

Public Document Pack

Blackpool Council

19 January 2016

To: Councillors Benson, Cox, Galley, Hunter, Matthews, O'Hara, Owen and Roberts.

The above members are requested to attend the:

AUDIT COMMITTEE

Thursday, 28 January 2016 at 6.00 pm
in Committee Room A, Town Hall, Blackpool

A G E N D A

1 DECLARATIONS OF INTEREST

Members are asked to declare any interests in the items under consideration and in doing so state:

- (1) the type of interest concerned; and
- (2) the nature of the interest concerned

If any member requires advice on declarations of interests, they are advised to contact the Head of Democratic Governance in advance of the meeting.

2 MINUTES OF THE LAST MEETING HELD ON 26 NOVEMBER 2015 (Pages 1 - 6)

To agree the minutes of the last meeting of the Audit Committee held on 26 November 2015 as a true and correct record.

3 CCTV SERVICE - INTERNAL AUDIT (Pages 7 - 14)

To provide an update on actions taken to address the recommendations of the Internal Audit on the CCTV service dated 24 August 2015.

4 STRATEGIC RISK REGISTER - INADEQUATE CHANGE MANAGEMENT (Pages 15 - 18)

To consider a progress report on individual risks identified in the Council's Strategic Risk Register.

5 STRATEGIC RISK REGISTER - FAILURE TO KEEP PEOPLE SAFE (Pages 19 - 22)

To consider a progress report on individual risks identified in the Council's Strategic Risk Register.

6 EXTERNAL AUDIT PLAN 2015/2016 (Pages 23 - 42)

To consider KPMG's Audit Plan 2015/2016.

7 ANTI-MONEY LAUNDERING POLICY AND PROCEDURES (Pages 43 - 60)

To consider and approve the Anti-Money Laundering Policy and Procedure.

8 DATE OF NEXT MEETING

To note the date and time of the next meeting of the Committee as Thursday, 10 March 2016, commencing at 6pm.

Venue information:

First floor meeting room (lift available), accessible toilets (ground floor), no-smoking building.

Other information:

For queries regarding this agenda please contact Chris Kelly, Senior Democratic Governance Adviser, Tel: 01253 477164, e-mail chris.kelly@blackpool.gov.uk

Copies of agendas and minutes of Council and committee meetings are available on the Council's website at www.blackpool.gov.uk.

Present:

Councillor Galley

Councillors

Benson
Cox

Cross
O'Hara

Owen
Hunter

Matthews
Roberts

In Attendance:

Mr Neil Jack, Chief Executive

Mr Steve Thompson, Director of Resources

Mr Iain Leviston, Manager, KPMG

Ms Tracy Greenhalgh, Chief Internal Auditor

Mr Neil Williams, Risk and Resilience Officer

Mr Chris Kelly, Senior Democratic Governance Adviser (Scrutiny)

1 DECLARATIONS OF INTEREST

There were no declarations of interest on this occasion.

2 MINUTES OF THE LAST MEETING HELD ON 22 OCTOBER 2015

The Committee agreed that the minutes of the last meeting held on 22 October 2015 be signed by the Chairman as a correct record.

3 RISK SERVICES QUARTER TWO REPORT - 2015/2016

Ms Greenhalgh, Chief Internal Auditor, presented the Committee with an overview of the Risk Services Report for the second quarter of 2015-2016.

Ms Greenhalgh reported on the internal audits that had been scoped in the quarter and for which preparatory work had commenced. Members were provided with details of service developments with regards to Corporate Fraud and, in relation to risk and resilience, the work undertaken in regards to the tactical response to the boiled water notice that had been implemented for a four week period due to a contamination in the water supply.

The Committee questioned the results of the debrief that had taken place in October to consider how the water contamination issue had been managed and to determine the lessons that could be learned. Mr Williams, Risk and Resilience Officer, advised that a number of recommendations had arisen from the internal debrief and some lessons to be learned had been identified. Members requested that a summary report be brought back to the Committee providing details on the lessons learned and recommendations from the internal debrief on how the incident had been managed.

Ms Greenhalgh reported on the key performance indicators for the service. She advised that 91% of business continuity plans were up to date as of the date of the meeting and

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 26 NOVEMBER 2015

that 100% of risk registers had been revised and were up to date. However, it was explained to the Committee that the business continuity plans varied in quality and some required additional work before they could be considered appropriately updated. Ms Greenhalgh advised that the Risk and Resilience Team would aim to complete a quality control programme by the end of the financial year to fully assess the standard of business continuity plans.

Members raised questions relating to the number of trained Emergency Response Group Volunteers. Ms Greenhalgh advised that there were concerns regarding whether the volunteers had appropriate training and/ or experience and that the Risk and Resilience Team would be working with Adult Social Care Services in order to address the issue. Members were further advised that the volunteers were from across the Council's departments and whilst they were not offered incentives to volunteer, they were permitted time off in-lieu following any emergency response.

The Committee questioned what the completion rate was for the i-pool training course on fraud awareness and Ms Greenhalgh advised that the rate was very low. She informed Members that work would be undertaken with the Senior Leadership Team to encourage managers to complete the course.

The Committee considered the Internal Audit reports issued during the second quarter and discussed the audits that had resulted in an inadequate assurance statement being issued. In regards to the audit of the CCTV service, which had concluded with an assurance statement of inadequate controls in place, the Committee was advised that the service had not been 'live' at the time of the audit. The Committee requested that the Director of Place be invited to attend the next meeting of the Committee in order to provide an explanation for the controls being inadequate and a progress report detailing how the concerns of Internal Audit had been mitigated.

The Committee also considered the Internal Audit review of Licensing Services, which had also been considered to have inadequate controls in place in relation to document management and information sharing across other relevant services. Ms Greenhalgh advised that Internal Audit had not yet followed up on its recommendations and it was noted that proactive work was already being undertaken to address the issue.

Another Internal Audit review discussed by the Committee was the review into Physical Activities. It was noted that the review had concluded that there were a range of organisations, including Leisure Services and others externally commissioned by Public Health, providing physical activity opportunities for residents. The review considered the current approach to be inadequate and that better integration between Leisure Services and Public Health could improve opportunities for residents and deliver better value for money. Members questioned what was being done to improve the approach and Ms Greenhalgh advised that the Chief Executive, Director of Public Health and Director of Community and Environmental Services would be meeting to resolve the situation.

Mr Jack, Chief Executive, advised that some of the external contracts commissioned by Public Health, had been agreed at a time when Public Health Services had been undertaken whilst under the previous structure of the NHS. Mr Thompson, Director of Resources, added that an internal group of officers had been established to consider the protocols involved with departments using internal services.

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 26 NOVEMBER 2015

Ms Greenhalgh reported to the Committee the progress with Priority One recommendations. She advised that a number of actions had now been implemented and signed off, including Waste Public Finance Initiative, Area Forum and Ward Budgets, E-invoicing, Advertising, Out of Hours Cover, Framework-I, Bereavement Service, Deferred Payments and Year 7 Savings Accounts.

Ms Greenhalgh also advised that, in relation to the Regulation of Investigatory Powers Act 2000, between July and September 2015 the Council had not authorised any directed surveillance. Upon questioning from the Committee, she advised that it was not unexpected that there had been no direct surveillance authorised, as the powers had been used a lot more in the past for benefit fraud investigations, which were now a function of the Department for Work and Pensions.

Members considered the insurance claims data and cost of public liability data and it was questioned whether the impact of Project 30 could yet be demonstrated. Ms Greenhalgh advised that there were still a number of legacy claims that were being made from earlier dates, but it was hoped that there would be some improvement and a reduction in claims in the next 12 months.

The Committee agreed:

- 1) to note the report;
- 2) to request that a summary report be brought back to the Committee providing details on the lessons learned and recommendations from the internal debrief on how the water contamination incident had been managed; and
- 3) to request that the Director of Place be invited to attend the next meeting of the Committee in order to provide an explanation for controls being inadequate in relation to the CCTV internal audit review and to provide a progress report detailing how the concerns of the audit had been mitigated.

4 STRATEGIC RISK REGISTER - LACK OF RESILIENCE

The Committee considered a progress report in relation to the individual risks identified on the Council's Strategic Risk Register, specifically in relation to the risks regarding lack of resilience. The Committee discussed plans to control and mitigate the risks with the strategic risk owner, Mr Jack.

Mr Jack discussed the sub-risk of 'lack of individual resilience to work in a changing environment' and explained how the risk was being mitigated. The Committee noted the successful bids that had been made to secure external funding, with examples including the Better Start Bid and the bid for Coastal Communities Funding. Mr Jack advised that work was being undertaken to make services more sustainable and the example of the illuminations was discussed by the Committee. It was explained that there had been an increased focus on providing external sponsorship opportunities and increasing footfall, as opposed to people remaining in the vehicles for the duration of their visit to the illuminations.

The Committee was informed of work being undertaken in relation to shared services with other local authorities and it was noted that the Revenue and Benefits service was

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 26 NOVEMBER 2015

shared with Fylde Council.

The Committee considered the potential for decreased staff morale amidst a consistent environment of cuts to services. Members were advised that attendance statistics were regularly reviewed and noted the absence management procedures in place. The Committee was also advised that staff surveys were undertaken annually to help gauge staff morale and it was requested that the results of those surveys be brought to Members' attention in future.

Mr Jack also advised the Committee that work was being undertaken to help support residents of the town improve their resilience and reduce the dependency on Council services. Members noted that the support focused on helping people to be better parents, to find employment and to improve the education of children and young people.

The Committee questioned the level of acceptable risk for the risk register item and Mr Jack advised that realistically in the current financial climate and given that the authority was relatively small, there would always remain some element of risk, as a result the net risk score of 12 was considered appropriate.

The Committee agreed to request that the results of those surveys be provided to Committee Members once they were available.

Background papers: None

5 STRATEGIC RISK REGISTER - SERVICE FAILURE

The Committee considered a progress report in relation to the individual risks identified on the Council's Strategic Risk Register, specifically in relation to the risks regarding service failure. The Committee discussed plans to control and mitigate the risks with the strategic risk owners, Mr Jack and Mr Thompson.

Mr Thompson advised that the risk of service failure would be included on the risk register of any organisation and that some risks were heightened due to the current financial climate. He explained that the Council had many services, some of which now only contained a very small number of employees. Therefore, there was an inherent risk of service failure in those services.

The Committee discussed the procurement procedures and Mr Thompson advised that the related contract management process was also important in ensuring adequate business continuity plans were in place.

Mr Thompson explained that an objective within the new Council Plan was to manage demand on Council services, which would help to mitigate the risk of service failure as a result of reductions in local authority funding. The Committee discussed the use of Channel Shift and Mr Thompson advised that its use was having a positive impact on the Customer First performance indicators. The Committee requested that further information on the impact of using Channel Shift once the Corporate Leadership Team had reviewed the working group's first year and the performance of customer services across the Council, be provided for Members' consideration.

MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 26 NOVEMBER 2015

The Committee questioned the level of risk acceptable for the sub-risk of 'over reliance on income generation through the delivery of traded services'. Mr Thompson advised Members of the steps that were being taken to mitigate the risk, which included undertaking a car parking review that would help to increase the income generated through Council owned car parks.

The Committee agreed to request that further information on the impact of Channel Shift and the performance of customer services across the Council be provided to the appropriate body.

Background papers: None

6 APPOINTING THE COUNCIL'S EXTERNAL AUDITOR

Mr Leviston, Manager, KPMG, presented a report which provided information to the Committee on the power of local authorities to appoint their own external auditor from the 2018/19 financial year onwards.

Mr Leviston advised Members that local authorities would have a number of procurement options when it came to appointing their external auditor. The options included re-appointing the incumbent auditor, running a stand-alone tendering process and joining together with other neighbouring authorities to undertake a collective procurement process.

The Committee discussed the merits of being able to appoint its own external auditor and it was noted that the new regulations would require local authorities to appoint an Audit Panel, which would include a majority of independent members and be responsible for recommending the external auditor to be used.

The Committee agreed to note the report.

Background papers: None

7 DATE OF NEXT MEETING

The Committee noted the date of the next meeting as 6pm on Thursday 28 January 2016 at Town Hall, Blackpool.

Chairman

(The meeting ended at 7.20 pm)

Any queries regarding these minutes, please contact:
Chris Kelly, Senior Democratic Governance Adviser
Tel: 01253 477164
E-mail: chris.kelly@blackpool.gov.uk

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Report to:	AUDIT COMMITTEE
Relevant Officer:	Alan Cavill, Director of Place
Date of Meeting	28 January 2016

CCTV SERVICE – INTERNAL AUDIT

1.0 Purpose of the report:

1.1 To update the Audit Committee on actions taken to address the recommendations of the Internal Audit on the CCTV service dated 24 August 2015.

2.0 Recommendation(s):

2.1 The Audit Committee is asked to note the updates on the actions taken.

3.0 Reasons for recommendation(s):

3.1 Almost all recommendations have been addressed by the Places Directorate. Work is ongoing at present on those which as yet haven't been completed.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 Other alternative options to be considered:

N/A

4.0 Council Priority:

4.1 The relevant Council Priority is "Creating stronger communities and increasing resilience"

5.0 Background Information

- 5.1 In August 2015, Internal Audit issued its report on the review of the CCTV service which included the CCTV Control Room within Bonny Street Police Station, the workshops and garages within Chapel Street car park, and the Portacabin outside Chapel Street car park. The audit took place following concerns regarding the lack of funding and investment available to the service for a number of years, and therefore the limited capacity of the service to ensure that the required work in relation to assets management, business continuity planning, adherence to corporate policies and health and safety requirements had been maintained. It is worth noting that the major reason for most of the lapses leading to the recommendations of this audit was as a result of the reduction in funding over the last few years.
- 5.2 The report contains 24 recommendations, some of which had already been actioned by the time the final report was issued. Six recommendations were classed as priority one and five of them have now been actioned. Work is ongoing with colleagues from the Procurement team on the sixth priority one recommendation (R24).
- 5.3 Another nine recommendations have been actioned (please see Appendix 3a for details). Work is in progress with the remaining nine recommendations which should be completed by the end of March 2016 at the latest.

Does the information submitted include any exempt information? No

List of Appendices:

Appendix 3a – Agreed Action Plan taken from Internal Audit report, including comments of action taken.

6.0 Legal considerations:

6.1 None

7.0 Human Resources considerations:

7.1 None

8.0 Equalities considerations:

8.1 None

9.0 Financial considerations:

9.1 Funding for reintroducing the monitoring of CCTV and upgrading some of the equipment within the Control room, as well as some of the actual cameras primarily in the town centre, has been secured from external sources such as the Department for Communities and Local Government, the Home Office and the Lancashire Police and Crime Commissioner. However, this is short term funding which cannot guarantee the continuation and/ or maintenance of this service in future years.

10.0 Risk management considerations:

10.1 Should the service not be funded as required in future years, it is possible that some of the issues identified by the Audit report, as well as other risks, will arise again.

11.0 Ethical considerations:

11.1 None

12.0 Internal/ External Consultation undertaken:

12.1 N/A

13.0 Background papers:

13.1 Internal Audit Report - Review of CCTV Service

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CCTV Audit Report - Recommendations Update - January 2016

No	Recommendation	Priority	Agreed Actions	Responsible Officer	Target Date	Update
R1	Tools are an asset and should be included on the asset register.	3	Agreed. Additional resources will be found in order to bring the asset register up to date.	Director of Places	31/03/2016	Work in progress
R2	Steps should be taken to ensure the asset register is brought up to date and maintained going forward.	2	As above	Director of Places	31/03/2016	Work in progress
R3	The asset register should be revised to include details of cost, date of disposal and gains/losses where equipment has been sold.	2	As above	Director of Places	31/03/2016	Work in progress
R4	The frequency of stock takes should be reviewed and steps should be taken to ensure the inventory is brought up to date. Stock items for resale should be included on the inventory.	2	Agreed. The initial stock take will be undertaken in conjunction with the above, then absorbed into CCTV operations going forward.	Director of Places/Head of Visitors Services	31/03/2016	Pending R 1 to 3
R5	A spare set of keys to all units occupied by the CCTV should be retained by security and the Head of Service so that the units can be accessed in an emergency.	1	Agreed	Head of Visitors Services	30/09/2015	Completed
R6	The CCTV Supervising Manager should liaise with ICT Services to ensure that all CCTV files are transferred and saved on an appropriate Council network shared drive.	1	Agreed. A check will be made to confirm this has been undertaken.	Head of Visitors Services	31/10/2015	Completed
R7	The service should liaise with the Risk and Resilience Team to ensure that appropriate insurance cover is put in place.	2	Agreed	Head of Visitors Services	30/11/2015	Pending R 1 to 3
R8	The Business Continuity Plan should be reviewed to take account of the suggestions included in the body of this report and an up to date version provided to the Risk and Resilience Team.	2	Agreed	Head of Visitors Services	30/09/2015	Completed

CCTV Audit Report - Recommendations Update - January 2016

R9	The service should ensure that statutory maintenance testing has been undertaken and obtain copies of the relevant risk assessments and inspection documentation.	2	Agreed. To be undertaken by Asset Management.	Head of Visitors Services	31/10/2015	Completed
R10	The service should liaise with Property & Asset Management to ensure a full risk assessment of the rack room is undertaken.	2	As above	Head of Visitors Services	31/10/2015	Completed
R11	The service should provide Property & Asset Management with a full list of the units occupied by the CCTV Service at Chapel Street car park so that these can be added to the Council's contractors' lists for servicing.	1	As above	Head of Visitors Services	31/10/2015	Completed
R12	Fire risk assessments should be undertaken every 12 months or following significant changes in the workplace	2	As above	Head of Visitors Services	31/10/2015	Completed
R13	The CCTV Supervising Manager should attend refresher courses in relation to risk assessment training and fire safety awareness.	3	Agreed	Head of Visitors Services	31/12/2015	Risk Assessment done. Fire Safety awaiting course dates
R14	The CCTV Supervising Manager should declare his business interests in line with the Officers' Code of Conduct.	2	Agreed	Head of Visitors Services	30/09/2015	Completed
R15	The Corporate Retention Schedule should be amended to reflect the changes to the storage of CCTV footage.	3	Agreed. Head of Visitor Services to liaise with Assistant Head of ICT Services.	Head of Visitors Services	30/09/2015	Completed
R16	Plans should be put in place to mitigate any risks associated with the use of volunteers in the operation of the CCTV Service.	2	Agreed. SIA training and other mandatory iPool courses to be undertaken by all CCTV volunteers.	Head of Visitors Services	30/09/2015	Completed
R17	The self-assessment tool should be completed to ascertain the Council's level of compliance with the Surveillance Camera Code of Practice.	1	Agreed. Head of Visitor Services to liaise with the ICT Manager (Information Governance).	Head of Visitors Services	31/10/2015	Completed

CCTV Audit Report - Recommendations Update - January 2016

R18	Clear policies in relation to the operation of the CCTV service need to be produced and communicated to all who need to comply with them.	1	Agreed. Draft policies to be produced subject to members' agreement.	Head of Visitors Services	30/09/2015	Completed
R19	The service should ensure that appropriate contracts are implemented with all third parties we provide a service to.	2	Agreed	Head of Visitors Services	31/03/2016	Work in progress
R20	The maintenance programme should be developed further to include: <ul style="list-style-type: none"> • Details of the type of work to be undertaken, such as preventative maintenance or corrective maintenance • Duration of the task • Specialist tools or materials required to perform the task • Location of the equipment to be maintained. 	2	Agreed. For other parties this could be included in the SLA.	Head of Visitors Services	31/03/2016	Work in progress
R21	Consideration should be given as to whether or not employing a contractor to assist in the day to day maintenance of CCTV equipment is the most cost effective and resilient approach.	2	Agreed	Head of Visitors Services	31/03/2016	Completed
R22	A more specific account code should be used when procuring goods and services and that a more descriptive explanation should be quoted on the order.	3	Implemented	N/A	N/A	Completed
R23	The process for job costing should be documented to include how profit margins are calculated.	3	Agreed	Head of Visitors Services	31/03/2016	Work in progress
R24	A formal exercise should be undertaken in conjunction with the Corporate Procurement Team to test the market to ensure value for money has been achieved in the procurement of CCTV equipment and consumables.	1	Agreed. Head of Visitor Services to liaise with the Head of Procurement	Head of Visitors Services	31/03/2016	Work in progress

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Report to:	AUDIT COMMITTEE
Relevant Officers:	Neil Jack, Chief Executive Carmel McKeogh, Deputy Chief Executive Steve Thompson, Director of Resources
Date of Meeting	28 January 2015

STRATEGIC RISK REGISTER – INADEQUATE CHANGE MANAGEMENT

1.0 Purpose of the report:

1.1 The Committee to consider a progress report on individual risks identified in the Council’s Strategic Risk Register.

2.0 Recommendation(s):

2.1 To question the Chief Executive, Deputy Chief Executive and Director of Resources on identified risks on the Strategic Risk Register in relation to lack of resilience.

3.0 Reasons for recommendation(s):

3.1 To enable the Committee to consider an update and progress report in relation to an individual risk identified on the Strategic Risk Register.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council’s approved budget? Yes

3.3 Other alternative options to be considered:

To not receive an update report, however this would prevent the Committee from monitoring and asking relevant questions of the Strategic Risk Owners in relation to significant risks identified on the Strategic Risk Register.

4.0 Council Priority:

4.1 The relevant Council Priority is: Communities: Creating stronger communities and increasing resilience.

5.0 Background Information

5.1 At its meeting in September 2015, the Audit Committee agreed to continue to invite Strategic Risk Owners to attend future meetings to provide updates and progress reports in relation to the individual risks identified on the Strategic Risk Register.

Does the information submitted include any exempt information?

No

List of Appendices:

Appendix 4(a) - Excerpt from Strategic Risk Register

6.0 Legal considerations:

6.1 None

7.0 Human Resources considerations:

7.1 None

8.0 Equalities considerations:

8.1 None

9.0 Financial considerations:

9.1 None

10.0 Risk management considerations:

10.1 None

11.0 Internal/ External Consultation undertaken:

11.1 None

12.0 Background papers:

12.1 None

Risk	Sub No	Sub Risk	Impact / Consequences	Opportunity	Gross Risk Score			Controls and Mitigation	Net Risk Score			New Developing Controls	Risk Manager	CLT Risk Owner	Target Date	Corporate Priority
					I	L	GS		I	L	NS					
					Inadequate Change Management	5a	Unpredictability of legal rulings requiring an unexpected change.		Inability to effectively adapt to the required change.		5					
Page 17	5b	Unfunded new burdens which the Council is required to deliver	Increased financial obligations. Policy decisions create expectations for residents.		5	4	20	Analysis of previous patterns and trends.	4	4	16	Policy research to identify and communicate potential trends.	Deputy Chief Executive	Chief Executive	Ongoing	Deliver quality services

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Report to:	AUDIT COMMITTEE
Relevant Officers:	Delyth Curtis, Director of People
Date of Meeting	28 January 2015

STRATEGIC RISK REGISTER – FAILURE TO KEEP PEOPLE SAFE

1.0 Purpose of the report:

1.1 The Committee to consider a progress report on individual risks identified in the Council's Strategic Risk Register.

2.0 Recommendation(s):

2.1 To question the Director of People on identified risks on the Strategic Risk Register in relation to lack of resilience.

3.0 Reasons for recommendation(s):

3.1 To enable the Committee to consider an update and progress report in relation to an individual risk identified on the Strategic Risk Register.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 Other alternative options to be considered:

To not receive an update report, however this would prevent the Committee from monitoring and asking relevant questions of the Strategic Risk Owners in relation to significant risks identified on the Strategic Risk Register.

4.0 Council Priority:

4.1 The relevant Council Priority is: Communities: Creating stronger communities and increasing resilience.

5.0 Background Information

5.1 At its meeting in September 2015, the Audit Committee agreed to continue to invite

Strategic Risk Owners to attend future meetings to provide updates and progress reports in relation to the individual risks identified on the Strategic Risk Register.

Does the information submitted include any exempt information?

No

List of Appendices:

Appendix 5(a) - Excerpt from Strategic Risk Register

6.0 Legal considerations:

6.1 None

7.0 Human Resources considerations:

7.1 None

8.0 Equalities considerations:

8.1 None

9.0 Financial considerations:

9.1 None

10.0 Risk management considerations:

10.1 None

11.0 Internal/ External Consultation undertaken:

11.1 None

12.0 Background papers:

12.1 None

Risk	Sub No	Sub Risk	Impact / Consequences	Opportunity	Gross Risk Score			Controls and Mitigation	Net Risk Score			New Developing Controls	Risk Manager	CLT Risk Owner	Target Date	Corporate Priority
					I	L	G S		I	L	N S					
Failure to Keep People Safe	4a	Death, serious injury or harm of a vulnerable adult / child	Inspection failure (Ofsted / CCQ).		5	5	25	Safeguarding processes and procedures.	4	4	15	Review all safeguarding procedures and constant auditing.	Deputy Director of Adult Services / Deputy Director of Children's Services	Director of People	Ongoing	Safeguarding and Protecting
			Trauma for family of the victim.				Training and professional development.									
			Potential criminal charges for staff involved.				Contract monitoring.									
			Significant liability claim received.				Risk assessments.									

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Report to:	AUDIT COMMITTEE
Relevant Officer:	Iain Leviston, Manager, KPMG
Date of Meeting:	28 January 2016

EXTERNAL AUDIT PLAN 2015/2016

1.0 Purpose of the report:

1.1 To consider KPMG's Audit Plan 2015/2016.

2.0 Recommendation(s):

2.1 To note the plan and make any recommendations as considered appropriate.

3.0 Reasons for recommendation(s):

3.1 To ensure overview of the Council's External Audit Plan.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 Other alternative options to be considered:

None

4.0 Council Priority:

4.1 The relevant Council Priorities are

- "The economy: Maximising growth and opportunity across Blackpool"
- "Communities: Creating stronger communities and increasing resilience"

5.0 Background Information

5.1 The Council’s external auditors are required to review and report on the Council’s:

- Financial statements (including the Annual Governance Statement), providing an opinion on the accounts; and
- Use of Resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).

5.2 The audit planning process and risk assessment is an ongoing process and the assessment and fees in the plan will be kept under review and updated where required.

5.3 Does the information submitted include any exempt information? No

5.4 **List of Appendices:**
Appendix 6a: External Audit Plan

6.0 Legal considerations:

6.1 None

7.0 Human Resources considerations:

7.1 See attached report.

8.0 Equalities considerations:

8.1 None

9.0 Financial considerations:

9.1 See attached report.

10.0 Risk management considerations:

10.1 None

11.0 Ethical considerations:

11.1 None

12.0 Internal/ External Consultation undertaken:

12.1 None

13.0 Background papers:

13.1 None

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External Audit Plan 2015/16

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Blackpool Council

January 2016

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on a forecast of this year's gross expenditure and set at **£3.5 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£175,000**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Fraudulent revenue recognition; and
- The Minimum Revenue Provision.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- | | |
|--|------------------------------------|
| ■ Cash; | ■ Payroll; |
| ■ Accounts payable; | ■ Net pension liability; |
| ■ Council Tax income | ■ Business rate income; |
| ■ HRA rental income; | ■ Housing Benefit expenditure; and |
| ■ HRA repairs and maintenance expenditure. | |

See pages 3 to 6 for more details.

Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment is ongoing and we will report on the significant VFM risks identified in our interim audit report.

See pages 7 to 9 for more details.

Logistics



Our team is:

- Tim Cutler – Partner
- Iain Leviston – Manager
- Reena Ghelani – Assistant manager

More details are on **page 12**.

Our work will be completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11**.

Our fee for the audit is £110,153 (£146,870 2014/15) see **page 10**

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 7 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2015/16.



Financial Statements Audit Planning

Our planning work takes place during December to February 2015. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



- Key:
- Significant risk
 - Other area of audit focus
 - Example other areas considered by our approach



Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Minimum Revenue Provision

- The Authority includes a Minimum Revenue Provision (MRP) within its accounts to allow the cost of capital assets financed by borrowing to be recognised in the revenue account. Government Regulations require a MRP to be included in the accounts, but only provide guidance on how authorities may calculate the provision. Changing the basis for calculating the MRP is becoming increasingly common but any change must ensure that the provision remains 'prudent'. The significant nature of the change means that there is a risk that a material misstatement could occur.

- The Authority needs to clearly document its proposed approach, and obtain independent legal advice as to the legality of this approach. We will work closely with the Director of Resources and Head of Finance to review their proposed approach, ensure that it is appropriate to the specific circumstances of the Authority and use our experience of working with other authorities to ensure that changes are compliant with the Regulations.

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Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Cash

- Cash is an area that, due to its nature, will always be an area of special audit focus.
- We will verify the bank and loan balances held by the Authority to ensure that these are supported by third party confirmations. We will also test the bank reconciliation controls to ensure that any unexpected variances between the Authority's accounting records and bank statements during the year are identified promptly and addressed appropriately.

Accounts payable

- The Authority incurs significant costs processed through the accounts payable system. The failure of this system to record expenditure accurately or in a timely manner could have a material impact on the accounts.
- We will use a suite of data analytical procedures to identify those transactions that are potentially higher risk, and use this to focus our audit work on ensuring that expenditure is both accurately recorded and appropriate.

Payroll

- The size of the Authority's payroll costs require this to be an area of audit focus, despite the routine nature of many of the transactions.
- We will compare the payroll costs recognised in the general ledger to our expectations, based on our knowledge of the Authority, to ensure that the overall payroll costs are reasonable. Specific elements of the remuneration report will be agreed back to payroll records.

Net pension liability

- The net pension liability is a material balance calculated using significant judgements made by the scheme actuary and approved by the Authority.
- We will review the IAS 19 disclosures provided by the scheme actuaries to ensure they have been correctly incorporated into the accounts. The assumptions used to calculate the net liability will be compared to KPMG benchmarks to ensure they are reasonable. We will verify that the payroll data sent to the scheme is correct, and seek assurance from the scheme's auditors that this has been processed appropriately to calculate the net liability.



Other areas of audit focus (continued)

Council Tax income

- Council Tax is, like business rates, a material income source for the Authority. Despite the routine nature of many of the transactions, this scale means that system errors could cause a material misstatement to the accounts.
- The Council Tax system will be reviewed and the key controls documented and tested, to ensure that the system is robust.
Actual income will be compared to an expectation based on changes in the Band D amount and property numbers by band.
Precepts will be agreed to demand letters.
Debtors, creditors and income will be sample tested.

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Business rates income

- Business rate income is a material income source for the Authority. As the NDR return is no longer externally certified, we need to undertake additional procedures over this balance.
- We will derive our own expectation of business rate income based on changes in multipliers and Valuation Office data, and understand any significant variances from that reported by the Authority.
We will reconcile the balances to central government notifications and the business rates system.

HRA rental income

- Although the housing stock is managed on the authority's behalf by Blackpool Coastal Housing, the Authority still receives the rental income through the HRA.
- An expectation of rental income will be set based on the number of properties, changes in rent levels and other variables such as voids, and significant differences from that reported in the accounts investigated.
Arrears balances will be agreed from the rent system to the balance sheet, and a sample of balances tested for accuracy.
Impairment of arrears balances will be reviewed for reasonableness.

Housing benefits expenditure

- The size of the housing benefit payments made by the Authority require us to undertake additional work over this balance.
- We will reconcile the underlying benefit data to the draft subsidy form certified by KPMG on behalf of the Authority.
We will compare expenditure to our own expectations derived from our knowledge of the Authority and changes at other local authorities.
Year-end cut-off will also be tested.

HRA repairs and maintenance expenditure

- The repairs balance is another material balance in the HRA. Despite the routine nature of many of the transactions, this scale means that system errors could cause a material misstatement to the accounts.
- The make-up of the repairs expenditure, i.e. payroll, accounts payable and other expenditure, will be identified, and testing combined with other areas where appropriate.
Additional substantive testing will be undertaken on those elements not included elsewhere.

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

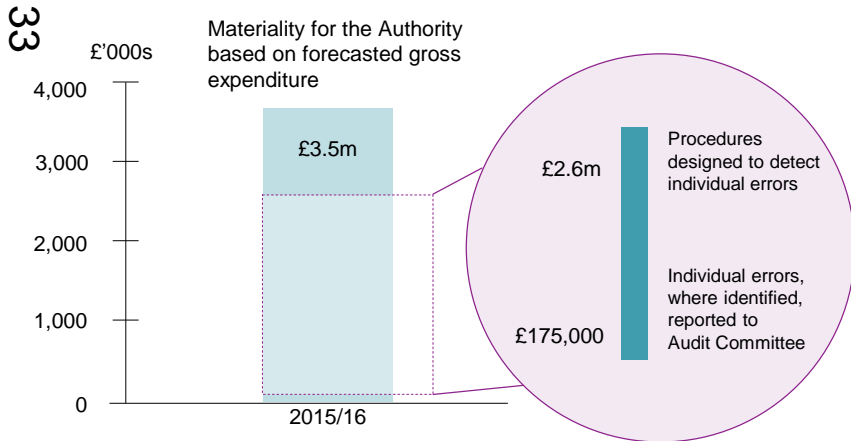
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £3.5 million for the Authority's standalone accounts. This equates to approximately 1 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.



Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £175,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Group audit

In addition to the Authority we deem the following subsidiaries to be significant in the context of the group audit:

- Blackpool Transport Services;
- Blackpool Operating Company; and
- Blackpool Entertainment Company.

To support our audit work on the Authority's group accounts, we seek to place reliance on the work of the firms who are the auditors to these subsidiaries. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our Report to those charged with Governance:

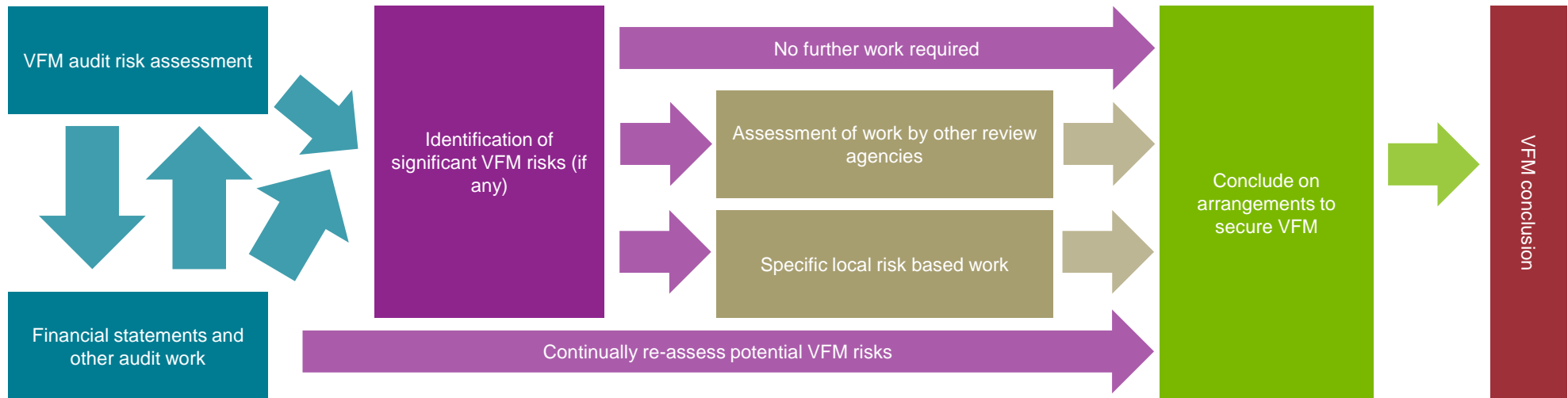
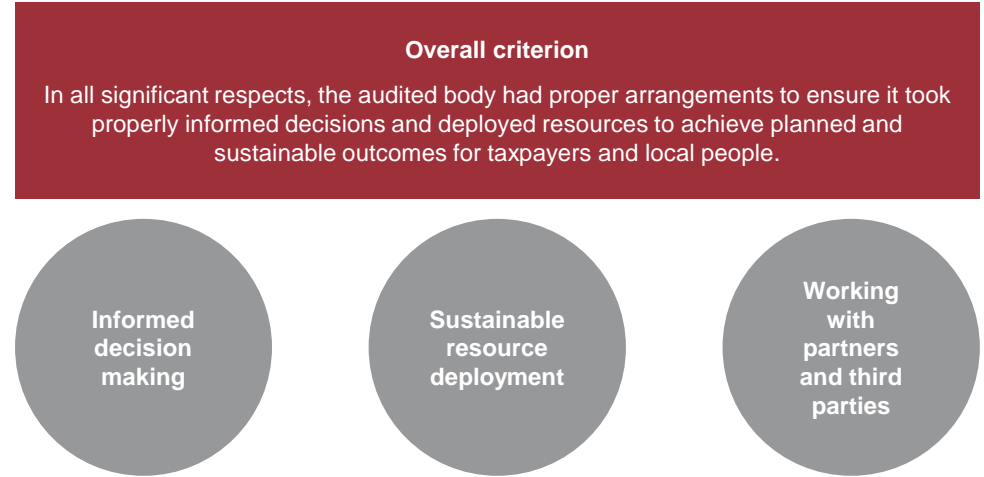
- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- Any limitations on the group audit, for example, where the our access to information may have been restricted; and
- Any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/15 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.





VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We still need to complete our initial VFM risk assessment and as such have yet to identify any significant VFM risks. We will report on the significant VFM risks identified, if any, in our interim audit report.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

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Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Tim Cutler, who leads our Local Government Audit Practice nationally. Tim replaces Trevor Rees who has now retired, and will provide a fresh perspective to the audit of the Authority. Iain Leviston and Reena Ghelani remain as manager and assistant manager respectively, providing the continuity that is important to the smooth running of the audit. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

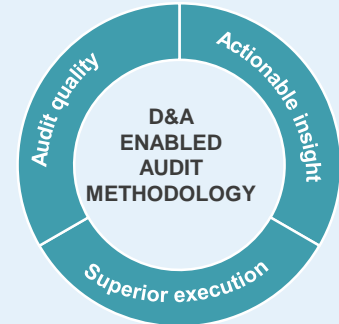
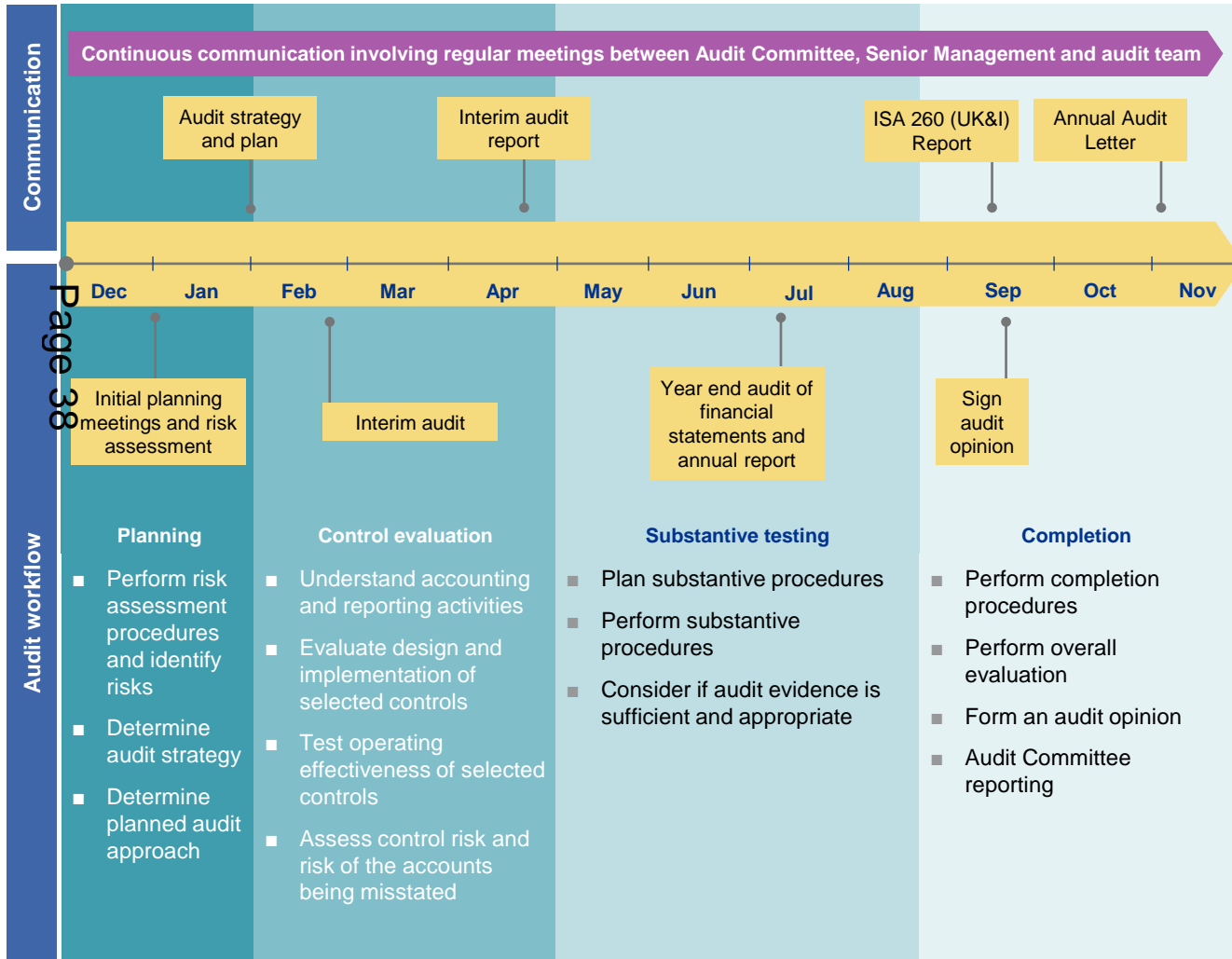
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/16 presented to you in April 2015 first set out our fees for the 2015/16 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £110,153. This is a reduction in audit fee, compared to 2014/15, of £36,717 (25 percent).

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



Your audit team has been drawn from our specialist public sector assurance department. Tim Cutler is our national Head of Local Government Audit, and joins the team as the Partner. Iain Leviston and Reena Ghelani provide continuity from last year.



Name	Tim Cutler
Position	Partner
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee and Chief Executive.'</p>

Tim Cutler

Partner

0161 246 4774

tim.cutler@kpmg.co.uk



Name	Iain Leviston
Position	Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Tim to ensure we add value.</p> <p>I will liaise with the Director of Resources and other Executive Directors.'</p>

Iain Leviston

Manager

0161 246 4403

iain.leviston@kpmg.co.uk



Name	Reena Ghelani
Position	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>

Reena Ghelani

Assistant Manager

0161 246 4958

reena.ghelani@kpmg.co.uk

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 28 January 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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Report to:	AUDIT COMMITTEE
Relevant Officer:	Tracy Greenhalgh – Chief Internal Auditor
Date of Meeting	28 January 2016

ANTI-MONEY LAUNDERING POLICY AND PROCEDURES

1.0 Purpose of the report:

1.1 The Anti-Money Laundering Policy and Procedure explains what money laundering is and the legal framework that is in place to govern it.

It also details the procedures that need to be followed by the Council.

The aims of the policy and procedure are to:

- Assist staff and elected members at Blackpool Council to understand money laundering and their personal legal obligations and responsibilities arising from the requirements of legal and regulatory provisions.
- Reduce the risk of Council services being used for money laundering purposes.
- Set out the procedures that must be followed to enable the Council and its staff to comply with their legal obligations.

2.0 Recommendation(s):

2.1 To consider and approve the Anti-Money Laundering Policy and Procedure.

3.0 Reasons for recommendation(s):

3.1 Although local authorities are not directly covered by the requirements of the Money Laundering Regulations (2007), guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) indicates that Council's should comply with the underlying spirit of the regulations. It states that a 'prudent and responsible' Council will adopt 'appropriate and proportionate' policies and procedures designed to 'detect and avoid involvement in crimes described in the legislation and regulations'.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 Other alternative options to be considered:

N/a

4.0 Council Priority

4.1 The relevant Council priority is Communities: Creating stronger communities and increasing resilience.

5.0 Background Information

5.1 This policy applies to all Council employees and elected members and aims to help to maintain high standards of conduct by preventing criminal activity through money laundering. This also includes casual employees and agency staff. The policy links to the Councils Code of Conduct particularly in relation to point 2.2 of the standards.

Non-compliance by a member of staff with the procedures set out in this policy may lead to disciplinary action. Non-compliance by an elected member will be reported to the Monitoring Officer to undertake an independent review of conduct.

Does the information submitted include any exempt information?

No

List of Appendices:

Appendix 7a - Anti-Money Laundering Policy and Procedure.

6.0 Legal considerations:

6.1 There are three key pieces of legislation that make money laundering a criminal offence:

Terrorism Act (2000)

The Terrorism Act (2000) applies to all individuals and businesses in the UK including local authorities. If during your employment at the Council you become aware of information which provides knowledge, or provides reasonable grounds for belief or suspicion, that proceeds have come from, or are likely to be used for, terrorism it must be reported. Reporting will prevent you being subject to money laundering offences relating to being implicated in illegal activity.

Proceeds of Crime Act (2002)

The Proceeds of Crime Act (2002) defines six money laundering offences of which the first four are the most relevant to the Council. These are:

- Concealing, disguising, converting, transferring or removing from the UK any

criminal property.

- Becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property.
- Doing something that might prejudice an investigation.
- Failing to disclose known or suspected money laundering offences in the non-regulated sector.
- Failing to disclose known or suspected money laundering offences in the regulated sector.
- 'Tipping Off' by giving information to someone suspected of money laundering in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

Money Laundering Regulations (2007) [as amended by the Money Laundering (Amendment) Regulations 2012]

The Money Laundering Regulations (2007) are not legally binding on local authorities because they are neither 'relevant persons' nor part of the 'regulated sector'. However, there is a risk of reputational damage for any local authority that does not have adequate policies and procedures in place.

7.0 Human Resources considerations:

- 7.1 The policy and procedure are intended to protect staff when dealing with financial transactions that may be related to money laundering. The policy and procedure sit alongside the Council's Officer Code of Conduct and Anti-Fraud and Corruption Statement.

8.0 Equalities considerations:

- 8.1 The policy and procedure affects all employees equally and is not intended to discriminate against individual groups.

9.0 Financial considerations:

- 9.1 The Council could be subject to financial loss through being fined should the policy and procedure not be adhered to.

10.0 Risk management considerations:

- 10.1 The adoption of and adherence to the policy and procedure will help protect the Council and its employees against the risk of money laundering.

11.0 Ethical considerations:

11.1 The policy and procedures are in keeping with the Council's core values, in particular:

'We act with integrity and we are trustworthy in all our dealings with people and we are open about the decisions we make and the services we offer'.

12.0 Internal/ External Consultation undertaken:

12.1 Relevant officers were invited to comment on the draft policy and procedure via e-mail on the 29 September 2015. The e-mail was issued to:

- Steve Thompson – Director of Resources
- Carmel White – Chief Corporate Solicitor
- Mark Towers – Director of Governance and Regulatory Services
- Marie McRoberts – Assistant Treasurer
- Phil Redmond – Chief Accountant
- Tim Coglan – Service Manager – Public Protection
- Andy Southwell – HR Policy Development Officer

The Trade Unions were also invited to provide feedback via e-mail on the 26 October 2015.

The Corporate Leadership Team approved the policy on the 24 November 2015.

13.0 Background papers:

13.1 N/a

Anti-Money Laundering Policy and Procedures

November 2015

Blackpool Council



Anti-Money Laundering Policy and Procedure

Introduction

This policy explains what money laundering is and the legal framework that is in place to govern it.

It also details the procedures that need to be followed by the Council.

The aims of this policy and procedure are to:

- Assist staff and elected members at Blackpool Council to understand money laundering and their personal legal obligations and responsibilities arising from the requirements of legal and regulatory provisions.
- Reduce the risk of Council services being used for money laundering purposes.
- Set out the procedures that must be followed to enable the Council and its staff to comply with their legal obligations.

Scope of Policy

This policy applies to all Council employees and elected members and aims to help to maintain high standards of conduct by preventing criminal activity through money laundering. This also includes casual employees and agency staff. The policy links to the Council's Code of Conduct particularly in relation to point 2.2 of the standards.

Non-compliance by a member of staff with the procedures set out in this policy may lead to disciplinary action. Non-compliance by an elected member will be reported to the Monitoring Officer to undertake an independent review of conduct.

What is Money Laundering?

Money laundering is any attempt to convert the proceeds of crime to money or assets that appear to have derived from legitimate activities. Anyone who becomes involved in an activity which they know or

suspect is related to the proceeds of crime may be guilty of money laundering.

There are three stages to money laundering:

- Stage 1 – Placement – criminally derived funds are introduced into the financial system.
- Stage 2 – Layering – the funds are 'washed' and its ownership and source is disguised.
- Stage 3 – Integration – the 'laundered' property is re-introduced as clean funds.

Money Laundering: Legal and Regulatory Framework

There are three key pieces of legislation which make money laundering a criminal offence and these include:

Terrorism Act (2000)

The Terrorism Act (2000) applies to all individuals and businesses in the UK including local authorities. If during your employment at the Council you become aware of information which provides knowledge, or provides reasonable grounds for belief or suspicion, that proceeds have come from, or are likely to be used for, terrorism it must be reported. Reporting will prevent you being subject to money laundering offences relating to being implicated in illegal activity.

Proceeds of Crime Act (2002)

The Proceeds of Crime Act (2002) defines six money laundering offences of which the first four are the most relevant to the Council. These include:

- Concealing, disguising, converting, transferring or removing from the UK any criminal property.

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- Becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property.
- Doing something that might prejudice an investigation.
- Failing to disclose known or suspected money laundering offences in the non-regulated sector.
- Failing to disclose known or suspected money laundering offences in the regulated sector.
- 'Tipping Off' by giving information to someone suspected of money laundering in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

Money Laundering Regulations (2007) [as amended by the Money Laundering (Amendment) Regulations 2012]

The Money Laundering Regulations (2007) are not legally binding on local authorities because they are neither 'relevant persons' nor part of the 'regulated sector'. However, there is a risk of reputational damage for any local authority that does not have adequate policies and procedures in place.

Although local authorities are not directly covered by the requirements of the Money Laundering Regulations (2007), guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) indicates that Councils should comply with the underlying spirit of the regulations. It states that a 'prudent and responsible' Council will adopt 'appropriate and proportionate' policies and procedures designed to 'detect and avoid involvement in crimes described in the legislation and regulations'.

Aims and Requirements of the Money Laundering Legislation

The Regulations have two main aims:

- To enable suspicious transactions to be recognised and reported to law enforcement agencies.
- To ensure that, if a business's client comes under investigation in the future, the business can provide its part of the audit trail.

The Regulations require:

- Identification procedures
 - Record keeping procedures
 - Internal reporting procedures
 - Procedures to prevent money laundering
-

What are the Offences and Penalties?

There are three principal money laundering offences:

- **Laundering** – Conviction resulting in a maximum 14 years imprisonment and / or fine.
 - **Failing to Report** - Conviction resulting in a maximum of 5 years imprisonment and / or fine.
 - **Tipping off** - Conviction resulting in a maximum of 5 years imprisonment and / or fine.
-

Where can the money come from?

There are a number of sources of money laundering and some examples include:

- VAT / Customs Fraud
- Theft
- Forgery
- Blackmail
- Art and antique theft and fraud

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-
- Corruption
 - Smuggling
 - Illegal drugs trade
 - Fraud and extortion
-

What areas are most at risk of Money Laundering?

The areas which are most at risk of money laundering include:

- Conveyancing.
 - Cash payments in excess of £13,000.
 - Refunds of overpayments to accounts.
 - Suspiciously low tenders.
-

Money Laundering Policy

Elected members and staff at Blackpool Council need to be vigilant for signs of money laundering. The Council has a process in place for reporting suspicious activity, will provide appropriate training and has procedures for identification checks. The roles and responsibilities are defined below.

Roles and Responsibilities

Blackpool Council will strive to:

- Prevent the Council and its staff being exposed to money laundering.
- Identify the potential areas where it may occur.
- Comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases of money laundering.
- Make all staff aware of the obligations placed on the Council and on themselves as

individuals by the anti-money laundering legislation.

- Provide training and guidance to those most likely to encounter money laundering activity.

Blackpool Council employees and elected members are required to:

- Report promptly all suspicions of money laundering activity to the Money Laundering Reporting Office (MLRO) or Deputy MLRO.
- Follow any subsequent directions of the MLRO or Deputy.
- Be alert to potentially suspicious circumstances. Where there may be doubt, particularly when forming a new business relationship or considering a significant one-off transaction, the identification procedures in the Council's Anti-Money Laundering Procedures should be followed.

Employees receiving or arranging to receive cash on behalf of the Council must:

- Ensure that they are familiar with the Council's Anti-Money Laundering Procedures.
- Ensure that no payment to the Council should be accepted in cash if it exceeds £13,000.

The nominated officers for reporting issues are:

- MLRO – Chief Internal Auditor
- Deputy MLRO – Audit Manager

The MLRO or Deputy must:

- Evaluate all concerns raised by staff to determine whether it is appropriate to make a report to the National Crime Agency (NCA).
- If appropriate, ensure that an internal report is completed using the pro forma provided in the Anti-Money Laundering Procedures.

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- If appropriate, submit a Suspicious Activity Report to the NCA using the NCA's standard form.

Anti-Money Laundering Procedures

What are the obligations on the Council?

The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance advises that Council's should:

- Maintain robust recording keeping procedures.
- Make those members and employees who are likely to be exposed to, or suspicious of, money laundering activities, aware of the requirements and obligations in relation to money laundering.
- Provide targeted training to those considered most likely to encounter money laundering activities.
- Implement formal systems for employees and elected members to report money laundering suspicions to the MLRO.
- Establish internal procedures to anticipate and prevent money laundering and make relevant individuals aware of the procedures.
- Report any suspicions on money laundering to the NCA.
- Put in place procedures to monitor developments in 'grey' areas of legislation and to keep abreast of further advice and guidance as issued by relevant bodies.

To avoid the risk of non-compliance with the requirements of the legislation the above obligations should be considered across all areas of the Council. Therefore all elected members and employees are required to comply with the policy and procedures.

The Money Laundering Reporting Officer (MLRO)

The officer nominated to receive disclosures in relation to money laundering activity across the Council is the Chief Internal Auditor and the deputy MLRO is the Audit Manager. The contact details for both these officers are:

Money Laundering Reporting Officer (MLRO)

Tracy Greenhalgh

Chief Internal Auditor

Tel: (01253) 478554

E-mail: tracy.greenhalgh@blackpool.gov.uk

Deputy Money Laundering Reporting Officer (MLRO)

Gary Smith

Audit Manager

Tel: (01253) 478560

Email: gary.smith@blackpool.gov.uk

The MLRO (or deputy) will determine whether the information or other matters contained in the report received give rise to knowledge or suspicion that a person is engaged in money laundering. In making this judgement they will consider all other relevant information available to the Council concerning the person or business to which the initial allegation relates. The MLRO will complete a form to evidence this process, a copy of which can be found in **Appendix 2** of this document.

On completing this review the MLRO needs to be satisfied with the suspicions that the subject is engaged in money laundering. If this is the case the MLRO must then ensure that the information is disclosed to the NCA.

Reporting to the MLRO (Disclosure)

When you know or suspect that money laundering activity is taking / has taken place or is about to take place, or become concerned that your involvement in a matter may amount to a prohibited act under the

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legislation, you must disclose this as soon as possible to the MLRO.

The disclosure should ideally be made within 'hours' of the information coming to your attention, wherever practical, not weeks or months later.

The disclosure should be made to the MLRO using the pro forma attached at **Appendix 1** of this document. The report should include copies of any evidence and must contain as much detail as possible including:

- Full details when known of the people involved such as name, address, company name, directorships and phone numbers.
- Full details of the nature of their / your involvement.

If you are concerned that your involvement in the transaction would be a prohibited act, then your report must include all relevant details, as you will need consent from the NCA, via the MLRO, to take any further part in the transaction. This is the case even if the party giving rise to concern gives instructions for the matter to proceed before such consent is given.

You should explain in as much detail in the report to the MLRO:

- What consent is required and clarify whether there are any deadlines for giving such consent e.g. a completion date or court deadline.
- The types of money laundering activities involved.
- What type of money laundering offence you believe may be happening?
- The date of such activities and make a note stating whether the activity has happened, ongoing or imminent.
- The location where the activity took place i.e. department, section, and building.
- How the activities were undertaken.

- The (likely) amount of money / assets involved (if known).
- Why you are suspicious of the activity – the NCA will require full reasons.
- Any other available information to enable the MLRO to make a sound judgement as to whether there are reasonable grounds for knowledge or suspicion of money laundering.

Recognition of Suspicious Transactions

As the type of transaction which may be used by money launderers are almost unlimited, it is difficult to define a suspicious transaction.

The Council has set a general cash transaction limit of £13,000 (in line with the 2007 Regulations) over which any transaction or group of transactions from the same source should automatically be classified or deemed as suspicious. This does not however mean to say that any transactions under this limit on which you have suspicions should not be reported. All suspicious transactions, irrespective of their values, should be reported.

How can Suspicious Activity be identified?

Employees dealing with transactions that involve income for goods and services should look for:

- Cash over the value of £13,000 being received.
- Overpayment is received in cash and a refund is made.
- Overpayment is received by credit or debit card and a cheque refund is requested.

When dealing with a new customer think about:

- Is checking their identity proving difficult, is the individual reluctant to provide details?
- Is there a genuine reason for using the services provided?

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- Is the customer attempting to introduce intermediaries to either protect their identity or hide their involvement?
- Is the customer requesting a large cash transaction?
- Is the source of the cash known and reasonable?

For regular and established customers you need to consider:

- Is the transaction reasonable in the context of the service provider's normal business?
- Is the size or frequency of the transaction consistent with the normal activities of the customer?
- Has the pattern of the transaction changed since the business relationship was established?

Record Keeping Procedures

Each section of the Council conducting relevant business must maintain appropriate records of:

- Client identification evidence obtained.
- Details of all relevant business transactions carried out for clients for at last five years. This is so they may be used as evidence in any subsequent investigation into money laundering.

The precise nature of the records to be held is not prescribed by law, however they must be capable of providing an audit trail during any subsequent investigation.

In practice, Council services will routinely be making records of work carried out for various parties, customers and clients in the course of normal business and these should suffice in this regard.

Potential Money Laundering Indicators

Some key things to look out for when considering money laundering include:

- Overpayments.
- Secretive client.
- Unknown client.
- Illogical third party involvement.
- Payment of substantial cash sums.
- Concerns about honesty, identity or location of client.
- Unusual request for account details.
- Movement of funds overseas.
- Absence of legitimate source of funds.
- Size, nature and frequency of transactions out of line with expectations.
- Cancellation or reversal of a transaction.

Conclusion

The legislative requirements concerning anti-money laundering procedures are lengthy and complex. The policy and procedural guidance notes have been written to enable the Council to meet the legal requirements in a way that is proportionate to the Council's risk of contravening the legislation.

Should you have any concerns whatsoever regarding any transaction then you should contact the MLRO or their deputy.

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Appendix 1

Confidential

Report to the Money Laundering Reporting Officer

Re: Money Laundering Activity

To: Money Laundering Reporting Officer

From:

Directorate:

Tel No:

Details of Suspected Offence:

Name and Address of Persons Involved:

(If a company / public body please include details of the nature of business)

Nature, whereabouts, value and timing of activity / property involved:

(Please include full details e.g. what, where, when and how. Please include whereabouts of the laundered property, as far as you are aware)

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Nature of suspicions regarding such activity:

Has an investigation been undertaken (as far as you are aware)?

Yes / No

If yes please provide details below:

Have you discussed your suspicions with anyone else?

Yes / No

If yes please provide details below:

Do you feel you have a reasonable excuse for not disclosing the matter to NCA?

Yes / No

(e.g. are you a lawyer and wish to claim legal professional privilege?)

If yes please provide details below:

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Are you involved in a transaction which might be a prohibited act under sections 372-329 of the 2002 Act of Section 18 of the 200 Act which requires appropriate consent from the NCA?	Yes / No
If yes please provide details below:	

Please set out below any other information you feel is relevant?

Signed: _____

Date: _____

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence which carries a maximum penalty of five years imprisonment.

This report needs to be retained for five years.

Anti-Money Laundering Policy and Procedure

Appendix 2

Confidential

**Money Laundering Reporting Officers Report
(to be completed by the Money Laundering Reporting Officer)**

Date Report Received: _____

Date Receipt of Report Acknowledged: _____

Consideration of Disclosure / Action Plan:

Outcome of Consideration of Disclosure:

(Are there reasonable grounds for suspecting money laundering activity? Do you know the identity of the alleged money launderer or the whereabouts of the property concerned?)

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If there are reasonable grounds for suspicion will a report be made to the NCA?	Yes / No <i>(Please delete as appropriate)</i>
If yes please confirm date of the report to the NCA and complete the box below:	
Date of Referral:	
Notice period: _____ to _____	
Moratorium period: _____ to _____	

Is consent required from NCA to any ongoing or imminent transactions which would otherwise be prohibited?	Yes / No <i>(Please delete as appropriate)</i>
--	---

If YES please confirm full details here:

Date consent received from NCA: _____
Date consent given by you to employee: _____

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If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the NCA, please set out the reason (s) for non-disclosure:

Date consent given by you to the employee for any transactions prohibited by legislation to proceed:

Other relevant information:

Signed: _____

Date: _____

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence which carries a maximum penalty of five years imprisonment.

This report needs to be retained for five years.

Anti-Money Laundering Policy and Procedure

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