

**Blackpool Council: Risk Services**

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**Internal Audit  
Annual Plan  
2017-2018**

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## **Blackpool Council: Risk Services**

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**Internal Audit Annual Plan 2017-18**

**1. Introduction**

- 1.1 The purpose of this report is to obtain approval for the internal audit and corporate fraud plan of work for 2017/18. This plan principally covers internal control review and anti-fraud and corruption work. The Public Sector Internal Audit Standards recommends that the audit plan is approved by both the Audit Committee and senior management.
- 1.2 In terms of reporting lines for the service the Chief Internal Auditor reports to the Director of Resources on operational issues and the Chief Executive and Audit Committee as appropriate on strategic issues. The audit plan is based on the service structure, which includes six full time equivalent operational audit staff, one Audit Manager and the Chief Internal Auditor who splits their time across the four services which they manage.
- 1.3 The service will report summary findings of work undertaken on a quarterly basis to the Audit Committee and Corporate Leadership Team. As in previous years, the Audit Committee can request more detailed information on any work undertaken. The annual opinion of the Chief Internal Auditor will contribute to the Council's Annual Governance Statement.

**2. Overall balance of coverage**

- 2.1 The work of the team is divided into four main services to the Council:
  - Reviews of Council systems and processes on a risk assessed basis to ensure controls are adequate, coupled with a programme of follow-up work to ensure high risk findings are implemented;
  - Compliance testing to ensure:
    - Significant financial systems remain 'fit for purpose'
    - Adequate financial procedures in schools
    - Appropriate controls over capital contracts and larger revenue contracts
    - Effective procurement activity, including non-contracted spend
  - Provision of consultancy and advice to service management on request regarding aspects of internal control;
  - Fraud investigation, where appropriate in conjunction with the Corporate Fraud Team.
- 2.2 Internal audit continues to work closely with the Council's external auditors, KPMG. Liaison meetings are held to avoid duplication and exchange key findings on areas of mutual concern.

**3. Risk-based reviews**

- 3.1 Within each risk based review we will continue to include core areas of internal control such as business planning, performance monitoring and security of assets. Segregation of duties in key processes will remain an important focus given the current economic climate and issues identified from past work.

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- 3.2 Planned audit work has been discussed with the Chief Executive, Senior Management and the Director of Resources. The plan has also been discussed by the Corporate Leadership Team in February 2017.
- 3.3 The demand for audit work in 2017/2018 has exceeded the available resource and therefore a decision has been taken to focus on the areas with the highest perceived risk. Other sources of assurance have been used to help inform this process such as external inspections and reviews, consultancy reports, external audit work and other internal reviews carried out by other Council services.
- 3.4 The plan has been compared to the financial risk assessment included in the Council's budget to help ensure that key areas of financial risk are aligned to the audit plan. The plan has also been aligned to the Council's Strategic Risk Register.
- 3.5 Changes to the programme of risk based work will only be made following discussion with the Council's Section 151 officer. Any changes will be made known to the Audit Committee through the quarterly report of the Chief Internal Auditor.
- 3.6 A list of risk based reviews which will be covered in 2017/2018 can be found in **Appendix A**.

**4. Compliance testing**

- 4.1 Compliance testing accounts for approximately fifty percent of the allocated audit resource. The overall approach remains, as set out in the 2014/17 audit strategy, to complement risk based audit work with a robust set of compliance testing. Further details of the areas of coverage can be found in **Appendix A** of this report. The compliance element of the audit programme can be split into the following sub-headings:

***Financial Control Assurance Testing***

- 4.2 This involves the testing of core financial system transactions to ensure that all major financial systems are subject to an adequate level of audit review work annually. Computer audit techniques have been extended and manual sample testing reduced to help ensure the widest range of coverage focused on transactions which warrant further investigation.
- 4.3 The results of the Financial Control Assurance Testing are reported each quarter to the relevant Head of Service with a full copy of the results provided to the Director of Resources. These reports offer assurance throughout the year that key financial controls are working effectively and also identify any control weaknesses for follow-up and resolution.

***Procurement and Contract Audit***

- 4.4 A number of reviews will be undertaken to ensure that adequate procurement arrangements are in place and that contracts are being effectively managed.

***Schools Audit***

- 4.5 It is intended that each maintained school will be subject to an audit of its core financial controls every three years, or more frequently if necessary. A risk assessment has been undertaken to assess which schools will be subject to audit in 2017/18 and provision has been made in the plan for up to seven schools to be visited.

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***Establishment Visits***

- 4.6 A small programme of establishment visits will take place to ensure that financial controls are operating effectively.

***Grant Certification***

- 4.7 The audit programme will include various grant certifications which require sign-off by the Chief Internal Auditor.

***Carbon Reduction Commitment***

- 4.8 The Carbon Reduction Commitment (CRC) scheme is a mandatory energy efficiency scheme which uses an emissions trading mechanism. A requirement of the CRC scheme is that each organisation implements a system for regular internal audits, and copies of the audit reports need to be included in the CRC evidence packs.

**5. Counter-fraud and corruption work**

- 5.1 The counter fraud programme is based on best practice guidance from CIPFA to ensure that it takes account of emerging threats and focuses on priority fraud risks. The proactive anti-fraud programme for 2017/18 can be seen at **Appendix B**.
- 5.2 The Anti-Fraud and Corruption Statement sets out the Council's zero tolerance approach when dealing with fraud, corruption and bribery and can be found at **Appendix C**.
- 5.3 As well as work by Risk Services, vigilance and a commitment to tackling fraud by frontline staff remains a vital safeguard in preventing and detecting fraud.

**6. Consultancy and advice**

- 6.1 The provision of advice to management on matters of risk and control remains an important aspect of the internal audit service. As in prior years a proportion of audit management time has been set aside for ad hoc consultancy work at management request.
- 6.2 Time has also been allocated to support key Council projects where it is deemed more appropriate for internal audit to be represented on working groups to provide advice throughout the project.

**7. Strategic Audit Work**

- 7.1 The Chief Internal Auditor is involved in a number of workstreams including the Annual Governance Statement, corporate governance, risk management and corporate investigations, which are included in the plan.

**8. External work**

- 8.1 The internal audit team also undertakes work for a range of external clients including Blackpool Coastal Housing, Blackpool Transport Services, Blackpool Housing Company,

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Blackpool Operating Company and is currently looking at implementing arrangements with Blackpool Entertainment Company.

- 8.2 An audit approach has also been developed with Merlin Entertainment to facilitate an annual review of the controls in place at Blackpool Tower, the Dungeons and Madame Tussauds.
- 8.3 Blackpool Council provides a number of shared services with Fylde Borough Council, particularly in relation to the provision of revenues and benefits services. These key financial systems are subject to regular audit review and therefore the Council's Internal Audit Team undertakes the required work jointly with Fylde Borough Council's audit team to reduce the audit burden on the service.

**9. Monitoring performance**

- 9.1 As head of the Council's independent assurance service, the Chief Internal Auditor will issue quarterly reports to the Section 151 Officer, Corporate Leadership Team and Audit Committee, to enable any areas of concern to be acted upon as necessary. The Chief Internal Auditor's opinion on the effectiveness of the system of internal control for the 2016/17 year will be available in April / May 2017.
- 9.2 As with all Council services, performance indicators will be used for monitoring and managing the team. Wherever possible, performance indicators are intended to remain the same year on year to enable trends to be identified. The five PIs in place are:
  - Audit plan completed;
  - Reviews delivered to deadline;
  - Reviews delivered to time budget;
  - Customer satisfaction;
  - Compliance of audit reviews with department quality standards.

**10. Recommendation**

- 10.1 Audit Committee are asked to:
  - Approve the internal audit plan for 2017/18, including the plan for counter-fraud and corruption work.
  - Approve the anti-fraud and corruption statement.

Tracy Greenhalgh CMIIA, MSc  
Chief Internal Auditor  
2<sup>nd</sup> February 2017

## Appendix A - Planned Risk Based and Compliance Reviews

Directorate	Service / Topic	Provisional Timings	Allocated Days	Strategic Risk	Council Priority
<b>Operational Audit Work</b>					
<b>Risk Based Reviews</b>					
Adult Services	Safeguarding Enquiries	Quarter 3	20	Failure to keep people safe	Communities
Adult Services	Transition of 14 year olds to Adult Services	Quarter 2	20	Failure to keep people safe	Communities
Chief Executives	Delivery Unit – Impact of Children's Services Interventions	Quarter 3	20	Sustainability of the Council	Communities
Children's Services	Head Start Project	Quarter 4	20	Lack of Resilience	Communities
Children's Services	Looked After Children Decision Making Process	Quarter 1	20	Sustainability of the Council	Communities
Children's Services	Understanding Thresholds for Safeguarding and Social Care	Quarter 1	20	Failure to keep people safe	Communities
Children's Services	Pupil Welfare Service	Quarter 4	20	Failure to keep people safe	Communities
Children's Services	School Improvement Board and Processes	Quarter 2	20	Unsustainable local economy / increased deprivation	Communities
Community and Environmental	Public Protection	Quarter 4	20	Reputational damage	Economy
Community and Environmental	Highways	Quarter 3	20	Unsustainable local economy / increased deprivation	Economy
Corporate	Business Planning Framework and Performance Management Reporting	Quarter 2	20	Lack of Resilience	Communities and Economy
Corporate	Information Governance – Data Protection Act	Quarter 1	20	Ineffective governance	Organisational resilience

Corporate	Events Risk Management	Quarter 4	20	Reputational damage	Economy
Governance and Partnerships	Legal Services – Claim Handling	Quarter 2	20	Sustainability of the Council	Organisational Resilience
Governance and Partnerships	Oversight and Governance of Shared Service Arrangements	Quarter 3	20	Lack of resilience	Organisational Resilience
Place	Growth and Prosperity	Quarter 3	20	Unsustainable local economy / increased deprivation	Economy
Place	Programme Management of Capital Investments	Quarter 2	20	Unsustainable local economy / increased deprivation	Economy
Public Health	Grant Reductions	Quarter 3	20	Sustainability of the Council	Communities
Resources	Housing Benefit Risk Based Verification	Quarter 4	20	Ineffective governance	Organisational Resilience
Resources	Council Tax Collection	Quarter 2	20	Sustainability of the Council	Organisational Resilience
Resources	Property Services Inspection and Testing Contracts	Quarter 1	20	Service Failure	Organisational Resilience
Resources	Migration to Mosaic	Quarter 2	20	Service failure	Organisational Resilience
<b>Contract / Procurement Audits</b>					
Adult Services	Sustainability of External Provider Market (Viable Cost of Care)	Quarter 1	15	Service failure	Communities
Community and Environment	Calico Contract Management	Quarter 1	10	Ineffective governance	Organisational resilience
Corporate	Organised Crime in Procurement	Quarter 1	15	Ineffective governance	Economy
<b>Compliance Testing</b>					
Adult Services	Assessment and Rehabilitation Centre Establishment Visit	Quarter 2	5	Failure to keep people safe	Communities
Children's Services	Troubled Families	Quarter 2	10	Ineffective governance	Organisational resilience

Children's Services	Highfurlong School	TBC	2	Ineffective governance	Organisational resilience
Children's Services	Our Lady of the Assumption RC Primary School	TBC	2	Ineffective governance	Organisational resilience
Children's Services	St Kentigerns RC Primary School	TBC	2	Ineffective governance	Organisational resilience
Children's Services	St Nicholas C of E Primary School	TBC	2	Ineffective governance	Organisational resilience
Children's Services	St Johns C of E Primary School	TBC	2	Ineffective governance	Organisational resilience
Children's Services	Woodlands School	TBC	2	Ineffective governance	Organisational resilience
Children's Services	Educational Diversity	TBC	2	Ineffective governance	Organisational resilience
Community and Environmental	Rideability	Quarter 1	10	Ineffective governance	Organisational resilience
Corporate	Financial Control Assurance Testing	Quarterly	150	Ineffective governance	Organisational resilience
Corporate	Corporate Compliance (SLT)	Quarter 2	15	Ineffective governance	Organisational resilience
Corporate	Grant Certification	As required	20	Ineffective governance	Organisational resilience
Governance and Partnerships	Executive Decisions – Public Health	Quarter 4	15	Ineffective governance	Organisational resilience
Place	Positive Steps into Work	Quarter 4	10	Ineffective governance	Organisational resilience
Resources	Carbon Reduction Commitment Scheme	Quarter 2	5	Ineffective governance	Organisational resilience
<b>Strategic Audit Work</b>					
Corporate	Corporate Governance	As required	20	Ineffective governance	Organisational resilience
Corporate	Risk Management	As required	10	Ineffective governance	Organisational

					resilience
Corporate	Corporate Investigations	As required	30	Ineffective governance	Organisational resilience
Corporate	Project Support – Lancashire Waste Partnership	As required	10	Service Failure	Organisational Resilience
Corporate	Project Support – Conference Centre	As required	20	Unsustainable local economy / increased deprivation	Economy
Corporate	Project Support – Museum Project	As required	20	Unsustainable local economy / increased deprivation	Economy
Corporate	Advice and Consultancy Support	As required	55	-	-
Corporate	Audit Management	As required	180	-	-
<b>External Work</b>					
External Work	Schools / Academies	TBC	5	-	-
External Work	Blackpool, Fylde and Wyre Credit Union	Quarterly	4	-	-
External Work	Other Public Sector Bodies	TBC	10	-	-
External Work	Operating Companies	TBC	20	-	-
External Work	Wholly Owned Companies	TBC	77	-	-
<b>Total</b>			<b>1195 Chargeable Audit Days</b>		

## **Appendix B – Proactive anti-fraud workplan 2017/18**

The proactive fraud anti-fraud workplan includes the following actions:

### **Internal Audit**

- 1) Undertake Financial Control Assurance Testing (FCAT) compliance audit work using IDEA software to deliver maximum assurance that core systems are operating as described.
- 2) Continue to promote register of interests through internal audit work to reduce the likelihood of undeclared conflicts of interest.

### **Corporate Fraud**

- 1) Develop the use of IDEA software to better target proactive resources for fraud and error testing on a quarterly basis.
- 2) Attend the Greater Manchester Fraud Group, half yearly meetings, to share intelligence, best practice and develop training opportunities and promote work on joint initiatives.
- 4) Develop the resources available on the Hub such as updates, warnings of emerging fraud risks, case summaries on proven cases and fraud prevention information.
- 5) Promote the Fraud Awareness I-Pool course and encourage all appropriate employees to complete the training.
- 6) Pursue civil, disciplinary and/or criminal sanctions, picked up during investigation process.
- 7) Identify and recover all losses identified during investigation process and recovery action sought through POCA, insurance, payroll and legal means.
- 10) Promote the Council's arrangements on prevention of money laundering, the Bribery Act and whistleblowing, in the latter case in conjunction with Human Resources.
- 11) Undertake proactive fraud detection work on the following risk assessed systems:
  - Insurance Fraud
  - Purchase Cards
  - Petty Cash
  - Procurement (using CIPFA guidance)
  - Council Tax (including data matching with temporary benefits)
  - Blue badge fraud
  - Direct Payments.

## **Appendix C - Anti-fraud and corruption statement**

Blackpool Council is committed to the prevention of fraud and corruption.

It is important to Blackpool Council to use its income and resources in the most effective way for the delivery of high quality services to the community. Blackpool Council requires all employees and elected members to act honestly and with integrity and to safeguard the public resources for which they are responsible. Blackpool Council also expects the same levels of honesty and integrity from all individuals and companies dealing with the Council and will take appropriate action when fraud, bribery or corruption is suspected.

### ***Introduction***

The purpose of this statement is to set out the procedures to be followed where fraud, bribery or corruption is suspected or detected. It is part of Blackpool Council's overall approach to security and therefore it applies to the Council and all other parties who are given access to the Council's information and premises. It covers all personnel including Council staff, freelance, casual and temporary agency staff, contractors and elected members.

There is an expectation and requirement that all individuals, businesses and organisations dealing in any way with the Council will act with integrity and that Council employees at all levels will lead by example to prevent and detect fraud, bribery and corruption. The Council subscribes fully to the principles laid down by the Nolan Committee which include:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

Senior management and elected members are also expected to deal effectively with any potentially fraudulent or corrupt activity that comes to their attention.

Blackpool Council can be the victim of a variety of frauds, bribes or corrupt acts from time to time.

### ***Definitions of Fraud***

#### **Fraud**

The Council regards fraud as being any intentional distortion of financial statements and other records to achieve inappropriate gain, cause inappropriate loss, or the misappropriation of assets. This may involve:

- Falsification or alteration of accounting records or other documents
- Misappropriation of assets or theft
- Suppression or omission of the effects of transactions from records or documents

- Recording transactions which have no substance
- Wilful misrepresentations of transactions or of the Council's state of affairs

The Fraud Act 2006 categorises fraud into three main types, namely dishonestly intending to make a gain, or cause a loss or risk of loss by:

- Making a false representation
- Failing to disclose information when there is a duty to do so
- Abuse of position

### Bribery & Corruption

Corruption is a serious criminal offence, set out principally in the Prevention of Corruption Acts and now the Bribery Act 2010. Corruption includes offering, giving, soliciting or accepting of any inducement or reward which would influence the actions taken by the body, its members or officers. Some of the main areas of activity, which may be particularly susceptible to corruption include:

- Contracts and commissioning
- Grants
- Asset disposal
- Planning consents
- Licenses and other approvals

The Bribery Act 2010 has established 4 offences:

- Offering, promising or giving a bribe
- Requesting, receiving or accepting a bribe (whether directly or through a third party)
- Bribing a foreign public official
- The failure of a commercial organisation to prevent bribery

### ***Legislation***

The Council will at all times, whilst conducting investigations utilise and comply with the requirements of the appropriate legislation including:

- The Police and Criminal Evidence Act 1984 (PACE)
- The Theft Acts of 1968 and 1978
- The Fraud Act 2006
- Serious Crime Act 2007
- Proceeds of Crime Act 2002 (POCA)
- The Data Protection Act 1998
- The Public Interest Disclosure Act 1998
- The Human Rights Act 1998

- The Regulation of Investigatory Powers Act 2000
- Criminal Procedures and Investigations Act 1996
- Bribery Act 2010

#### ***Council rules relating to fraud and corruption***

Council employees are expected to abide by the National and Local Conditions of Service relating to their employment, which include conduct issues. Employees are also expected to follow any code of conduct related to their profession where these require a further duty of care.

Council members are required to comply with the Model Code of Local Government Conduct and associated protocols, which provide guidance to members on recommended standards of conduct in carrying out their duties and in their relationships with the Council and Council officers.

All members and employees are required to declare any offer or receipt of gifts or hospitality that are in any way related to their relationship with the Council. A hospitality register is maintained of all declarations. A register is also maintained for officers to declare any business or related interests, membership of, or associations with clubs, societies and other organisations.

The Council's constitution governs the way the Council conducts its activities and places an obligation on all members and employees to act in accordance with procedure rules, responsibilities and functions and supporting financial regulations.

Senior management has a role in ensuring that the Council takes adequate steps to safeguard against the risk of bribery.

The Corporate Leadership Team must ensure that all staff have access to these rules and regulations and that staff receive suitable training where appropriate. Members and employees must make sure that they read, understand and comply with the rules and regulations that apply to them.

Should any person knowingly break the rules and regulations then the Council may take formal action. The Council not taking adequate precautions to reduce the risk of bribery could also lead to a criminal conviction.

#### ***Fraud and Corruption Reporting***

It is the responsibility of all staff to be alert to occurrences of fraud, bribery and corruption and to be aware that unusual events, transactions or behaviours could be indications of fraud (or attempted fraud) and corrupt practices. Fraud, bribery and corruption may also be highlighted as a result of specific management checks, by a third party, or in the course of audit reviews by both internal and external audit.

Service managers are responsible for maintaining an adequate framework of internal control to minimise potential losses by the Council. Risk Services is available to provide advice and assistance in this area, but service management retains responsibility for preventing and highlighting possible fraudulent and corrupt activity.

Any suspicion of fraud will be taken seriously. If you become aware of a suspected fraud or irregularity you should report it to either:

- your Line Manager;

- your Head of Service or Director,
- the Chief Internal Auditor; or
- via the whistle blowing procedure.

When a member of staff reports suspicions to their line manager or head of service, their information should be taken seriously and they should be dealt with in a considerate way. Managers receiving the information should report it to the Chief Internal Auditor as soon as possible so that a decision can be made about the need for an investigation.

Confidentiality for all parties will be maintained over reports made in good faith which cannot be substantiated following investigation. A reporting member of staff may choose to remain anonymous and such anonymity will be respected. However, identification is preferred and will assist the investigation. An anonymous disclosure cannot be made under the Public Interest Disclosure Act 1998 (the 'Whistleblowing Act'); staff must identify themselves to receive protection under the Act.

Employees must not do any of the following:

- contact the suspected individual in an effort to determine facts or demand restitution;
- discuss the case facts, suspicions, or allegations with anyone outside the Council (including the press) unless specifically asked to do so by the Monitoring Officer or the Chief Internal Auditor;
- discuss the case with anyone within the Council other than the people listed above;
- attempt to seize paperwork or other evidence.

### ***Investigation Procedure***

All fraud, bribery and corruption investigations should be discussed at the outset with the Chief Internal Auditor to ensure appropriate procedures are followed and any necessary support is provided.

You must not attempt to personally conduct investigations or interviews or question anyone unless asked to do so by the leader of the investigation team.

Investigation results will not be disclosed to, or discussed with, anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputation of persons subsequently found innocent of alleged wrongful conduct, and to protect the Council from potential civil liability.

In cases where an individual is suspected of fraud, which a subsequent investigation does not substantiate, it is important that the potential damage to the individual's reputation is minimised. Whoever originally reported the suspected fraud or irregularity will be informed that the investigation has revealed no wrongdoing.

Any necessary investigative activity will be conducted without regard to any person's relationship to the Council, position or length of service.

### ***Conduct of Investigation***

Investigations will be carried out by the Chief Internal Auditor or Corporate Fraud Officer, or a senior manager who is independent of the direct line responsibility, and will be conducted with discretion and sensitivity.

Those carrying out the investigation will confine themselves to investigating those matters that are the subject of, or relevant to, the suspected fraud, bribery or corruption.

On completion of the investigation, a written report will be prepared stating the facts established by the investigation. The report should avoid speculation or any statement that cannot be supported by evidence.

### ***Prosecution Policy***

Whenever possible, the Council will take action against all perpetrators of fraud and corruption, whether internal or external to the authority.

In cases of internal fraud and corruption the Chief Internal Auditor will discuss the findings of any investigation with the relevant service management and HR officers, who together will decide whether to take disciplinary action.

Cases of internal or external fraud and corruption, where there is potentially sufficient evidence for a criminal prosecution, will be referred to the police.

It may be necessary to involve the police for other reasons, e.g. to take forensic evidence or to search premises. In all instances, the investigating team should instigate contact with the police.

### ***Learn From Past Experience***

Where fraud, bribery and corruption have occurred management must take any necessary steps to amend systems and procedures to ensure that similar frauds or corrupt practices do not recur. The investigation may highlight where there has been a failure of supervision or a breakdown/absence of control. Internal audit is available to offer advice and assistance on matters relating to internal control, if considered appropriate.

### ***Recovery of Loss***

Where the Council has suffered loss, restitution will be sought of any benefit or advantage obtained and the recovery of costs will be sought from any individual(s) responsible for fraud or corruption.

As a first step the individual concerned will be asked to make good the loss. If the individual cannot or will not make good the loss consideration should be given to taking civil recovery action, subject to legal advice received.

### ***Conclusion***

Blackpool Council is committed to tackling fraud and corruption whenever it happens. The circumstances of individual frauds and corruptions will vary, but the Council's response should be effective and organised and will rely on the principles included in this document.