

## MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 20 OCTOBER 2016

### Present:

Councillor Galley (in the Chair)

Councillors

Cox	Hobson	Matthews
Galley	Hunter	O'Hara

### In Attendance:

Mr Steve Thompson, Director of Resources.

Mr John Blackledge, Director of Community and Environmental Services.

Mrs Tracy Greenhalgh, Chief Internal Auditor.

Mr Iain Leviston, Manager, KPMG.

Mr Steve Sienkiewicz, Clerk to the Committee.

### 1 DECLARATIONS OF INTEREST

There were no declarations of interest on this occasion.

### 2 MINUTES OF THE LAST MEETING HELD ON 22 SEPTEMBER 2016

The Committee agreed that the minutes of the last meeting held on 22 September 2016 be signed by the Chairman as a true and correct record.

### 3 SELECTIVE LICENSING SCHEME - INTERNAL AUDIT

The Committee considered a report which detailed the actions taken to address the recommendations of the Internal Audit review on the Selective Licensing Scheme. It was noted that the report had been requested by Members at the last meeting of the Committee, where it had been noted that the audit review had identified that the expenditure incurred by the scheme was reasonable and in line with its delivery objectives. However, it had also been considered that there should have been more robust management by the service to ensure that budgets for schemes reflected actual expenditure and that the focus of the service had been on outcomes, rather than monitoring resources.

Mr Blackledge, Director of Community and Environmental Services, introduced the report and began by stressing what a positive experience the Audit process had been. He explained that the Selective Licensing Scheme was a huge undertaking and that approximately 2000 properties were covered by the scheme to date. In explaining the process to the Committee, he acknowledged that the scheme had raised a number of questions, particularly around costs. Mr Blackledge explained that any costs that related to enforcement issues came out of the Council's Revenue Budget and not from the scheme itself. He now received regular

## MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 20 OCTOBER 2016

updates on that subject and was confident that a far more robust process was now in place, helped by a greater focus now being placed on bad debtors through the Cedar system. He added that recent figures obtained from the police showed reductions in both crime and anti-social behaviour, which helped to illustrate the success of the scheme.

Responding to questions from the Committee, Mr Blackledge reiterated that the costs from the scheme paid for its management, but not for any enforcement action. He explained that whilst Legal Services documented all of their time on casework in relation to enforcement issues, the Public Protection department remained outcome focussed.

Asked about the acceptance and popularity of the scheme, the Committee was informed that the majority of landlords both accepted and appreciated the scheme. Mr Blackledge mentioned however that the media tended to concentrate on prosecution cases, so there was a requirement to change the emphasis of the media to focus more on positivity and the work of good landlords.

Mr Blackledge was asked about the approach that was taken with absent landlords and those that employed management companies. Particular concern was raised about what action Councillors should take when complaints were received in relation to absent landlords. Members were informed that an extremely robust approach was taken in such cases and that any complaints received should be referred directly to the scheme.

The Committee raised questions in relation to specific recommendations within the Audit Action Plan. In relation to Recommendation 7 'the budget holder should develop recovery plans for the forecast overspends on both schemes' and the agreed action 'a plan will be developed to reduce overspend and rationalise staffing levels as appropriate', Mr Blackledge was asked to provide a further explanation. He outlined that part of the focus was on time spent and costs involved, however it could not be analysed as an exact science. There would be some staffing reductions made as a result of greater efficiencies achieved.

Relating to Recommendation 5 and the requirement to review and confirm staff time allocated to the Claremont Scheme to avoid any further issues, Mr Blackledge was asked how that would work. He explained that there had been a misallocation of costs amounting to £37,000.00. However, the costs needed to be understood in the context of an overall budget of £1.5m. The South Beach Scheme was now coming to an end and more certainties existed around costs, particularly around the scheme and enforcement issues. Mr Blackledge further explained that he now met regularly with the Housing Manager and Service Manager to ensure a more robust budget monitoring process was in place.

Pointing out that there were seven priority 2 recommendations contained within the Action Plan, Mr Blackledge was questioned about his level of confidence that all could be delivered. He responded by explaining that the challenge from the Audit process had helped enormously in improving the Selective Licensing Scheme and that in such a huge undertaking, it was considered an achievement that no priority 1 recommendations had been issued.

The Committee thanked Mr Blackledge for his attendance and agreed to note the report.

## MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 20 OCTOBER 2016

Background papers: None.

### 4 STRATEGIC RISK REGISTER - SERVICE FAILURE

The Committee considered a progress report in relation to the individual risks identified on the Strategic Risk Register, specifically in relation to risks regarding 'Service Failure'. The Committee discussed plans to control and mitigate the risks with the strategic risk owner, Mr Thompson, Director of Resources.

Mr Thompson began by explaining that the risk of service failure was split between external and internal provision of services. In the case of the former, the sub-risk was identified as 'Failure of a service provider in high risk contracted areas such as Social Care and Waste Management'. He pointed out that in the current climate, it was not unusual for providers to go into administration. In such cases, where a service was terminated, the Council had a statutory duty to provide continuity. An example quoted was the provision of services to residents in care homes. To mitigate against risks, the Committee was informed that contractors were required to provide adequate business continuity arrangements, although difficulties arose where services were sub-contracted.

In relation to internal services and the sub-risk 'Loss of key infrastructure which results in Council services not being delivered, such as ICT and property', Mr Thompson advised that ICT (as an example) was a common thread that most services relied upon and that the property portfolio, together with the services within, needed to be prioritised. The Corporate Risk Management Group was involved in testing priorities and an example quoted was the arrangements that were in place to ensure continuity of services in the case of a flu epidemic. On the requirement to ensure that all services had up to date business continuity plans in place, it was pointed out that the current proportional figure within the Council was 95% against a target of 90%. Mr Thompson mentioned however that the current aim was to achieve 100% in the near future.

Mr Thompson also advised that it was important not to lose sight of the full spectrum of risks that may impact on service failure in the future. A feature of the current financial climate was that some local authorities were forecasting considerable risks in relation to forthcoming budget issues going forward.

Mr Thompson was questioned about risks that were considered to be uncontrollable and the types that were considered to be so. He explained that a flu epidemic would be a good example and a flu pandemic would be considered critical. External inspections that affected the operation of care homes was also quoted. He explained that whilst processes were in place to mitigate against such failures, it was not possible to provide continuous monitoring. It was further explained that risks around infrastructure were easier to manage.

The Committee raised questions around corporate ICT business continuity and resilience against a possible cyber attack. Specifically, the question around the adequacy of the Council's server back up arrangements at Municipal Buildings and Bickerstaffe House. Mr

## **MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 20 OCTOBER 2016**

Thompson acknowledged that the risk of cyber attack was a prevalent threat and would feature within the Quarter 3 Internal Audit report. In relation to adequacy, he advised that external provision could be bought, although at a premium cost and the risk needed to be balanced against that cost. Continuing on the subject of ICT back up arrangements, the Committee asked whether additional steps were not being taken due to costs. Mr Thompson explained that even if additional arrangements were located elsewhere, there would still be an element of risk. Under the current arrangements, the Council had direct control and influence over the risk. In terms of the actual risk rating for ICT back up arrangements which was currently at amber, Mr Thompson was asked about the possibility of achieving a green rating. He explained that it would never be possible to totally eliminate risk in the area and was therefore comfortable with an amber rating.

Mr Thompson was questioned about the level of staff turnover in ICT and whether the right people were in place. He acknowledged that experienced ICT personnel were a marketable resource and that ultimately the answer to the question was based upon judgement. The Council continued to strive to be an attractive proposition to ICT employees.

The Committee asked questions relating to the net score of 16 on the register against the sub risk of external service failure in a high risk area. In particular, Members asked whether benchmarking had been undertaken with other unitary authorities that faced the same issues. Mr Thompson responded by explaining that benchmarking was not possible because the circumstances were so different between authorities. In terms of the score itself, Mr Thompson suggested that the difference between a score of 16 and 20 was not material and the focus ought to be more on whether the rating was at red or amber. He added that further mitigation methods were unlikely to reduce the figure any further.

The Committee thanked Mr Thompson for his attendance and agreed:

1. To note the report.
2. To receive the Quarter 3 Internal Audit report at a future meeting of the Committee.
3. To request the attendance of the Head of ICT at the same meeting that the Quarter 3 Internal Audit report is considered.

Background papers: None.

### **5 CIPFA FRAUD TRACKER 2016**

The Committee considered the Chartered Institute of Public Finance and Accountancy (CIPFA) Fraud and Corruption Tracker report for 2016, together with the Council's plans and response to the recommendations.

The report was presented by Mrs Greenhalgh, Chief Internal Auditor. The Committee was informed that the report gave a national picture of fraud, bribery and corruption in the UK's public sector and the actions being taken to prevent it. The report summarised the results of a survey carried out among authorities across the country (of which Blackpool was a contributor) and was supported by a number of other agencies. It was the second survey of

## MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 20 OCTOBER 2016

this type and gave the opportunity to look for achievements, trends and emerging threats in the sector.

Mrs Greenhalgh talked the Committee through the CIPFA recommendations and the action being taken by the Council to address them. She then responded to questions in relation to the report and action plan.

The report made reference to a case study where Oldham Council had worked with the Department of Work and Pensions (DWP) to create the Single Fraud Investigation Service (SFIS) as part of a pilot national programme. Mrs Greenhalgh confirmed that a Single Fraud Investigation Service was established in Blackpool in April 2015.

On the subject of shared data, Mrs Greenhalgh acknowledged that there continued to be problems as the Department for Work and Pensions were unable to access the Council's data. Asked about prevention measures in relation to business rates fraud, Mrs Greenhalgh confirmed that work was already being carried on by the Business Rates team and further links with the Corporate Fraud team were being considered.

The Committee discussed purchasing and procurement arrangements and the different arrangements that existed between various departments. Mrs Greenhalgh stressed that the Council had a strong procurement framework in place and that all departments should follow contract procedure rules. The procedures were also covered by regular audit procedures.

Members went on to question Mrs Greenhalgh in relation to the action plan recommendation that stated 'it is important to prevent fraud that has no direct financial interest, such as data manipulation and recruitment, as it is high value fraud'. The response to that was that currently, the Corporate Fraud team responded to referrals, but had not undertaken any proactive work. However, it would be built into the revised proactive anti-fraud work programme going forward to assess the risk to the Council. Mrs Greenhalgh provided current examples of proactive work that included the Council Tax (single person discount and reduction scheme), the Blue Badge scheme and the checking on whether expenditure made via purchase cards was appropriate.

On the subject of anti-fraud measures within the Council's own insurance claims, Mrs Greenhalgh confirmed that work would be led by the Corporate Fraud Team, in partnership with other departments, including Highways and Legal Services.

Asked what she considered to be the three highest risk areas faced in relation to fraud issues, Mrs Greenhalgh outlined the following:

1. Having the capacity to identify fraud risk and investigate allegations.
2. Insurance fraud.
3. Council Tax fraud.

The Committee agreed to note the report.

## MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 20 OCTOBER 2016

Background papers: None.

### 6 LOCAL GOVERNMENT COUNTER FRAUD AND CORRUPTION STRATEGY 2016-2019

Mrs T. Greenhalgh, presented the Committee with the newly released Local Government Counter Fraud and Corruption Strategy 2016-2019. The purpose of the document was to outline the direction that the service was going and to identify a number of challenges, which included:

- The significant fraud losses which occur in local authorities.
- The reputational damage fraud had on local authorities.
- The fact that fraudsters were constantly revising and sharpening their techniques and the need for local authorities to adapt to meet these challenges.
- The need to tackle cross-boundary and organised fraud and corruption attempts as well as addressing new risks.
- The changing public sector landscape including budget reductions, service remodelling and integration and government policy changes.
- Barriers to tackling fraud effectively including incentives, information sharing and powers.

In order to meet the challenges, there was a requirement for local authorities to continue to develop the following principles:

- Acknowledge fraud risks exist.
- Prevent and detect more fraud.
- Pursue by punishing fraudsters and recovering losses.

Mrs Greenhalgh responded to a number of questions from the Committee on the contents of the document. Asked about how the profile of fraud risk was being raised amongst staff and what rewards or praise existed for staff discovering fraud, Mrs Greenhalgh explained about the Council's Whistle blowing Policy and the Fraud Referral Policy. She explained that the majority of staff who exposed any sort of fraud would not want any sort of publicity from it and would prefer to remain anonymous.

Asked about what checks were in place against malicious reporting, Mrs Greenhalgh explained that fact finding checks were always undertaken and appropriate action taken against anyone who made malicious reports.

The Committee discussed the possibility of error being mistaken for fraud. Mrs Greenhalgh confirmed that the possibility of error was always considered and investigated appropriately.

On the subject of staff training, the Committee was informed about the fraud awareness ipool course and the face to face training that took place in high risk areas. In relation to elected member training and specific training for Audit Committee Members, Mrs

## **MINUTES OF AUDIT COMMITTEE MEETING - THURSDAY, 20 OCTOBER 2016**

Greenhalgh explained she would consider further and would be happy to offer training if there was a willingness amongst Members.

The Committee made reference to the financial incentives that had been made available to local authorities for anti-fraud measures as detailed in the Strategy. Mrs Greenhalgh confirmed that Blackpool had placed a bid for funding but unfortunately was not successful and further feedback was not available.

Mrs Greenhalgh was asked whether any of the recommendations for local authorities, contained with the Delivery Plan section of the report, stood out in particular. She confirmed that the Council was already working on a number of the recommendations but needed to improve on anti-fraud measurement. She stressed however the importance of this taking place in partnership with other authorities. She added that a consistent baseline measurement methodology would be very helpful.

The Committee thanked Mrs Greenhalgh for her attendance and agreed the following:

1. To note the report.
2. To request that Democratic Governance liaise with Internal Audit on the subject of anti-fraud training for elected members and to encourage the take up of any offer.

Background papers: None.

### **7 DATE OF NEXT MEETING**

The Committee noted the time and date of the next meeting as 6pm on Thursday 24 November 2016 at Town Hall, Blackpool.

### **Chairman**

(The meeting ended at 7.10 pm)

Any queries regarding these minutes, please contact:  
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