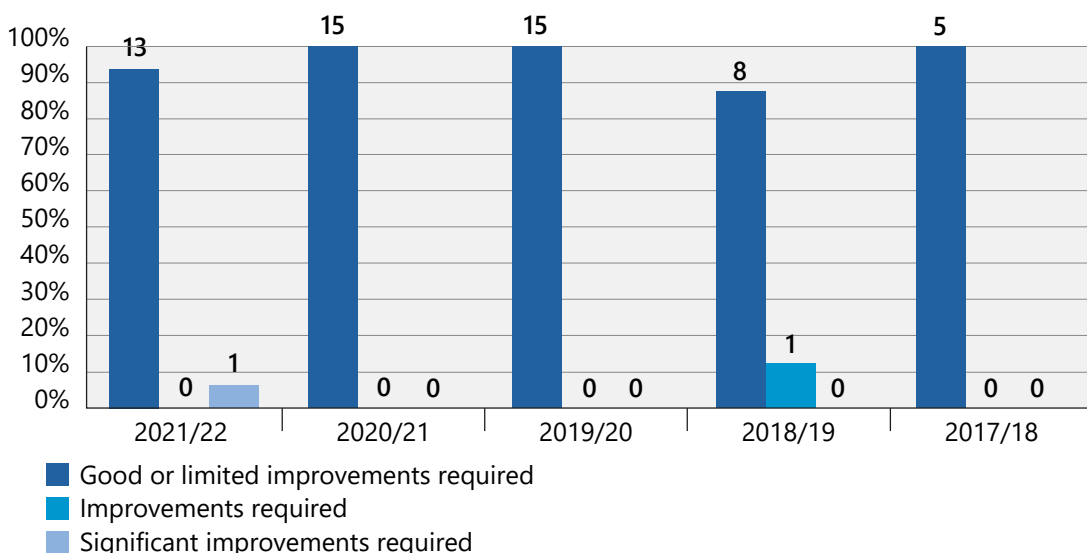
We inspected the auditors' work on VfM arrangements at 14 bodies across the six firms, six were health bodies and eight were local government bodies. The local government bodies included one pension authority, six councils and one other body. Because of the new requirements, all work that we inspected in this area related to the year ended 31 March 2021.

Special provisions were put in place for the reporting of the auditors' work on VfM arrangements due to the Covid-19 pandemic. The target date for completion was up to three months after the date of the completion of the financial statements audit.

Less of the auditors' work in this area was available for us to inspect than financial statement audits. This was primarily due to these special provisions extending the reporting period for the auditors' work combined with the broader issues surrounding the timeliness of local auditor reporting.

The auditors' work on VfM arrangements for 31 March 2021 year ends was reviewed in the 2021/22 inspection cycle.

### Our assessment of the quality of auditors' work on VfM arrangements: for the firms inspected



93% of VfM arrangements inspections required no more than limited improvements.

### Based on our inspections, the quality of auditors' work on VfM arrangements remains high at all but one firm.

Of the work inspected, 93% was categorised as good or limited improvements required (100% in the previous two years).

One inspection was assessed as requiring significant improvements. The area which gave rise to this categorisation was audit documentation, archiving and engagement with the FRC. The audit procedures and working papers on the VfM audit file were never finalised or reviewed. Changes were then made to the working papers after the firm was notified of our inspection. This is unacceptable and highlighted issues with quality control procedures related to archiving at the firm.

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The firm has established the reasons for this individual instance of unacceptable behaviour and must now determine what changes are required to its quality control procedures to prevent or detect reoccurrence.

Encouragingly, we identified a range of good practice points related to risk assessment, additional procedures and reporting.

Further details are set out in Section 2.

Changes to the proportion of audits falling within each category reflect a wide range of factors, including the size, complexity and risk of the audits selected for inspection and the scope of individual inspections.

We accept that our planned focus on higher-risk audits means that the grade profile of our inspection findings may be less representative of audit quality across the whole portfolio of an audit firm. The change in our approach to audit selection over time also means that historical comparisons of results need to be treated with care, although we have taken the same approach for the last three years.

For these reasons, and given the sample sizes involved, changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firms.

Any inspection cycle with audits requiring more than limited improvements is a cause for concern and indicates the need for a firm to take action to achieve the necessary improvements.

We take robust action for all inspections assessed as requiring improvements or significant improvements. We consider all inspections assessed as requiring improvements or significant improvements against the Regulated Framework for Auditing and under the Auditor Regulatory Sanctions Procedure.

<https://www.frc.org.uk/auditors/audit-quality-review/auditor-regulatory-sanctions-procedure>

Where findings indicate that the Registered Auditor has failed to comply with the Framework, the FRC Enforcement Committee can sanction an audit firm for such breaches under the procedures or may refer the conduct in question for consideration under the FRC Accountancy Scheme or the disciplinary procedures of the relevant Recognised Supervisory Body.

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## **Inspection results: arising from our review of the firms' quality control procedures**

This year, our firm-wide work focused primarily on the following areas:

- Root cause analysis (RCA) process and audit quality initiatives.
- Engagement Quality Control Review (EQCR), consultations and audit documentation.
- Audit methodology (property valuations and going concern).

### **Root cause analysis process and audit quality initiatives**

We focus on RCA and audit quality initiatives given the importance of taking effective action to address our previous inspection findings. AQR reviewed the firms' responses to these findings and considered the efficacy of actions taken through current year inspections.

We continued to observe improvements at individual firms that were linked to the implementation of quality action plans.

### **Engagement quality control review, consultations and audit documentation**

Our key finding related to the need for all firms to:

- Ensure that the appointment of EQCR reviewers is appropriately focused on quality risks, including at non-major local audits.

We identified the following key finding at an individual firm:

- The firm must ensure that appropriate controls operate to prevent and detect the failure to archive audit files.

### **Audit methodology and training (property valuations and going concern)**

One other finding at an individual firm related to:

- Ensuring that the going concern work programmes used by local auditors are suitably tailored to the sector, including the continued provision of service approach.

Further details are set out in Section 2.

## Monitoring review by the Quality Assurance Department of ICAEW

The FRC granted ICAEW a recognition order as a Recognised Supervisory Body (RSB) in November 2015. Under this framework, ICAEW is responsible for the licensing, registering and monitoring of auditors who carry out audits of relevant authorities, as defined in schedule 2 of the LAAA 2014. ICAEW reviews audits outside the FRC's scope. ICAEW does not undertake work on the firm-wide controls or procedures. However, to maintain ICAEW's knowledge of relevant aspects of the firm and its procedures the ICAEW reviewed the results of the firm's audit compliance review (as it applied to local audit), reviewed a sample of CPD records for staff involved in the delivery of local public audit, and liaised with the FRC to obtain information relating to whole-firm procedures relevant to audit work within our scope.

ICAEW's reviews are risk-based, with the aim of reviewing a representative sample of a firm's local audit portfolio over a six-year cycle. ICAEW adopts a cyclical approach to the monitoring of registered local auditors. As a result, not all firms are reviewed every year. In 2021/22 ICAEW undertook reviews of Grant Thornton UK LLP (eight files), Ernst & Young LLP (eight files) and PricewaterhouseCoopers LLP (one file). PricewaterhouseCoopers LLP has no major local audits and so isn't included elsewhere in this report, but the audit reviewed by ICAEW was graded 'good'.

ICAEW reviews are designed to form an overall view of the quality of the audit. Where applicable, both the financial statement opinion audit and work to support the VfM conclusion are reviewed. ICAEW assesses the audits it reviews as either 'good/generally acceptable', 'improvement required' or 'significant improvement required'. Visit [icaew.com/auditguidance](https://www.icaew.com/auditguidance) for further information about ICAEW's audit monitoring process including its approach to assessing audits.

ICAEW has completed its 2021/22 monitoring review and the reports summarising the audit file review findings and any follow up action proposed by the firms were considered by ICAEW's Audit Registration Committee in October 2022.

### Summary

Overall, the audit work continues to be of a generally good standard. Of the 17 reviews, 15 were either good or generally acceptable. One audit required improvement and one audit required significant improvement. These results are consistent with the 2020/21 reviews, with the same grading profile year on year.



# 88%

**Of the seventeen ICAEW financial audit reviews, fifteen were either good or generally acceptable.**

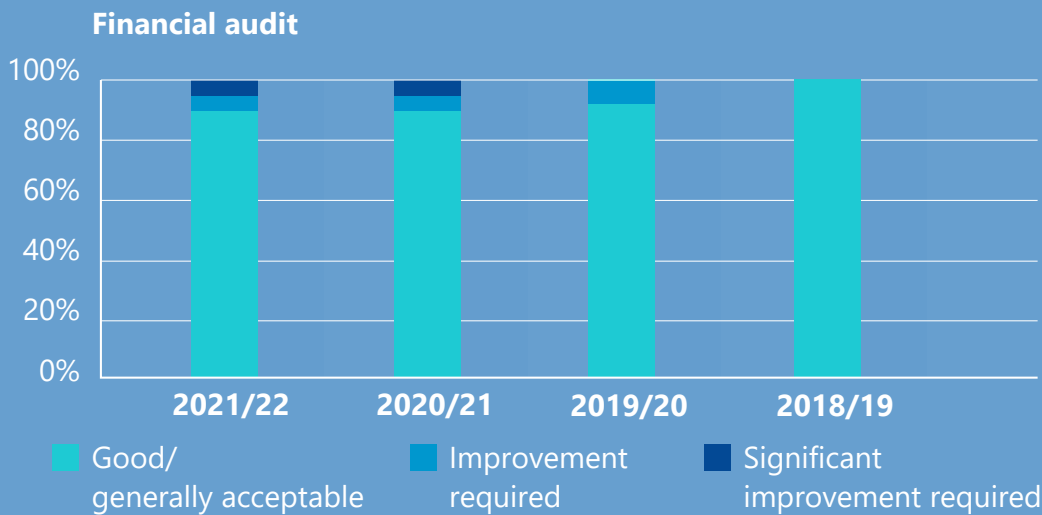




Work to support the VfM arrangements conclusions continues to be of a good standard with all reviews being either good or generally acceptable.

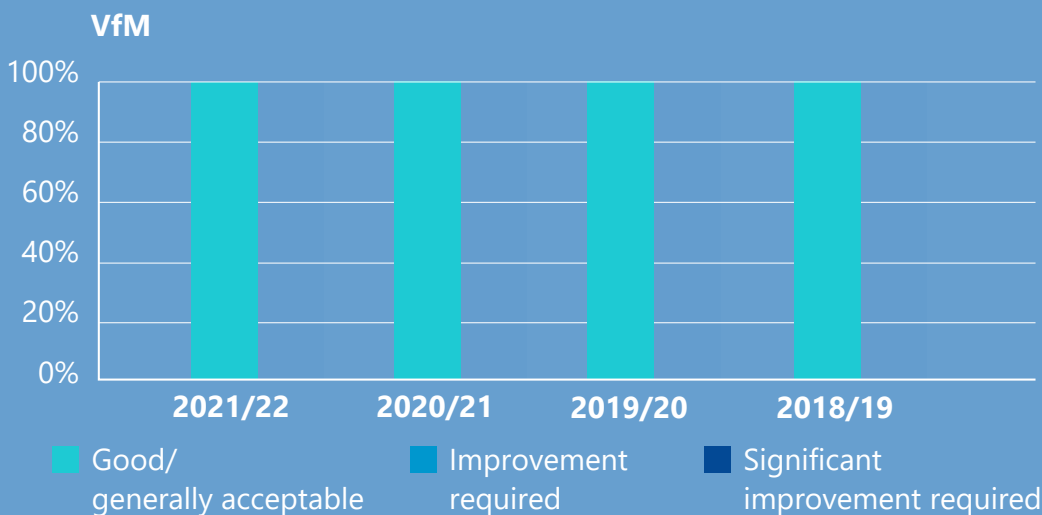
ICAEW continues to identify and share examples of good practice across all the firms subject to review.

## Results



# 100%

All of the eleven VfM arrangements reviews were either good or generally acceptable.



## 2 Reviews of individual audits and the firms' quality control procedures

### Review of individual audits

We set out below the key areas where we consider improvements in audit quality are required. As well as findings on audits assessed as requiring improvements or significant improvements, the key findings can include those on individual audits assessed as requiring limited improvements but considered key due to the frequency of occurrence across the audits we inspected.

It is imperative that all firms consider what improvements they need to make in response to our findings, regardless of whether the findings were identified on their own audits.

### Financial statements audit

#### Urgently improve financial statements review procedures and the evaluation of identified misstatements

Auditors are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement. Auditors must:

- Ensure that the financial statements are consistent with underlying records.
- Evaluate the impact of unadjusted audit differences on the financial statements before concluding that they are free from material misstatement.

#### Key findings



We identified significant improvements required on three audits. On all three audits, the procedures performed were inadequate or ineffective as they failed to ensure that primary statements were free from material errors. Key findings included failure to:

- Detect two material errors in the audited financial statements. This included cash deposits in the primary statements being overstated by £1.7 billion. This was caused by an error in accounts preparation that was not present in underlying records or the notes to the accounts.
- Detect material errors and disclosure omissions in the audited financial statements, including the loss on disposal of non-current assets being overstated by £45 million. This was caused by incorrect adjustment of an audit difference.
- Evaluate the impact of unadjusted audit differences on each line item in the financial statements. Based on the unadjusted audit differences that the auditor reported to the Audit Committee, operating expenses were materially misstated. Operating expenses were the benchmark used by the auditor to set its materiality level.

**AQR identified material errors in two sets of audited financial statements.**

**On one audit, the unadjusted audit differences reported to the Audit Committee were material.**

## Ensure there is sufficient justification to support modification of an audit opinion

An auditor forms an opinion on the financial statements by evaluating the audit evidence obtained, modifying their report if sufficient audit evidence cannot be obtained to conclude that the financial statements are free from material misstatement. Audit teams must ensure that modified audit opinions are supported by clear reasoning that is consistent with the underlying audit evidence.

### Key findings



We identified weaknesses in the justification supporting modified audit opinions on two audits, one of which was assessed as requiring limited improvements. We reported a similar finding at a different firm last year.

One audit was assessed as requiring significant improvements because there was insufficient justification for modifying an audit opinion. The audit opinion was modified due to an inability to obtain sufficient appropriate evidence over inventory. The auditor was unable to attend management's inventory stock counts. Alternative procedures, including the auditor's own independent inventory count at balance sheet date, were performed over part of the inventory held with no issues arising. The residual inventory balance was not material. No consideration was given to how undetected misstatements could possibly be material.

## Improve the quality of audit procedures over pension asset valuation

Investment asset valuations and return on investments are key drivers of the net assets available to fund pension benefits. Both are key performance indicators on which management and other users of the financial statements focus. The valuation of investments can be highly complex, particularly when there is an absence of quoted prices in active markets. Audit teams must perform sufficient procedures to assess the reasonableness of asset valuations, including adequately evaluating the use of, and conclusions from, service auditor reports.

### Key findings



We raised findings on two audits, one requiring more than limited improvements. Findings that required improvements included:

- Insufficient evidence was obtained that the valuation of investment assets classified at Level 2 was materially accurate. The primary substantive procedure over the valuation of these assets was to compare valuations obtained from the custodian to those provided directly by fund managers. Considerable assurance was taken when they agreed, on the basis that both parties performed completely independent valuations. There was insufficient evidence that these valuations were independent.

On one audit, there was insufficient justification for modifying an audit opinion.

- Insufficient evidence was obtained to rely on the valuation controls at fund managers. The service auditor reports received for two fund managers were not evaluated. The service auditor reports received for eight of the other nine fund managers were inaccurately evaluated, with the auditor reaching the incorrect conclusion that there were no relevant valuation processes or controls in place.
- There was no evidence that audit procedures were performed to test the accuracy of the return on investments, comprising profit on disposal of investments and changes in market value of investments. The return on investments was highly material.

We reported good practice in this area at a different firm.

### **Continue to improve the evaluation and challenge of assumptions used in investment property valuations**

Accurate valuation of investment property provides users of the financial statements with assurance over a body's stewardship of public money. Valuations can assist users in holding bodies accountable for the decisions made when investing public money in property.

The valuation of investment property is complex and involves the use of assumptions and the application of judgement. Auditors should evaluate and challenge those assumptions which could have a material effect on valuations.

#### **Key findings**



We raised findings on two audits, one requiring more than limited improvements. On one audit, improvements were required due to insufficient evaluation and challenge of key assumptions used in the valuation of investment property. We reported good practice in this area on other audits at the same firm.

## Improve the quality of audit procedures over the valuation and classification of financial assets

Some councils have become increasingly commercial. The nature and value of material one-off items should be presented in a way that is helpful to users of the financial statements. Auditors are expected to obtain appropriate audit evidence that material items are valued appropriately.

Classification of financial assets is important in understanding liquidity and ensuring accurate presentation of the cash flow statement. Auditors are expected to appropriately test classification.

### Key findings

We identified weaknesses on five audits, two of which required more than limited improvements:

- On one audit, improvements were required due to insufficient consideration and challenge of the financial model supporting the valuation and classification of a long-term debtor.
- On another audit, there were insufficient procedures to conclude on classification of financial assets as short-term investments or cash and cash equivalents.

## Continue to enhance audit procedures over expenditure

Auditors should undertake appropriate procedures to test the accuracy and occurrence of expenditure. The validity of recorded expenditure is important to users of the accounts as financial planning, including savings plans, is based upon it. Previously, we reported that the firms needed to address deficiencies in the audit work on expenditure.

### Key findings

We inspected the testing of expenditure on most of the audits inspected. The quality of audit work inspected has improved. However, we identified ten audits that required limited improvements across all six firms, including:

- On two audits, there was no testing of the completeness and accuracy of source data when performing substantive analytical procedures.
- On another audit, there were arithmetical errors when performing substantive analytical procedures.
- On a further audit, there were weaknesses in the supporting evidence obtained when testing employee benefits. In particular, where differences between amounts paid and supporting records provided by management were identified.
- On an additional audit, no roll-forward procedures were undertaken when testing the operating effectiveness of controls at an interim date.
- On the same audit, there were weaknesses when testing the operating effectiveness of automated controls.

## Continue to enhance the testing of journal entries

Management override of controls is presumed to be a significant risk and a fraud risk on all audits. The level of risk varies, but this risk is present in all entities and appropriate testing should be performed. Auditors are required to design an appropriate response to this risk, which must include testing of journal entries. When selecting journals for testing, auditors consider identifying characteristics that fraudulent journals often have.

### Key findings



The quality of audit work inspected has improved. However, we identified five audits that required limited improvements across three firms, including:

- On one audit, testing was not performed as planned for two of ten identifying characteristics because the auditor entered incorrect date ranges into the firm's journals software when running reports.
- On the same audit, journals recorded in the 20-day period after year end were tested because the auditor expected that to be the closedown period. The period covered by this testing should have been extended to three months after year end to align with the actual closedown period.
- On two further audits, journal entries with the characteristics identified by the auditor were not tested for appropriate business rationale or authorisation.

## Implement measures to improve audit quality in response to other issues driving lower audit quality assessments

### Key findings



On one audit assessed as requiring improvements, we identified deficiencies in the testing performed over business rates. Findings included that:

- Material debtors and creditors were not appropriately tested.
- A sufficiently precise expectation was not set when performing substantive analytical procedures over business rates income.
- There was insufficient evaluation of key assumptions used by management's expert when valuing the provision for business rate appeals.

## Good practice



We identified examples of good practice in the audits inspected, including the following:

### Risk assessment and planning

Timely risk assessment and planning is important to ensure the audit team tailor an effective audit approach which responds to those risks.

- **Fraud risk assessment:** The audit team's fraud risk assessment demonstrated a good understanding of the sector and financial pressures at the council. Because of the incentive for management to manipulate its reserves position, the audit team identified fraud risks for revenue expenditure funded from capital under statute, minimum revenue provision and the flexible use of capital receipts. The audit team appropriately designed tests of details to address these risks.

### Execution

The execution of an audit plan needs to be individually tailored to the facts and circumstances of the audit.

- **Use of an expert to assist audit property valuations:** The audit team appropriately evaluated the competence, capabilities and experience required to audit a highly specialised property. It engaged an auditor's expert to provide support in testing the valuation, which enhanced the team's audit evidence in this higher-risk area.
- **Evaluation of assumptions used in investment property valuations:** The audit team's testing of yields was particularly robust and included evaluation of the comparators used by management's valuer against third-party market data. Where appropriate, the audit team demonstrated challenge of management's valuer.
- **Challenge of management:** The audit team demonstrated rigour when challenging the assumptions made in setting the business rates appeals provision, in particular by benchmarking to other councils. The audit opinion was ultimately qualified as the auditor was unable to obtain sufficient appropriate audit evidence over the amount of the provision.

### Completion and reporting

The completion and reporting phase of an audit is an opportunity to stand back and assess the level of work performed against the audit plan and ensure that the reporting of the outcome of the audit is appropriate and timely.

- **Evaluation of errors identified in testing:** The audit team robustly followed up on errors identified in its additions testing by extending its sample and challenging management to recognise a prior-year adjustment.
- **Consultation:** The audit team consulted with an internal panel of senior public sector specialists on the sufficiency and appropriateness of the audit procedures performed over a subsidiary whose financial performance had deteriorated in the year. There was clear evidence of challenge by the audit team in areas such as the disclosure of events after the balance sheet date and parent company guarantees.

Good practice examples included effective use of experts and internal consultation with senior public sector specialists on higher-risk matters.

## The auditors' work on Value for Money arrangements

### Urgently improve audit documentation, archiving and engagement with the FRC

Sufficient and appropriate evidence serves a number of important purposes, including making the engagement team accountable for its work and enabling the conduct of audit quality inspections in accordance with applicable regulatory requirements. Audit firms are expected to finalise and archive their evidence and comply with regulatory requests.

#### Key findings



We identified findings on one inspection where significant improvements were required. Key findings included significant weaknesses in the audit team's evidence of procedures undertaken and its engagement with the FRC. In particular:

- The evidence on the VfM audit file was not finalised.
- The working papers and audit procedures on the VfM audit file were not reviewed.
- The VfM audit file was not archived.
- The firm incorrectly informed us that the VfM audit file had been archived before we selected it for inspection.
- A member of the audit team made changes to the VfM audit file after we had notified the firm of our inspection. This issue appears to be isolated.

**On one inspection, changes were made to the VfM audit file after we notified the firm of our inspection. This is unacceptable.**

#### Other findings



This year we inspected the auditors' work on VfM arrangements at 14 bodies and identified findings on six inspections across five firms, including:

- On one inspection, the audit team should have considered the council's group and commercial activities in its risk assessment and commentary.
- On another inspection, the reporting of a significant weakness in arrangements should have more clearly explained the nature and extent of the weakness identified, and the recommendation for improvement should have addressed all relevant matters.
- On a further inspection, the audit team reported that it had undertaken additional procedures that were not performed. Instead, the auditor relied on a regulator's monitoring visit. The auditor's reporting should have made clear the extent to which its conclusions relied on the findings of a regulator's monitoring visit instead of its own additional procedures.

None of these findings were assessed as significant enough to require more than limited improvements. They are, however, areas that all firms should maintain a focus on in future.



## Good practice



We identified examples of good practice in the inspections we performed, including the following:

- **Good integration with the financial statements audit:** The financial statements audit identified issues with the accounting for private finance initiatives, including payments made to the contractor for assets that had not been received. Integration with the financial statements audit work resulted in the identification of a significant weakness in contracting arrangements and recommendations for improvement being made.
- **Timely reporting:** On one inspection, a timely update was provided to the Audit Committee when a significant weakness in arrangements was identified. The audit team issued an addendum to its audit plan highlighting the issues identified, its updated risk assessment and the proposed changes to the audit strategy.
- **The Auditor's Annual Report:** On four inspections, the auditor's reporting was comprehensive, well-structured, and made good use of benchmarking data. Communication was clear, including the nature of significant weaknesses identified and their impact on the entity.
- **Consultation:** On one inspection, the audit team consulted with an internal panel of senior public sector specialists to determine if the identified significant weaknesses in arrangements required the auditor to exercise its additional powers and duties. There was clear explanation of their reasoning and conclusion for why this was not required.

## Review of the firms' quality control and review procedures

We review firm-wide procedures based on those areas set out in International Standard on Quality Control (ISQC) 1, in some areas on an annual basis and others on a three-year rotational basis. Our firm-wide work covered all six firms completing major local audits. The table below sets out the areas that we have covered this year and in the previous two years.

Annual	Current year 2021/22	Prior year 2020/21	Two years ago 2019/20
<ul style="list-style-type: none"> <li>• Audit quality focus and tone of the firm's senior management</li> <li>• Root cause analysis (RCA) process</li> <li>• Audit quality initiatives, including plans to improve audit quality</li> <li>• Complaints and allegations processes</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of the FRC's Revised Ethical Standard (2019)</li> <li>• EQCR, consultations and audit documentation</li> <li>• Audit methodology</li> <li>• Internal quality monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Audit methodology (recent changes to auditing and accounting standards)</li> <li>• Training for auditors</li> </ul>	<ul style="list-style-type: none"> <li>• Partner and staff matters, including performance appraisals and reward decisions</li> <li>• Acceptance and continuance (A&amp;C) procedures for audits</li> </ul>

The key findings and good practice identified are reported in each firm's 2022 Audit Firm Specific Report on public interest entity audits.<sup>5</sup>

We extend our work on the firms' quality control and review procedures, where necessary, to cover matters specific to local audit and report the findings here. This work primarily focused on:

- RCA process and audit quality initiatives.
- EQCR, consultations and audit documentation.
- Audit methodology (property valuations and going concern).

The reason for the focus on audit quality initiatives and RCA is the importance of taking effective action to address recurring inspection findings.

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## Root cause analysis process and audit quality initiatives

Firms are expected to develop audit quality plans (AQPs) that drive measurable improvements in audit quality and include initiatives which respond to identified quality deficiencies, as well as forward-looking measures which contribute directly or indirectly to audit quality.

The RCA process is an important part of a continuous improvement cycle designed to identify the causes of specific audit quality issues (whether identified from internal or external quality reviews or other sources) so that appropriate actions may be designed to address the risk of repetition. All firms have been performing RCA for several years. We reviewed the firms' RCA processes last year and assessed changes, including responses to our previous findings, in the current year.

The key findings and good practice identified are reported in each firm's 2022 Audit Firm Specific Report on public interest entity audits.

We will continue to assess each firm's RCA process. We encourage all firms to develop their RCA techniques further as well as focus on measuring the effectiveness of the actions taken as a result.

We reviewed the RCA on all local audits where we had identified more than limited improvements in our last inspection cycle. All four of the firms impacted use the same RCA process as on public interest entity audits. The four firms developed actions to address our findings. We performed the following:

- Ensured actions were coherent and clear on how they would deliver continuous improvement and enhanced audit quality, linking to our findings.
- Assessed whether they included evaluation of required training.
- Conducted follow-up meetings with firms to discuss and challenge aspects of the RCA process and subsequent actions taken to improve audit quality.
- Considered, in hindsight, the efficacy of the RCA process and the actions taken with reference to current year inspection findings.

We observed improvements at firms that were linked to the implementation of AQPs. Where we found recurrent key findings at the same firm, further commentary is provided in Section 3.

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5 Audit firm specific reports on public interest entity audits can be found [here](#)

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## Engagement Quality Control Review, consultations and audit documentation

An EQCR is required to be an objective evaluation, by a suitably qualified audit practitioner, of the significant judgements made by the audit team. The reviews are completed on public interest entities and other heightened risk audits before the audit report is signed.

Our review evaluated the six firms' policies and procedures for the appointment of EQCR reviewers to local audits. All firms appoint an EQCR reviewer dependent on quality risk. Additionally, three of the firms appoint an EQCR reviewer to all major local audits. In aggregate, 59% of major local audits had EQCR involvement compared to less than 1% of other local audits.

### Key findings

Our key finding related to the need for each firm to:

- Ensure that the appointment of EQCR reviewers is appropriately focused on quality risks, including at non-major local audits.

We recognise that a firm's response to identified quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, a firm's response may include reviews of the engagement team's procedures relating to certain risks, or significant judgements, by personnel who have specialised technical expertise.

Consultation with a firm's central functions, on difficult or contentious matters, enables auditors to be guided by the collective experience and technical expertise of the firm. We reviewed the firms' policy for areas where mandatory local audit specific consultations are required. We had no key findings in this area.

Audit documentation comprises the evidence obtained and conclusions drawn during an audit. Archiving ensures that the documentation is maintained, should it be needed in the future. We reviewed the firms' arrangements relating to the assembly and timely archiving of final audit files, and the monitoring and approval of changes made to audit files after the signing of the audit report.

### Key findings

We identified the following key finding at an individual firm:

- On one inspection, we identified that the audit file supporting the auditor's work on VfM arrangements had not been archived. The firm's controls failed to identify that this audit file was not archived. The firm must ensure that appropriate controls operate to prevent and detect the failure to archive audit files.

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## Audit methodology (property valuations and going concern)

The firms' audit methodology, and the guidance provided to auditors on how to apply it, are important elements of the firms' overall system of quality control, to help audit teams perform audits consistently and comply with auditing standards. In the current year, we evaluated the quality and extent of the firms' methodology and training relating to the audit of property valuations and going concern assessments. We had no key findings in this area although we did identify some less significant issues.

### Other findings



During our inspection visit, we identified one audit where the auditor's report contained a material uncertainty in relation to going concern. The auditor's assessment focused on financial sustainability rather than the principle of service continuity.

Our finding related to the need for an individual firm to:

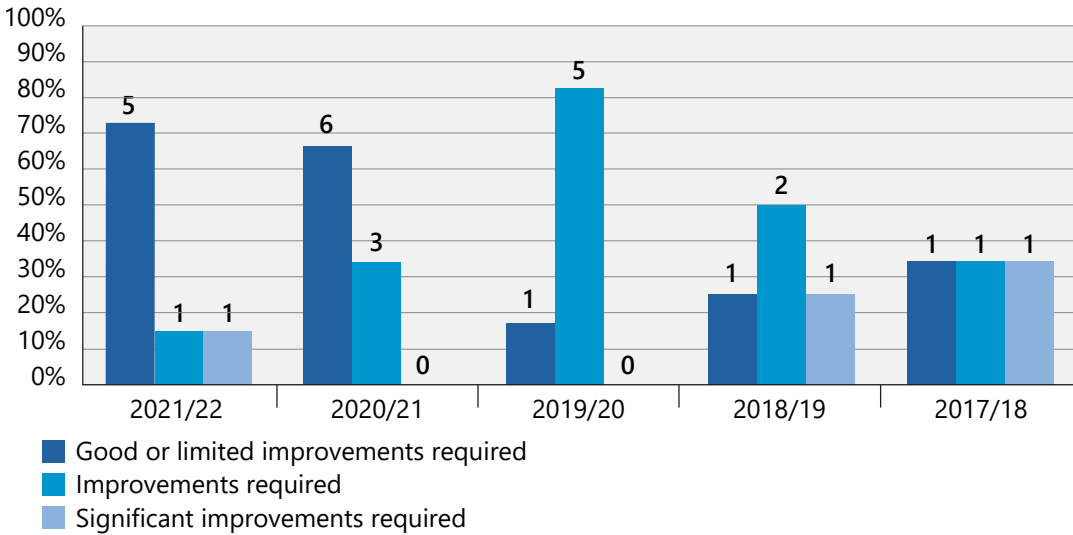
- Ensure that the standardised work programmes used by local auditors are suitably tailored to the sector, including the continued provision of service approach.

### 3 Review of individual firms

In this section, we set out our assessment of the six firms that perform major local audits. We completed at least two audit inspections at each firm.

#### Grant Thornton UK LLP

##### Our assessment of the quality of financial statement audits reviewed



Given the sample sizes involved, changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firm. Further details are set out on page 8.

We assessed 71% of financial statement audits as requiring no more than limited improvements compared with 67% in the previous year and 23% on average in the preceding three years.

While there has been an overall improvement, it is unacceptable that one financial statement audit we inspected was found to require significant improvements and another required improvements. Urgent and robust action is required to address these findings and to ensure that they do not recur.

We inspected the auditor's work on VfM arrangements at four bodies; all inspections were assessed as requiring no more than limited improvements (the same as the previous year).

The firm performed RCA on the three financial statement audits assessed as requiring more than limited improvements in the previous inspection cycle. AQR reviewed the RCAs and the firm's Public Sector Quality Investment Plan (PSQIP), which incorporated the firm's responses.

**71%**

At Grant Thornton UK LLP, five of the seven audits inspected were assessed as either good or limited improvements required.

**100%**

At Grant Thornton LLP, all four VfM arrangements inspections were assessed as good or limited improvements required.

Our selection of audits to inspect included higher-risk 31 March 2020 audits that we had been unable to inspect in our previous inspection cycle due to the timing of auditor's reports. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus.

This year, on one audit we inspected, we identified a recurrent key finding. It related to insufficient evaluation and, if necessary, challenge of significant assumptions in investment property valuations. AQR reviewed the firm's response to our previous finding, which was primarily the provision of training to practitioners. This training was provided after the audit on which we identified the recurrent finding was complete. We also identified good practice in this area on two other audits, indicating an element of inconsistency across the audits we inspected. As evaluation and, if necessary, challenge of key assumptions in investment property valuations is a recurring issue for the firm, it must take action to understand the root cause of continuing deficiencies and develop further actions to address inconsistency between audits.

## Key findings



Significant improvements were required to one audit. Findings included:

- Financial statement review procedures were inadequate and ineffective. They did not identify two material errors in the audited financial statements. This included cash deposits in the primary statement being overstated by £1.7 billion. This was caused by an error in accounts preparation that was not present in underlying records or the notes to the accounts.
- Insufficient substantive evidence was obtained that the valuation of pension assets was materially accurate.
- Insufficient evidence was obtained to rely on the valuation controls at fund managers when testing the valuation of pension assets.
- There was no evidence that audit procedures were performed to test the accuracy of the profit on disposal of investments and changes in their market value.

On a further audit, improvements were required:

- Insufficient testing was performed over business rates. The audit team did not:
  - Appropriately test business rates debtors and creditors.
  - Set a sufficiently precise expectation for the substantive analytical procedure on business rates income.
  - Evaluate the reasonableness of significant assumptions when concluding on the material accuracy of the business rates appeals provision.
- There was insufficient evaluation and, if necessary, challenge of the reasonableness of significant assumptions in investment property valuations.

The firm must take urgent and robust action to address these findings, including:

- Performing a full RCA for both audits assessed as requiring more than limited improvements. This must establish the reasons for poor audit quality and how consistent high audit quality will be achieved. This must include actions to promote greater consistency between audits.
- Considering the results from its internal monitoring and of inspections performed by ICAEW to establish if there are any other areas of concern.
- Updating its ongoing PSQIP for all findings and required actions from this inspection cycle.

For the inspection assessed as requiring significant improvements, the firm has commenced these actions by providing us with their RCA, prior to our final report on the inspection being issued.

AQR will continue to test the efficacy of the firm's actions in its PSQIP in our next inspection cycle, where we may also select higher-risk audits that we were unable to inspect this year due to the timing of auditor's reports.

### Good practice



Good practice points were identified on three financial statement audits, including:

- Robust evaluation of errors in additions testing and challenge of management to recognise a prior year adjustment.
- Consultation on the sufficiency of audit procedures and disclosures for a subsidiary whose financial performance had deteriorated in the year.
- Use of an auditor's expert to help audit certain key assumptions in investment property valuations, in a manner that was proportionate to risk.
- Robust testing of key assumptions used in investment property valuations against third-party market data. Where appropriate, the audit team demonstrated appropriate challenge of management's expert.

Good practice points were identified on all four VfM arrangements inspections, including:

- Consultation with an internal panel of senior public sector specialists to determine if the identified significant weaknesses in arrangements required the auditor to exercise its additional powers and duties. There was clear explanation of the reasoning and conclusion for why this was not required.
- Comprehensive evidence of the team's work, evaluation and conclusions supporting the risk assessment and additional procedures.
- Comprehensive well-structured reporting that made good use of benchmarking data. Clear communication, including the nature of significant weaknesses identified and their impact on the entity.





## Monitoring review by the Quality Assurance Department of ICAEW

### Assessment of the quality of audits reviewed of Grant Thornton UK LLP

Overall, the audit work ICAEW reviewed was of a good standard. Seven of the eight files reviewed were either good or generally acceptable, but one file required improvement.

ICAEW concluded that one file needed improvement due to the insufficient challenge of management's expert on long-term asset valuations. This file was a 2019/20 audit and therefore, does not reflect recent improvements the firm has made in this area, following feedback from external reviews in 2020.

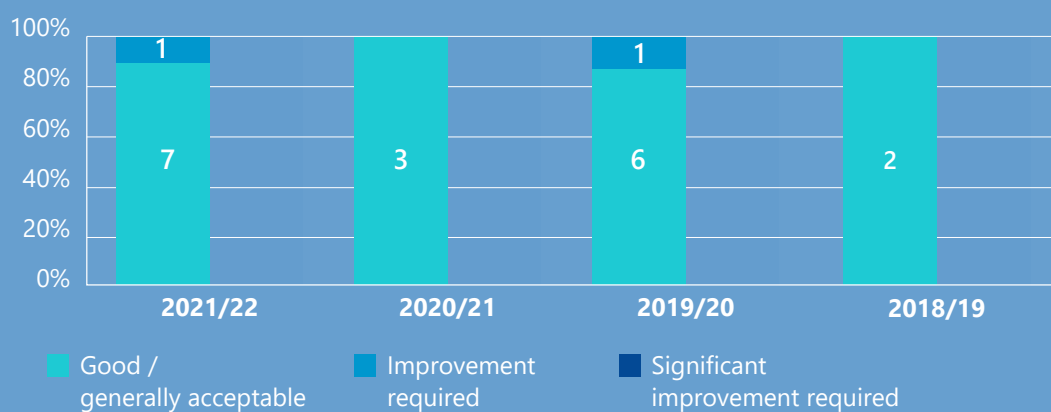
On two of the generally acceptable files, ICAEW identified some improvements needed to audit team's substantive analytical procedure on National Non-Domestic Rates (NNDR) income. ICAEW also identified an omission of a primary financial statement from the audit opinion on the file requiring improvement.

VfM work was good on each of the files reviewed, and ICAEW did not identify any issues with this aspect of the audit team's work.

ICAEW identified and shared examples of good practice across the audits. This good practice included:

- Several examples of applying high levels of professional scepticism.
- Clear and comprehensively documented work in the audit of long-term asset valuations.
- Good levels of challenge and corroboration on assessing valuer assumptions.
- Clear stratification of errors identified in PPE testing to inform the further audit work conducted.
- Comprehensive documentation of the VfM risk assessment.
- Good tailoring of improvement recommendations to reflect an impending local government reorganisation.

The results of ICAEW's financial audit reviews for the last four years are set out below



Note: Given the sample size, changes from one year to the next in the proportion of audits falling within each category cannot be relied upon to provide a complete picture of the firm's performance or overall change in audit quality.

# 88%

Of the eight ICAEW financial audit reviews, seven were either good or generally acceptable.

## Firms response to AQR and QAD inspections



It is pleasing to see that the investment our Firm has made in improving the quality of our audit work has been recognised by the FRC with 71% of financial statements audits requiring no more than limited improvements compared to 67% last year and an average of only 23% in the preceding three years. With the significant change in the work on VfM introduced by the new Code we are delighted that 100% of the VfM reviews were assessed as either Good or only requiring limited improvements, which maintains our track record in this aspect of our work from previous years. We are equally pleased that a large number of the files reviewed have also had areas of good practice identified across different aspects of our work.

Similarly, the QAD reviews concluded that 88% of our financial audit files reviewed in year met the required standard, with only one file (which related to a prior year audit that commenced before much of the enhanced training and documentation had been introduced) being assessed as 'improvement required'. It is pleasing to see that the QAD similarly identified that all of the five VfM files reviewed were good, with no issues identified. Again, QAD identified a number of good practice areas across the majority of our files.

We fully recognise that any file not achieving the required standard is not only disappointing but highlights that there is still work to do to ensure that our high quality standards are replicated across all of our audits. However, as demonstrated by the outcomes of our other external file reviews summarised within this report and our own internal file reviews, the majority of reviews are assessed as either good or only requiring limited improvement. We have responded promptly to the emerging findings of the file assessed by the FRC as requiring significant improvements by undertaking detailed root cause analysis as soon as we were aware that there were issues and well before the file review was finalised. We shared this with the FRC as part of our response to their draft report, reflecting how seriously we have taken this issue and our commitment to implement actions that will enhance future audit quality. A similar process will be followed for the two files assessed as 'Improvement required' by the FRC and QAD.

In addition to the root cause, regular 'lessons learnt' communications have been published and promoted for all team members to access and there has been training delivered to all teams on the key findings of the FRC and QAD reviews. In addition, specific mandatory training has been delivered in each of the key areas of property valuations, including the specific risks around investment property valuations, and the audit of Pension Funds, including the valuation of different categories of investments. New guidance and example working papers have been developed and shared on key areas such as business rates. All emerging issues and themes from both external and internal quality reviews are reported to the monthly Public Sector Audit (PSA) Quality and Financial Reporting Board by our Director & PSA Head of Audit Quality Regulation, to ensure a timely response to any development or changes required to our audit approach.

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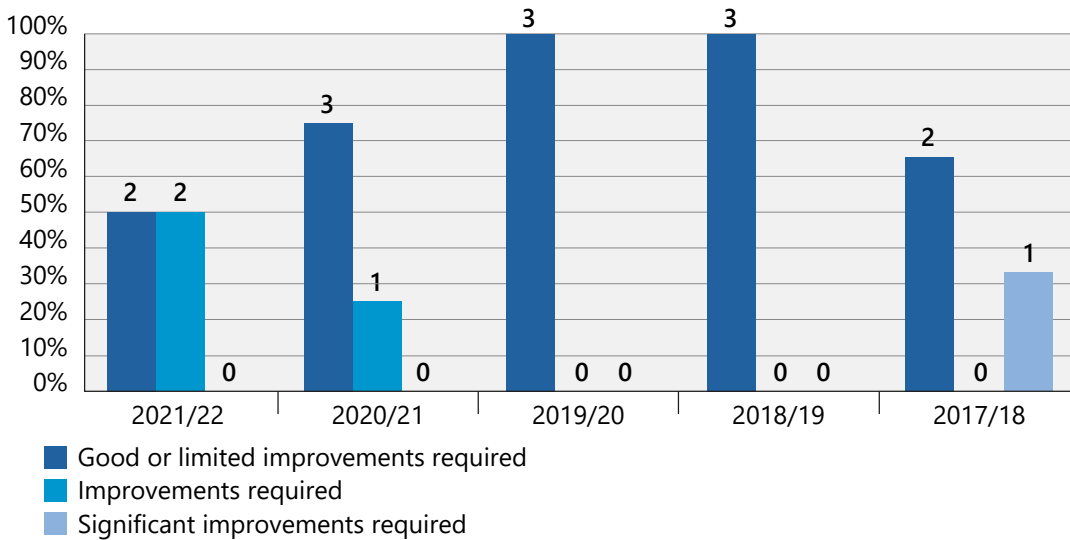
The key issue on the file identified as 'Significant Improvement Required' by the FRC relates to a transposition error in the production of the financial statements. The correct values were reported in the supporting note which was referenced within the primary statements. As soon as the issue was identified we engaged with the audited body to have the error corrected. We accept that our procedures should have identified and corrected this error. We will ensure appropriate checks are undertaken between the version of the accounts used by ourselves to undertake audit testing and the final version on which our audit opinion is given. We have also introduced the requirement for auditors to perform additional checks on the version published by the audited body.

The firm's internal quality reviews of PSA files concluded in late September 2022 and identified similar themes to both the FRC and QAD. We have now launched a root and branch review of guidance and template working papers to ensure that they are providing the necessary support to audit teams to enable high quality audits to be delivered and clearly evidenced. The extent of our use of External Quality Control Reviewers (EQCRs) and Quality Support Teams (QST) inputs is being reviewed and enhanced as both of these roles act to enhance the quality of our work on complex audits. Our central quality support teams are also proactively engaging with Key Audit Partners and audit teams on a more regular basis to ensure that emerging themes are detected and discussed at the earliest possible stage.

We recognise the importance of continuous improvement and have taken prompt action to ensure that the learning from file reviews is shared with audit teams in a timely way. We are disappointed that our work did not meet the required standards in all instances and will continue to strengthen our procedures and training to limit the risk of this reoccurring.

## Ernst & Young LLP

### Our assessment of the quality of financial statement audits reviewed



Given the sample sizes involved, changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firm. Further details are set out on page 8.

We assessed 50% of financial statement audits as requiring more than limited improvements compared with 25% in the previous year and 24% on average over the past five years.

It is concerning that two financial statement audits we inspected were found to require improvements. Robust action is required to address these findings.

All three VfM arrangements inspections were assessed as good or limited improvements required (all good or limited improvements required in 2020/21).

The firm performed RCA on the one financial statement audit assessed as requiring more than limited improvements in the previous inspection cycle. AQR reviewed the RCA and the actions taken in response to our finding. We identified no recurrent key findings at the firm that would cast doubt on the efficacy of actions taken to address previous findings.

Our selection of audits to inspect included one higher-risk 31 March 2020 audit that we had been unable to inspect in our previous inspection cycle due to the timing of the auditor's report. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus.

# 50%

At Ernst & Young LLP, two of the four audits inspected were assessed as requiring more than limited improvements.

# 100%

At Ernst & Young LLP, all three VfM arrangements inspections were assessed as good or limited improvements required.

## Key findings



The key findings in this inspection cycle were:

- On one audit, there were insufficient procedures to conclude on classification of financial assets as short-term investments or cash and cash equivalents.
- On another audit, insufficient consideration and challenge of the valuation of a loan, its classification as a long-term debtor, or group boundary implications. This resulted in a lack of evidence that the valuation of the loan was materially accurate or that its classification as long-term was appropriate.

The firm must take robust action to address these findings, including:

- Performing a full RCA for each audit assessed as requiring more than limited improvements. This must establish the reasons for poor audit quality and how consistent high audit quality will be achieved.
- Considering the results from its internal monitoring and of inspections performed by ICAEW to establish if there are any other areas of concern.

AQR will test the efficacy of the firm's actions in our next inspection cycle, where we may also select higher-risk 31 March 2021 audits that we were unable to inspect this year due to the timing of auditor's reports.

## Good practice



A good practice point was identified on one financial statements audit:

- The audit team's fraud risk assessment demonstrated a good understanding of the sector and financial pressures at the council. Because of the incentive for management to manipulate its reserves position, the audit team identified fraud risks for revenue expenditure funded from capital under statute, minimum revenue provision and the flexible use of capital receipts. The audit team appropriately designed tests of details to address these risks.

A good practice point was identified on one VfM arrangements inspection:

- On one inspection, a timely update was provided to the Audit Committee when a significant weakness in arrangements was identified. The audit team issued an addendum to its audit plan highlighting the issues identified, its updated risk assessment and the proposed changes to the audit strategy.



## Monitoring review by the Quality Assurance Department of ICAEW

### Assessment of the quality of audits reviewed of Ernst & Young LLP

Overall, the audit work ICAEW reviewed was of a good standard. Of the eight files reviewed, seven were either good or generally acceptable, but one file required significant improvement.

In the file needing significant improvement, the audit team needed to improve the work done to assess the classification of certain assets as investment properties and whether the negative investment property valuations were appropriate and complied with accounting standards. Improvement is also required on the same file in relation to the audit team's consideration of the cashflow statement, with our review identifying two material errors.

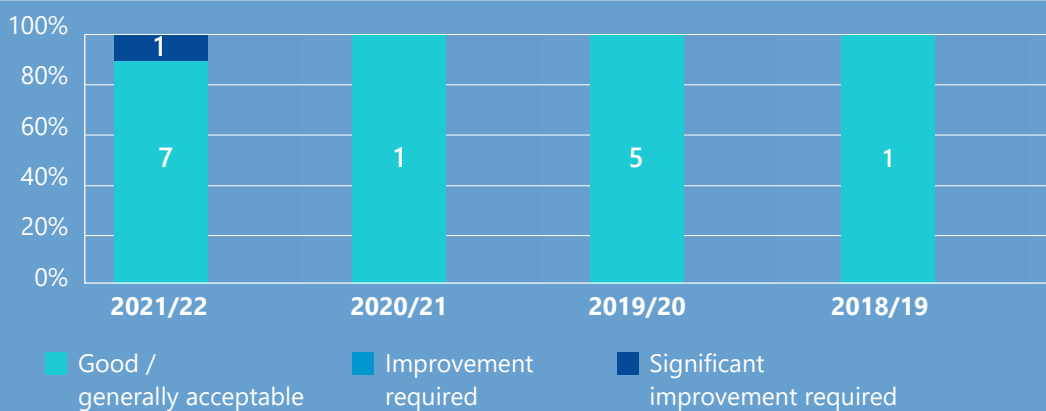
On four of the generally acceptable files, ICAEW identified improvements needed to financial statement disclosure. On two files, accumulated depreciation hadn't been 'zeroed' following a formal revaluation, while on a further two files there were misstatements in the defined benefit pensions scheme disclosure. Other findings (on two files) saw isolated improvements needed in relation to the audit evidence obtained.

VfM work was good on each of the files reviewed, and ICAEW did not identify any issues with this aspect of the audit team's work.

ICAEW identified and shared examples of good practice across the audits. This good practice included:

- The scope and strategy section of the audit file being well-documented, demonstrating a good understanding of the audited entity.
- Good consideration of the risks of fraudulent revenue recognition.
- Clear documentation of the impact of the COVID-19 pandemic.
- Clear and succinct consideration by the audit team of matters identified in the consulting actuaries' report.
- Good use of publicly available information to test the classification of assets.

The results of ICAEW's financial audit reviews for the last four years are set out below



Note: Given the sample size, changes from one year to the next in the proportion of audits falling within each category cannot be relied upon to provide a complete picture of the firm's performance or overall change in audit quality.

# 88%

Of the eight ICAEW financial audit reviews, seven were either good or generally acceptable.

## Firm's response to AQR and QAD inspections



The positive results of nine out of twelve of the financial statement reviews and 100% of the value for money arrangements reviews conducted by the FRC and ICAEW's QAD this year reflect the hard-work and dedication of our team of local audit specialists, and reflect the effort and investment that we continue to make in delivering consistently high-quality audits. We are pleased that examples of good practice were identified across these files and welcome the insights and recommendations on areas for improvement noted in this report.

We are disappointed that three of the engagements reviewed by the FRC and ICAEW's QAD this year fell short of the high audit quality standards that we set ourselves and that our regulators and other stakeholders rightly expect from us.

We have begun the root cause analysis process and will be sharing lessons learnt (both positive and negative) and actions taken in response to the RCA with the audit practice to improve audit quality more broadly.

We are also developing training which communicates the details of the findings, and supports teams in avoiding similar challenges in future engagements.

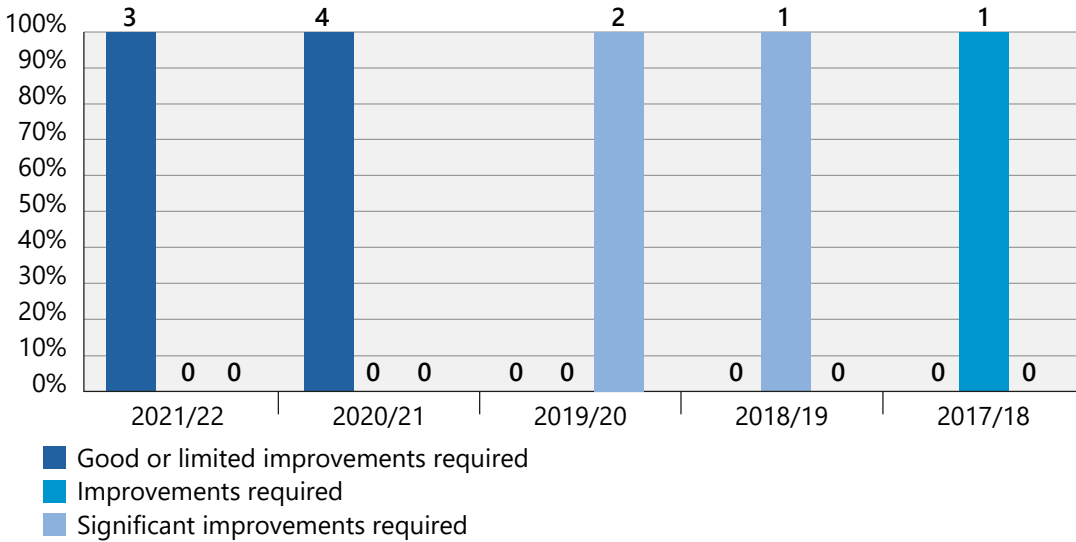
In addition to these specific responses to the findings highlighted, we also continue to evolve our Audit Quality Strategy to enable our people to concentrate their efforts in the right places to drive consistent high quality, whilst maintaining an emphasis on wellbeing. Our refreshed strategy includes renewed focus on:

- Greater standardisation and simplification;
- More effective coaching; and
- Rebalancing and reducing workloads.

We are encouraged that the key findings identified in previous years, particularly in relation to the audit of asset valuations, have not re-occurred this year following our timely intervention and ongoing efforts to support teams in this complex area. The FRC have noted that they have "identified no recurrent key findings at the firm that would cast doubt on the efficacy of actions taken to address previous findings." We have confidence that the actions that we have taken to date have been effective, and are committed to consistently delivering high quality audits that serve the public interest.

## Mazars LLP

### Our assessment of the quality of financial statement audits reviewed



Given the sample sizes involved, changes from one year to the next cannot, on their own, be relied upon to provide a complete picture of a firm's performance and are not necessarily indicative of any overall change in audit quality at the firm. Further details are set out on page 8.

The firm has maintained the significant improvement in audit quality results compared to its performance prior to 2020/21. We assessed 100% of financial statement audits as requiring no more than limited improvements compared with 100% in the previous year and nil on average in the preceding three years.

In response to previous improvements in quality results, AQR considered it appropriate to decrease the number of audit inspections to three. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus.

All three VfM arrangements inspections were assessed as requiring no more than limited improvements (all good or limited improvements required in 2020/21).

In our next inspection cycle we may select higher-risk 31 March 2021 audits that we were unable to inspect this year due to the timing of auditor's reports.

# 100%

At Mazars LLP, all three financial statement audits inspected were assessed as good or limited improvements required.

# 100%

At Mazars LLP, all three VfM arrangements inspections were assessed as good or limited improvements required.



## Good practice



Good practice points were identified on two financial statement audits, including:

- Robust testing of key assumptions used in property valuations against third-party market data. Where appropriate, the audit team demonstrated appropriate challenge of management's expert.
- Use of an auditor's expert to review investment property valuations, in a manner that was proportionate to risk.

Good practice points were identified on two VfM arrangements inspections, including:

- Comprehensive evidence of the team's work, evaluation and conclusions supporting the risk assessment and additional procedures.

## Firm's response to AQR inspections



We welcome the results of the FRC's inspection of our 2020/21 local audit work. We are passionate about delivering high-quality audit to public bodies for the benefit of the communities they serve. Our positive results over the last two inspection cycles demonstrate the efficacy of the investments we have made and are testament to the hard work and commitment of our teams.

Our work on VfM arrangements is a key part of the local audit and we are pleased that the FRC identified good practice in the way we document and evidence this work. We are also pleased the FRC continues to recognise good practice in our approach to auditing the valuation of property assets, reflecting the investments we have made to support our teams in this key area.

Notwithstanding these strong results, we remain committed to the continuous improvement of our local audit work and we will continue to drive forward our audit quality agenda. This remains the responsibility of our Key Audit Partners, reflecting our commitment to setting an appropriate "tone from the top" with regard to audit quality. We will consider the actions required to address the limited improvement areas identified in this year's FRC inspections and from our own internal quality reviews. We will also look to learn more from the good practice identified to understand the principal drivers for the high-quality work and share this across our audit service line.

## KPMG LLP, BDO LLP, Deloitte LLP and PricewaterhouseCoopers LLP

We previously inspected a single audit at each firm so aggregated the inspection results into one graphical summary to avoid publicly identifying the results of individual inspections.

PricewaterhouseCoopers LLP no longer perform any major local audits so are not currently in scope of our inspection activity. AQR increased the number of audits inspected at the other firms to two. Performing more than one inspection at each firm allows us to individually report on each firm and responds to previous audit quality results at some of the firms.

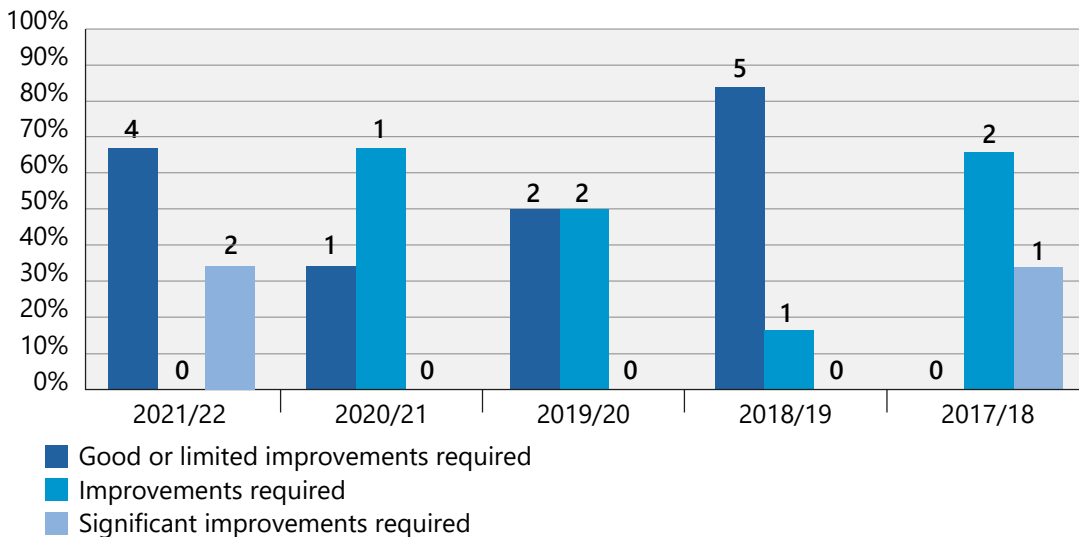
The graph below aggregates the results of the financial statement audits we inspected. This allows us to present comparators without publicly identifying the results of individual inspections.<sup>6</sup>

Care is required in interpreting these results. The grade profile of our inspection findings may not be representative of audit quality at individual firms or across the whole portfolio of audits performed by this group of firms.

PricewaterhouseCoopers LLP do not currently have any major local audits so are no longer in scope of our inspection activity.

AQR increased the number of audits inspected at the other firms to two. This allows us to individually report findings at each firm.

### Our assessment of the quality of financial statement audits reviewed



The results of each firm's 2021/22 audit inspections are presented individually below.

<sup>6</sup> In 2020/21 and 2021/22, three firms were inspected. No inspections were performed at PricewaterhouseCoopers LLP.

In 2019/20, all four firms were inspected.

In 2018/19, three firms were inspected. No inspections were performed at PricewaterhouseCoopers LLP.

In 2017/18, two firms were inspected. No inspections were performed at PricewaterhouseCoopers LLP or Deloitte LLP.

## KPMG LLP

The two financial statement audits inspected were assessed as good or limited improvements required.

The two VfM arrangements inspections were assessed as good or limited improvements required.

No individual instances of good practice were identified on these two inspections.

The firm should aim to maintain the quality of work observed and consider the results of its internal monitoring to establish if there are any areas of concern.

### Firm's response to AQR reviews



We are pleased that our continued drive and investment in audit quality has sustained our audit quality inspection results. Audit quality is at the heart of our strategy and our focus now is on embedding further, sustainable improvements across our business. Our Audit Quality Plan brings together our key priority areas to drive continuous improvements in audit quality. This year's plan includes a focus on: the continued rollout of KPMG Clara - our modern global audit system; continued investment in our "high challenge, high support" culture; and embedding changes to our Root Cause Analysis (RCA) process which drives audit quality through our aligned behaviours. We have also continued to embed changes to our governance, to help build trust in our firm and the wider profession and in readiness for International Standard on Quality Management (ISQM) 1.

## BDO LLP

Of the two financial statement audits inspected, one was assessed as requiring significant improvements and one was assessed as good or limited improvements required.

The one VfM arrangements inspection was assessed as requiring significant improvements.

It is unacceptable that two inspections were assessed as requiring significant improvements. Urgent and robust action is required to address these findings.

Our selection of audits to inspect included one higher-risk 31 March 2020 audit that we had been unable to inspect in our previous inspection cycle due to the timing of the auditor's report. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus. We identified no recurrent key findings at the firm that would cast doubt on the efficacy of actions taken to address previous findings.

# 100%

At KPMG LLP, the two financial statement audits inspected were assessed as good or limited improvements required.

# 100%

At KPMG LLP, the two VfM arrangements inspections were assessed as good or limited improvements required.

# 50%

At BDO LLP, one of the two financial statement audits inspected was assessed as requiring significant improvements.

## Key findings



The key findings in this inspection cycle were:

- On one financial statements audit, there was insufficient justification to support modification of the audit opinion. The audit opinion was modified due to an inability to obtain sufficient appropriate evidence over inventory. The auditor was unable to attend management's inventory stock counts. Alternative procedures, including the auditor's own independent inventory count at balance sheet date, were performed over part of the inventory held with no issues arising. No consideration was given to how undetected misstatements could possibly be material.
- On the same financial statements audit, the impact of unadjusted audit differences was not considered on each line item in the financial statements. Based on the unadjusted audit differences that the auditor reported to the Audit Committee, operating expenses were materially misstated. Operating expenses were the benchmark used by the auditor to set its materiality level.
- On one VfM arrangements inspection, there were significant weaknesses in the audit team's documentation, archiving and in its engagement with us as a regulator. In particular:
  - The evidence on the VfM audit file was not finalised.
  - The working papers and audit procedures on the VfM audit file were not reviewed.
  - The VfM audit file was not archived.
  - The firm did not realise that the VfM audit file had not been archived.
  - The firm incorrectly informed us that the VfM audit file had been archived before we selected it for inspection.
  - A member of the audit team made changes to the VfM audit file after we had notified the firm of our inspection. This issue appears to be isolated.

The firm must take urgent and robust action to address these findings, including:

- Performing a full RCA for each inspection assessed as requiring significant improvements. This must establish the reasons for poor audit quality and how consistent high audit quality will be achieved.
- Considering the results from its internal monitoring to establish if there are any other areas of concern.
- Updating its ongoing Public Sector Audit Quality Improvement Plan (PSAQIP) for all findings and required actions from this inspection cycle.

AQR will test the efficacy of the firm's actions in its PSAQIP in our next inspection cycle, where we may also select higher-risk 31 March 2021 audits that we were unable to inspect this year due to the timing of auditor's reports.

### Good practice



More encouragingly, good practice points were identified on two financial statement audits, including:

- Engaging an auditor's expert to provide support in testing the valuation of a highly specialised property. This enhanced the audit evidence in this higher-risk area.
- Robust risk assessment discussions among the engagement team, including Key Audit Partner-led fraud discussions, demonstrated a good understanding of the risks facing the organisation.
- Interactions and discussions with the Audit Committee were clearly recorded and evaluated to determine if additional audit procedures were required in response.

A good practice point was also identified on one VfM arrangements inspection:

- Good integration with the financial statements audit. The financial statements audit identified issues with the accounting for private finance initiatives, including payments made to the contractor for assets that had not been received. Integration with the financial statements audit work resulted in the identification of a significant weakness in contracting arrangements and recommendations for improvement being made.

### Firm's response to AQR reviews



The firm's Leadership Team, Audit Executive and Public Sector team have noted the disappointing findings from the AQR reviews of the financial statements and VfM conclusion for one major local audit. On determining the issues underlying these findings we immediately undertook robust actions and we are carrying out further actions, consistent with our overall objective of delivering high quality audits. These actions are set out below.

We were pleased to note the good practice, ie around engaging an auditor's expert, risk assessment discussions and recording and evaluating interactions with audit committees. These were all in areas where there had been a focus over the prior 12 months to improve practice and enhance audit quality. We will further review the root causes of the behaviours to enable audit teams to emulate them elsewhere. More generally we will consider all of our root cause analyses and internal monitoring and update our Public Sector Quality Improvement Plan for all findings as appropriate.

## **Financial statements audit**

With regards to the findings in relation to the Financial Statements audit, whilst we are in the process of completing a root cause analysis into the matter under our new dedicated RCA partner the indications are that the failings arose from the Key Audit Partner (KAP) in the sector concerned having insufficient personal and team resource for his portfolio.

Accordingly, subsequent to the receipt of these results we reviewed and adjusted the relevant KAP's portfolio so that he has available capacity to ensure the delivery of high quality audits. Second, the firm has not pitched or re-pitched for any further major contracts in this area. The portfolio review and the decision not to tender were undertaken as part of a wider audit stream initiative instigated by the firm's Leadership Team over the course of the last twelve months.

## **VfM arrangement assessment**

On learning that changes had been made to working papers by a member of staff we immediately carried out an urgent investigation into the matter, under the overall direction of the firm's Leadership Team. The individual concerned was suspended within three days of the FRC querying the matter with us and dismissed following completion of the investigation.

BDO's forensics team, as part of their investigation, obtained a full list of VfM engagements from the BDO Public Sector team and identified that a number of these files had not been archived and were 'locked' when the issue was identified on this VfM audit in 2022. The forensic team also reviewed these files for evidence of late amendments to working papers. No concerns of inappropriate conduct were identified from this review. The firm are satisfied, in respect of VfM work, this is an isolated incident.

The reason that the individual was able to change the working papers post finalisation was because the file had not been archived. The root cause of the files above not being archived was due to the fact that the policy in place at the time did not explicitly refer to archiving of VfM files. That policy was changed to be in place for all VfM arrangement assessments for periods beginning on or after 31 March 2022. To be clear there has always been a policy in place to archive all financial statement audit engagements.

From Q4 2022, we will also implement central oversight and monitoring of all signed opinions and conclusions to ensure timely completion of the corresponding workpaper files.

## Deloitte LLP

Of the two financial statement audits inspected, one was assessed as requiring significant improvements and one was assessed as good or limited improvements required.

The one VfM arrangements inspection was assessed as good or limited improvements required.

It is unacceptable that one of the two financial statement audit inspections identified that significant improvements were required. Urgent and robust action is required to address these findings.

Our selection of audits to inspect included one higher-risk 31 March 2020 audit that we had been unable to inspect in our previous inspection cycle due to the timing of the auditor's report. When scoping inspections, we considered previous years' findings at the firm and across the sector as areas of focus. We identified no recurrent key findings at the firm that would cast doubt on the efficacy of actions taken to address previous findings.

### Key findings



Significant improvements were required on one audit, where financial statement review procedures were inadequate and did not ensure that the financial statements were free from material errors and disclosure omissions. This included the £45 million overstatement of the loss on disposal of non-current assets caused by incorrect adjustment of an audit difference.

The firm must take urgent and robust action to address this finding, including:

- Performing a full RCA for the financial statement audit assessed as requiring significant improvements. This must establish the reasons for poor audit quality and how consistent high audit quality will be achieved.
- Considering the results from its internal monitoring to establish if there are any other areas of concern.
- Updating its ongoing Audit Quality Plan (AQP) for all findings and required actions from this inspection cycle.

AQR will test the efficacy of the firm's actions in its AQP in our next inspection cycle, where we may also select higher-risk 31 March 2021 audits that we were unable to inspect this year due to the timing of auditor's reports.

# 50%

At Deloitte LLP, one of the two financial statements audits inspected was assessed as requiring significant improvements.

# 100%

At Deloitte LLP, the one VfM arrangements inspection was assessed as good or limited improvements required.

## Good practice



Good practice points were identified on the two financial statement audits:

- On one audit, the strategy for selecting samples for detailed valuation testing was particularly well focused on risk. The audit team performed a planning analytical procedure to inform its sample selection. The audit team set a precise expectation for the movement in value of each individual property using third-party market data to identify outliers for sample testing.
- On another audit, the audit team demonstrated rigour when challenging the assumptions made in setting the non-domestic rates appeals provision, in particular by benchmarking to other councils. The audit opinion was ultimately qualified for this matter.

A good practice point was also identified on one VfM arrangements inspection:

- The commentary was supported by comprehensive evidence of the team's procedures, evaluation and conclusions reached. This included detailed notes of meetings with key officers.

## Firm's response to AQR reviews



Audit quality is and will remain our number one priority. We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality.

We are therefore extremely disappointed that one of our audits fell significantly short of the high standards we set and which should be expected from our audits. We have completed an RCA (as we do for all external inspections) and we are in the process of finalising the actions identified to respond to the RCA findings. These actions will be captured in our AQP which is monitored, reviewed and challenged by the Audit Executive and the Audit Governance board. In addition we are performing remediation of the audit file for the audit in question and the entities accounts will be restated. We are considering our internal monitoring to identify whether any additional matters in relation to local audits, or findings of a similar nature have arisen and where we need to take action.

It is positive that the FRC acknowledged that they did not identify any recurrent key findings which would cast doubt on effectiveness of previous actions taken. We take inspections very seriously and we have sought to address previous findings in particular through enhancing our audit approach in relation to property valuation. We have also reflected on the wider matters identified in the FRC cross firm reports. We regularly share findings and areas of challenge in inspections with our audit practitioners to support continuous improvement. We also value the identification of good practice in both the financial statement audits reviewed and will ensure that we share the lessons from that good practice with our teams.



## Appendix 1: Key local audit information

### Identifying major local audits

An analysis of available local audit data for the year ended 31 March 2022 identified 314 major local audits within AQR scope. The number of bodies changes annually as the definition of a major local audit is dependent upon meeting one of the following criteria:

- Total income or expenditure of at least £500 million; or
- For a local authority pension scheme, at least 20,000 members or gross assets in excess of £1,000 million.

The following table sets out the total number of local audits by sector, along with those assessed as meeting the major local audit definition. The audits for opted in local government bodies were awarded to five audit firms in five tiered tranches, following a full tender process conducted by PSAA in 2017. These audit appointments were made to cover five accounting periods, ending with 31 March 2023. The table also sets out the number of major local audits whose financial statement audit was subject to inspection by AQR.

Category	Total population	Major local audits	Inspected by AQR in 2021/22
Health Bodies (NHS Trusts and clinical commissioning groups)	176	93	6
Local government councils	347	131	11
Other bodies	128	16	1
Local authority pension funds	77	74	2
<b>Total</b>	<b>728</b>	<b>314</b>	<b>20</b>

## Audit firms completing local audits

There were six audit firms that completed at least one audit of a major local body for the financial year ended 31 March 2022.<sup>7</sup> The three firms with the largest market share of major local audits were Grant Thornton UK LLP, Ernst & Young LLP and Mazars LLP, with a collective share of 80%. All the firms involved, including the number of audits they completed and their respective market shares, were as follows:

Audit firm	Number of local audits	Market share	Number of major local audits	Market share	Inspected by AQR in 2021/22
Grant Thornton UK LLP	287	39.4%	125	39.8%	7
Ernst & Young LLP	189	26.0%	72	22.9%	4
Mazars LLP	121	16.6%	55	17.5%	3
KPMG LLP	49	6.7%	24	7.7%	2
BDO LLP	44	6.1%	21	6.7%	2
Deloitte LLP	38	5.2%	17	5.4%	2
<b>Total</b>	<b>728</b>		<b>314</b>		<b>20</b>

<sup>7</sup> PricewaterhouseCoopers LLP audited one non-major local audit for the year ended 31 March 2021. This was inspected by the Quality Assurance Department of ICAEW in its 2021/22 monitoring cycle.

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## Appendix 2: Firms' internal quality monitoring

### Results of firms' own monitoring

#### Background

This appendix sets out aggregated information relating to the six firms' internal quality monitoring (IQM) for individual audit engagements. It should be read in conjunction with each firm's transparency report, which provides further detail of the IQM approaches and results, and the firm's wider system of quality control. We consider that publication of these results provides a fuller understanding of quality monitoring in addition to our regulatory inspections, but we have not verified the accuracy or appropriateness of these results.

Due to differences in how inspections are performed and rated, the results of the firms' IQM may differ from those of external regulatory inspections and should not be treated as being directly comparable to the results of other firms.

#### Firms' approach to internal quality monitoring

The firms' internal inspection programmes generally consider the full population of both major and non-major local audits performed. The programmes are varied but are usually risk-based as well as structured to cover Key Audit Partners over a fixed period of time. Audit files are selected for review based on a number of criteria, including risk and public interest. Reviews are supervised by the firms' own internal quality teams.

#### Scope

The firms' IQM programmes, relating to local audit, covered 20 individual audits, of which eight related to major local audits.

The aggregate number of major local audits covered by the firms' own IQM was less than that of the AQR and amounted to:

Coverage of all local audits            2.7%

Coverage of major local audits        2.5%

Two firms had not completed and one firm had not started their planned IQM programmes when this report was compiled. This appendix excludes individual IQM reviews that had not been completed.

Three of the remaining five firms, who had completed at least one IQM review, did not review the work on VfM arrangements on each audit selected for review. Three of the remaining five firms reviewed 31 March 2020 local government audits where 31 March 2021 audits were not complete.

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## Results

### Financial statements audit

In aggregate, the firms reported that across the 20 financial statement audits reviewed, 18 (90.0%) were of a good standard or required only limited improvements. One audit was assessed as requiring improvements and one audit as requiring significant improvements.

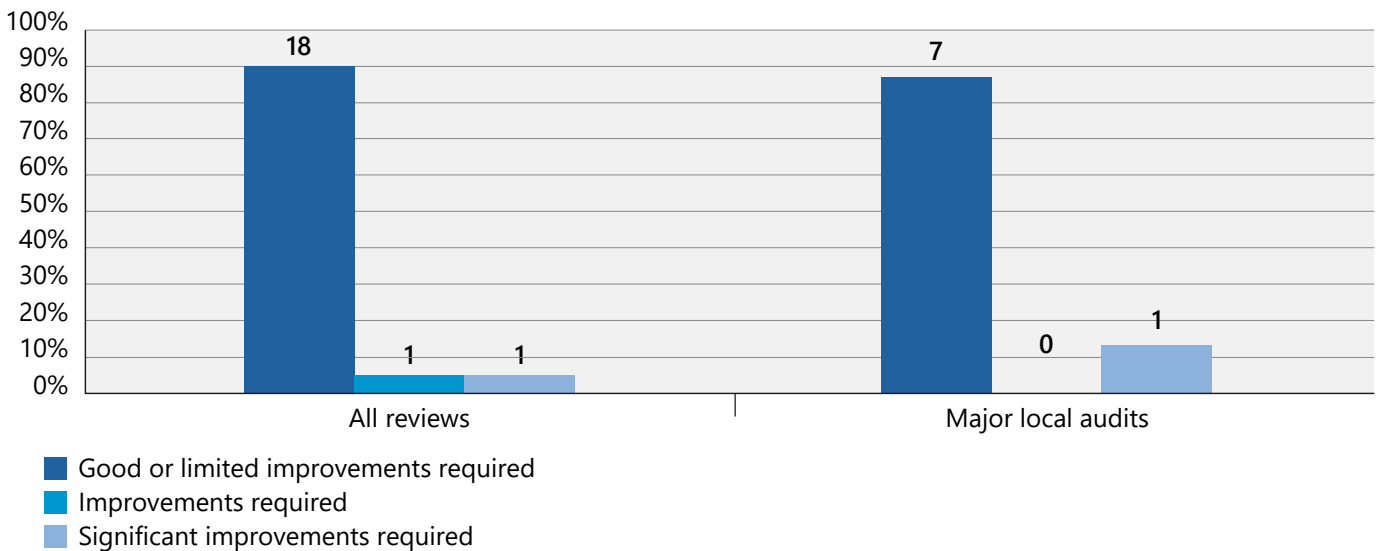
For the firms' major local audits, seven financial statements audits were reviewed and six (87.5%) were assessed as either good or requiring limited improvements. One audit was assessed as requiring significant improvements.

The firms reported that of the 16 VfM arrangements reviews, 15 were of a good standard or required only limited improvements. One review was assessed as requiring improvements.

The results of the firms' financial statement opinion reviews for local audits are set out below.

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### Aggregate of the firms' own internal quality monitoring



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The firms' various IQM programmes generally use the same grading categories as AQR but where this is not the case, we have aligned as closely as possible to those that would result from the AQR process.



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## Report to Audit Committee

# The Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committee Guidance Documents

**Portfolio Holder:** Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Low Carbon

**Officer Contact:** Anne Ryans - Director of Finance

**Report Author:** John Miller – Head of Internal Audit and Counter Fraud

**29 November 2022**

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### Reason for Decision

This report sets out the updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of Audit Committees.

### Executive Summary

During 2022, CIPFA has issued a suite of updated guidance documents intended to inform and support the work of Audit Committees in organisations across the public sector, including Local Authorities. The guidance is aimed both at Members of the Audit Committee and those Officers who support the work of the Committee.

The documents relevant to the work of Oldham Council's Audit Committee are:

- CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022.
- The Audit Committee Member in a Local Authority 2022 edition.
- Guiding the Audit Committee - Supplement to the Audit Committee Member guidance 2022 edition.
- Interactive Appendix E - Self-assessment of good practice.
- Interactive Appendix F - Evaluating the impact and effectiveness of the Audit Committee.

The last two documents are intended for use by the Audit Committee in assessing how the work of the Committee compares with best practice guidance, and the overall effectiveness of the Committee in supporting the Council and its objectives.

## **Recommendations**

That Members of the Audit Committee:

- 1) Note the release by CIPFA of a suite of documents relevant to the work of the Committee.
- 2) Approve the use of the Interactive Appendices E and F to assess the performance and effectiveness of the Committee in supporting the Council in the delivery of the objectives of both the Committee and the Council.



**CIPFA Audit Committee Guidance Documents****1. Background**

- 1.1 This report sets out the updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of Audit Committees.
- 1.2 During 2022 CIPFA has issued a suite of updated guidance documents intended to inform and support the work of Audit Committees in organisations across the public sector, including Local Authorities. The guidance is aimed both at Members of the Audit Committee and those Officers who support the work of the Committee.
- 1.3 The updated documents, their purpose and a summary of their contents is discussed briefly below. The documents themselves are protected by copyright and, therefore, cannot be included in the Council's published reports on the Council website. These documents have been shared separately with Members for this reason.

**2. CIPFA Audit Committee Guidance Documents 2022 editions**

- 2.1 The documents relevant to the work of Oldham Council's Audit Committee are:
  - CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022.
  - The Audit Committee Member in a Local Authority 2022 edition.
  - Guiding the Audit Committee - Supplement to the Audit Committee Member guidance 2022 edition.
  - Interactive Appendix E - Self-assessment of good practice.
  - Interactive Appendix F - Evaluating the impact and effectiveness of the Audit Committee.

These documents are discussed in brief below.

**2.2 CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022**

- 2.2.1 The statement sets out the purpose, model, core functions and membership of the Audit Committee. The statement represents CIPFA's view on Audit Committee practice and the principles that Local Government bodies in the UK should adopt. It has been prepared in consultation with sector representatives and the Department for Levelling Up, Housing and Communities along with the Home Office support this guidance.
- 2.2.2 CIPFA expects that all Local Government bodies use their best efforts to adopt these principles, aiming for effective Audit Committee arrangements as an aid to meeting Councils' statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

**2.3 The Audit Committee Member in a Local Authority 2022 edition**

- 2.3.1 This section of CIPFA's guidance is for Members of an Audit Committee within a Local Authority. It is intended to support both elected Members and co-opted independent Members (also known as Lay Members) to understand the purpose of the Committee, its functions and their responsibilities as Members of the Committee. The guidance also addresses areas such as independence and accountability, and membership and effectiveness of the Committee.

## **2.4 Guiding the Audit Committee - Supplement to the Audit Committee Member guidance 2022 edition**

2.4.1 Guiding the Audit Committee is a supplement to the Member guide. It is aimed at those Officers who support the Committee, helping them to ensure that the Committee acts in accordance with relevant legislation and good practice. Audit Committee Members may also wish to access this supplement.

## **2.5 Interactive Appendix E - Self-assessment of good practice**

2.5.1 This appendix provides a high-level review tool that incorporates the key principles set out in CIPFA's Position Statement.

2.5.2 Where an Audit Committee has a high degree of performance against the good practice principles contained in Appendix E, it is an indicator that the Committee is soundly based and has in place a knowledgeable membership. These are important factors in developing an effective Audit Committee.

2.5.3 CIPFA recommends a regular self-assessment should be used to support the planning of the Audit Committee work programme and training plans. This report echoes and supports this recommendation and proposes that the Committee includes and undertakes a regular good practice self-assessment exercise as part of its planned work for the year.

## **2.6 Interactive Appendix F - Evaluating the impact and effectiveness of the Audit Committee**

2.6.1 CIPFA believes, and this report concurs, that an Audit Committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the Authority's business.

2.6.2 Since the Audit Committee is primarily an advisory body, it can be difficult to identify how it has made a direct and/or measurable difference to the Council's aims and objectives. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'.

2.6.3 Appendix F is intended for use as an improvement tool to support a review of the Audit Committee's effectiveness. It identifies the broad areas where an effective Audit Committee will have impact.

2.6.4 This report recommends and proposes that the Committee includes and undertakes a regular evaluation of the impact and effectiveness of the Audit Committee as part of its planned work for the year.

## **3 Options**

3.1 The Audit Committee has the following options. These are detailed below:

(a) note the contents of the suite of guidance documents issued by CIPFA during 2022 which support the work of Audit Committees in Local Authorities.

(b) undertake a regular good practice self-assessment exercise as part of its planned work for the year.

(c) undertake a regular evaluation of the impact and effectiveness of the Audit Committee as part of its planned work for the year.

(d) accept all options (a) to (c).

(e) reject the report recommendations, in whole or in part, and suggest an alternative approach.

- 4 **Preferred Option**
- 4.1 The Audit Committee accepts the option set out at 3.1 (d) and thereby accepts all options set out at 3.1 (a) to (c).
- 5 **Consultation**
- 5.1 N/A.
- 6 **Financial Implications**
- 6.1 N/A.
- 7 **Legal Services Comments**
- 7.1 N/A.
- 8 **Co-operative Agenda**
- 8.1 N/A.
- 9 **Human Resources Comments**
- 9.1 N/A.
- 10 **Risk Assessments**
- 10.1 If the Committee does not adopt the recommendation of this report, Members may not be assured of complying with best practice guidance in the conduct of the Committee functions. (Mark Stenson)
- 11 **IT Implications**
- 11.1 N/A.
- 12 **Property Implications**
- 12.1 N/A.
- 13 **Procurement Implications**
- 13.1 N/A.
- 14 **Environmental and Health & Safety Implications**
- 14.1 N/A.
- 15 **Equity, Community Cohesion and Crime Implication**
- 15.1 N/A.
- 16 **Equality Impact Assessment Completed**
- 16.1 N/A.

17 **Forward Plan Reference**

17.1 N/A.

18 **Key Decision**

18.1 N/A.

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

The following background papers have been communicated separately to avoid copyright infringement:

- CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022.
- The Audit Committee Member in a Local Authority 2022 edition.
- Guiding the Audit Committee - Supplement to the Audit Committee Member guidance 2022 edition.
- Interactive Appendix E - Self-assessment of good practice.
- Interactive Appendix F - Evaluating the impact and effectiveness of the Audit Committee.

Officer Name: John Miller

Contact: john.miller@oldham.gov.uk

20 **Appendices**

20.1 There are no appendices to this report.



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## **Report to Audit Committee**

### **Proposed Audit Committee Work Programme for 2022/23**

**Portfolio Holder:** Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

**Officer Contact:** Anne Ryans, Director of Finance

**Report Author:** Mark Stenson, Assistant Director of Corporate Governance and Strategic Financial Management

**Ext.** 4783

**29 November 2022**

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#### **Reason for Decision**

The workplan below sets out the proposed schedule of Audit Committee meetings for the remainder of 2022/23, including meeting date and venue, agenda item and brief summary of the report issue.

#### **Executive Summary**

The workplan is updated and reviewed on a regular basis and the current proposed schedule is attached below. The plan is shaped by the Council's formal reporting structures and the timings of the meetings and agenda items are scheduled to reflect this. Any urgent or new developments will be added to the workplan accordingly.

#### **Recommendations**

That Members of the Audit Committee are asked to note the proposed workplan and comment where necessary.

**Updated Audit Committee Work Programme for the 2022/23 Municipal Year**

<b>Meeting Date &amp; Venue</b>	<b>Agenda Item</b>	<b>Summary of Report Issue</b>
<b>Thursday 9 June 2022 at 6.00 pm</b>	SIRO Annual Report 2021/22	This is the Annual Report of Senior Information Responsible Officer to the Audit Committee.
	Audit of Housing Benefit Subsidy 2020/21	This is the reported outcome of the audit of the Housing Benefit Subsidy Grant undertaken by KPMG in relation to the 2020/21 financial year.
	Director of Finance – Charged with Governance, Management Processes and Arrangements.	The draft response of the Director of Finance to provide key assurances to support the Audit Process which are then discussed by the Committee.
	Audit Committee Chair – Charged with Governance, Management Processes and Arrangements.	The draft response of the Audit Committee Chair to provided key assurances to support the Audit Process which are then discussed by the Committee.
Page 172	Local Code of Corporate Governance	This is an update to the previously agreed Local Code of Corporate Governance.
	Internal Audit Charter 2022/23	This is the annual update to the Internal Audit Charter for discussion at the Audit Committee.
	Internal Audit and Counter Fraud Progress Report.	An update report on the progress made by the Internal Audit Service.
<b>Tuesday 21 June 2022 at 6.00 pm</b>	2021/22 Annual Report to Audit Committee	This is the Annual Report of the Chief Internal Auditor on the overall Internal Control Environment of the Council for the financial year 2021/22.
	Draft 2021/22 Annual Statement of Accounts	This is the report to the Audit Committee on the draft Statement of Accounts which also details the provisional out-turn for the financial year 2021/22.
	Reserves Policy for 2021/22 to 2022/23	This is the annual update to the Reserves Policy considering the provisional out-turn for the financial year 2021/22.
	Treasury Management Review 2021/22	The annual review of Treasury Management for 2021/22 by the Audit Committee.
	Annual Governance Statement for 2021/22	The detailed review of the Annual Governance Statement by the Audit Committee.



**Updated Audit Committee Work Programme for the 2022/23 Municipal Year**

<b>Meeting Date &amp; Venue</b>	<b>Agenda Item</b>	<b>Summary of Report Issue</b>
<b>Thursday 21 July 2022, 6.00pm.</b>	Update on External Audit Matters	An update if required, on national developments linked into the ongoing developments and consultations on the provision of external audit to Local Government Bodies
	2021/22 Statement of Final Accounts.	This report provides an update on the 2021/22 draft Statement of Accounts and associated issues arising from the fieldwork from the current external audit which is ongoing.
	The 2021/22 Review of the System of Internal Audit	Annual Review of the system of internal audit using the balanced scorecard.
	Proposed Audit Committee Work Programme for the Municipal Year 2022/23	This report detailing the proposed work programme for 2022/23 including actions required to support the approval of the 2021/22 Statement of Final Accounts.
	Private Report; Partnership Risk Dashboard	This is the regular report produced for the Committee to assess the ongoing risk to the Council from its key partnerships.
	Private Report; Update on the Annual Governance Statement for 2021/22 and new issues for 2022/23	This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.
<b>Thursday 8 September 2022, 6.00 pm</b>	Update on External Audit Matters	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	2021/22 Statement of Final Accounts	This report provides an update on the 2021/22 draft Statement of Accounts and associated issues arising from the external audit. It will detail the consultation outcome on Infrastructure Assets and the potential impact on the Council.

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**Updated Audit Committee Work Programme for the 2022/23 Municipal Year**

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Update on Financial Administration in Local Authorities	A report detailing challenges experienced in the financial administration at other local authorities including Section 114 Notices issued as reported in the public domain.
	Audit and Counter Fraud Progress Report including significant issues highlighted on internal control	This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified. <b>Item not considered as meeting finished early</b>
Page 174	Proposed Audit Committee Work Programme for 2022/23	This report detailing the proposed work programme for 2022/23 including actions required to support the approval of the 2021/22 Statement of Final Accounts. <b>Item not considered as meeting finished early</b>
	Private Report; Update on the Annual Governance Statement for 2021/22 and new issues for 2022/23	This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee. <b>Item not considered as meeting finished early</b>
	Private Report; Update on the Corporate Risk Register	This sets out the position as of 30 June 2022 in relation to matters included on the Corporate Risk Register. <b>Item not considered as meeting finished early</b>
	Private Report; Potential Risks to the Council arising from the setting up of Northern Roots (Oldham) Limited	This report sets out the analysis of risk to the Council from the Charitable Company Northern Roots (Oldham) Limited. <b>Item not considered as meeting finished early</b>
<b>Tuesday 1 November 2022, 6.00pm</b>	External Audit Progress Report	An update produced by the External Auditor of issues to be brought to the attention of this Committee.

**Updated Audit Committee Work Programme for the 2022/23 Municipal Year**

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	2021/22 Annual Statement of Accounts	This report provides an update on the 2021/22 draft Statement of Accounts and associated issues arising from the external audit. It will detail the consultation outcome on Infrastructure Assets and the potential impact on the Council.
	Treasury Management Mid-Year Review 2022/23	The planned scrutiny of the 2021/22 Treasury Management Mid-Year review before submission to Cabinet in November.
	Update on General Matters	This is an update on Regulatory developments to inform the Audit Committee in support of its Governance role.
	Annual Governance Statement 2021/22	This report details the proposed Final Annual Governance Statement for 2021/22.
Page 175	2022/23 Internal Audit and Counter Fraud Progress Report including significant issues highlighted on internal control	This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified.
	Updated Audit Committee Work Programme for 2022/23	This report detailing the proposed work programme to support the approval of the 2022/23 Statement of Final Accounts.
	Private Report; Appointment of External Auditor 2023/24 until 2027/28	This report details the proposed appointment of the External Auditor following the Public Sector Audit Appointments Procurement Exercise.
	Private Report; Potential Risks to the Council arising from the setting up of Northern Roots (Oldham) Limited	This report sets out the analysis of risk to the Council from the Charitable Company Northern Roots (Oldham) Limited.
	Private Report; Update on the Annual Governance Statement for 2021/22 and new issues for 2022/23	This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.

**Updated Audit Committee Work Programme for the 2022/23 Municipal Year**

Meeting Date & Venue	Agenda Item	Summary of Report Issue
<b>Tuesday 29 November 2022, 6.00pm.</b>	External Audit Update Report	The report presents an update on the progress of the external audit into the 2021/22 Statement of Final Accounts.
	2021/22 Annual Statement of Accounts	This report provides an update on the progress of the audit on the 2021/22 Statement of Final Accounts.
	Review of Corporate Fraud Policies	A review of the updated Counter Fraud suite of policies to reflect recent legislation.
Page 176	The Financial Reporting Council (FRC) 2022 reports	This report updates the Committee on the transition of the FRC to the Auditing Reporting and Governance Authority. It also details the findings from the Quality Review of Local Authority and National Health Service audits undertaken across the public sector in the calendar year 2022.
	The Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committee Guidance Documents	This report sets out the updated guidance issued by CIPFA in respect of the best practice to follow in operating an Audit Committee.
	Updated Audit Committee Work Programme for 2022/23	This report detailing the proposed work programme to support the approval of the 2022/23 Statement of Final Accounts.
	Private Report; Update on the Corporate Risk Register	This sets out the position as of 30 September 2022 in relation to matters included on the Corporate Risk Register.
	Private Report; Senior Information Risk Owner update	This updates the Audit Committee on the key matters relating to data protection and information security breaches.

**Updated Audit Committee Work Programme for the 2022/23 Municipal Year**

Meeting Date & Venue	Agenda Item	Summary of Report Issue
<b>Monday 16 January 2022, 6.00 pm</b>	External Audit Completion Report	The report details the findings (possibly excluding an opinion on Infrastructure Assets) of the external audit into the 2021/22 Statement of Final Accounts.
	External Audit Completion Certificate for the 2020/21 Accounts	The final audit certificate is anticipated to be issued following the implementation of the agreed accounting treatment for Infrastructure Assets and the conclusion of the Whole of Government Accounts audit.
	External Audit Annual Audit Letter 2021/22	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
Page 177	Treasury Management Strategy Statement 2023/24	This report sets out the Proposed Treasury Management Strategy for 2023/24 to support the Corporate Objectives of the Council.
	Internal Control Matters for Adult Social Care	This is the report to Committee on Internal Control Matters within the Adult Social Care Service.
	Audit and Counter Fraud Progress Report including significant issues highlighted on internal control	This is the routine report on the progress made against the agreed Audit and Counter Fraud plan detailing any control weaknesses identified.
	Proposed Audit Committee Work Programme for the remainder of 2022/23 and the 2023/24 financial year	This report detailing the proposed work programme to support the approval of the 2022/23 Statement of Final Accounts.
	Private Report; Update on the Annual Governance Statement for 2021/22 and new issues	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.

**Updated Audit Committee Work Programme for the 2022/23 Municipal Year**

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Private Report; Potential Risks Associated with Council's setting up a Housing Company	This follows on from the 21 July 2022 report on Partnership Governance whereby the Committee requested a report on the perceived risks associated with setting up a Housing Company within Oldham.
	Private Report; Partnership Risk Dashboard	This is the regular update requested by the Committee on partnership governance considering potential issues identified on governance elsewhere.
<b>Thursday 9 March 2023, 6.00pm</b>	Data Protection Update	Routine six monthly report by the Data Protection Officer as required under General Data Protection Regulations (GDPR).
Page 178	External Audit of Teachers' Pensions Agency Return 2021/22	This report considers the feedback following the external audit of the Teachers' Pension Agency return.
Page 178	External Audit of Housing Benefit Subsidy claim 2021/22	This report considers the feedback on the external audit of the Housing Benefit Subsidy Grant claim.
	External Audit Progress Report	An update produced by the External Auditor of issues to be brought to the attention of the Committee.
	Compliance with the Chartered Institute of Finance and Accountancy (CIPFA) Code of Financial Management	This report details the assessment within Oldham Council on how it complies with the CIPFA Code of Financial Management with appropriate recommendations for improvement.
	Audit and Counter Fraud Progress Report including significant issues highlighted on internal control	This is the routine report on the progress made against the agreed Audit and Counter Fraud plan detailing any control weaknesses identified.
	Proposed Audit Committee Work Programme for 2023/24	This report detailing the proposed work programme to support the approval of the 2022/23 Statement of Final Accounts and future governance issues.

**Updated Audit Committee Work Programme for the 2022/23 Municipal Year**

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Private Report; Internal Audit Plan 2023/24	The proposed plan of work for the financial year 2023/24 to enable review by the Committee.
	Private Report; Update on the Annual Governance Statement for 2021/22 and new issues	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee.

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