Audit, Governance and Standards Committee

Date:      Tuesday 28 June 2016
Time:      7:30 pm
Place:     Guildhall, Kingston upon Thames

Members of the Committee

Councillor Chris Hayes            (Chair)
Councillor Eric Humphrey           (Vice Chair)
Councillor Rowena Bass
Councillor Tom Davies
Councillor Thay Thayalan

Independent Member     Mrs Sue Lewry–Jones

Everyone is welcome to attend the meeting

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Phrases used at meetings

Like all organisations, the Council has its own ‘jargon’. On the agenda and during debates you will see/hear the following phrases:

- **Interests** - Councillors must say if they have an interest in any of the items on the agenda. Interests may be personal or pecuniary. Depending on the interests declared, it might be necessary for the Councillor to leave the meeting. The detail on interests is in Part 5A of the Constitution - Members’ Code of Conduct.

Minutes

The minutes briefly summarise the item and record the decision. They do not record who said what during the debate.
AGENDA

Apologies for absence

Declarations of Interest

1. Minutes
   To approve as a correct record the minutes of the meeting held on 20 April 2016

2. Audit, Governance & Standards update - Grant Thornton  Appendix A

3. Contracts Register Review  Appendix B

4. Annual Accounts Process  Appendix C
   To Follow

5. Treasury Management Annual Report  Appendix D


7. Summary Corporate Risk Register and Risk Monitoring  Appendix F
   Annex 1 Summary Register  Exempt information for Committee only.
   A3 copy enclosed separately

8. Annual Internal Audit report  Appendix G

9. Effectiveness of Internal audit  Appendix H

10. Expansion of Shared Internal Audit Service  Appendix I

11. Urgent items authorise by the Chair

12. Exclusion of Press and Public
   To exclude the public from the meeting under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it is likely that exempt information, as defined in paragraph 3 of Part I of Schedule 12A to the Act, would be disclosed and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
This paragraph covers information relating to the financial or business affairs of any particular person (including the authority holding that information)

Corporate Risk Register Summary  Appendix F Annex 1  Summary Register
Audit, Governance and Standards Committee Progress and Update Report for the Royal Borough of Kingston upon Thames

*Year ended 31 March 2016*

June 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
Introduction

This paper provides you with a report on progress in delivering our responsibilities as your external auditors.

You can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications including:

- Knowing the Ropes – Audit Committee; Effectiveness Review; www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/

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

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## Progress at June 2016

### 2015/16 work

<table>
<thead>
<tr>
<th>Accounts Audit Plan</th>
<th>Completed</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are required to issue a detailed accounts audit plan setting out our proposed approach in order to give an opinion on the your 2015-16 financial statements.</td>
<td>April 2016</td>
<td>This was presented to the Audit, Governance and Standards Committee in April.</td>
</tr>
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We also inform you of any subsequent changes to our audit approach.

### Early closedown and final accounts audit

We have been working with your finance team to deliver early closedown of the accounts and earlier completion of the audit. This has involved a number of actions including bringing forward your closedown timetables and increasing the amount of early audit testing undertaken throughout the year. This reflects the changes in legislation that require councils to prepare a set of accounts by the end of May and the audit to be delivered by the end of July, starting from 2018.

A draft set of financial statements are expected to be provided on 17 June 2016. We have agreed with the finance team that we will commence the audit once statements are available. We plan to substantially complete our audit in August, earlier than in previous years.

Subject to meeting the above timetable, and providing no unexpected issues arise, we also intend to deliver our audit findings earlier than in previous years, reflecting our commitment to working with you to deliver earlier closedown and audit of the accounts.

The accounts will be signed off following the Audit, Governance and Standards Committee on 22 September 2016.
Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:
• JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
• There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
• There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/
Knowing the Ropes – Audit Committee Effectiveness Review

We have published our first cross-sector review of Audit Committee effectiveness encompassing the corporate, not for profit and public sectors.

It provides insight into the ways in which audit committees can create an effective role within an organisation’s governance structure and understand how they are perceived more widely. The report is structured into four key issues:

• What is the status of the audit committee within the organisation?
• How should the audit committee be organised and operated?
• What skills and qualities are required in the audit committee members?
• How should the effectiveness of the audit committee be evaluated?

The detailed report is available here http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
Reforging local government: Summary findings of financial health checks and governance reviews

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

• the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services

• most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk

• Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities

• local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos

• elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk

• councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

Our report is available at http://www.grantthornton.co.uk/en/insights/reforging-local-government/, or in hard copy from your Engagement Lead or Engagement Manager.
Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape.

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

• calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
• illustrates the financial benefits that can accrue from fighting fraud more effectively
• calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
• updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
• sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally
Audit, Governance and Standards Committee
28 June 2016

Contracts Register System - Update

Report by Executive Head of Organisational Development and Strategic Business

Purpose
To provide an update on the Council’s Contracts Register System (CRS).

Recommendations
To Note that Strategic Business Commissioning will continue to oversee the Council CRS and will carry out regular communications to staff to ensure the mandatory use of the Council’s Pro-contract system and Contracts Register System.

Key Points
A Commissioning and Contracts are within the remit of the Treasury Committee. However, this report is being considered by Audit, Governance and Standards Committee to provide a specific update on the Contracts Register System and the role it plays in assuring Council oversight of contractual information and compliance with the transparency code. It follows previous reports on contract signing across the Council and corporate risks associated with commissioning and contracts.

B The Council is required to publish details for all contracts on a contracts register system (CRS). This Council previous published via the London CRS, but has now transferred this to the Due North CRS, which is part of the same suite of systems that the Council uses for procurement activities.

Context
1. The Council has had a long-standing requirement to publish data on contracts over £50k in value (total, not per annum) on a central contracts register system which is accessible for anyone. This data to include contract type, contractor details, contract start date, end date and values, along with names and details of officers responsible in the Council. From 2015 the Local Government Transparency Code requires the Council to publish data on contracts over £5000.

2. The Council’s devolved structure for contract management means that updating and refreshing the CRS has been the responsibility of contract managers and heads of service. An exercise was carried out by Strategic Business Commissioning in 2015 to ask managers to confirm data within the CRS and also to confirm they held appropriate contract documents which were signed. This was reported to the Audit Committee in September and was agreed that Strategic Business carry out a six-monthly refresh.
3. The Council has adopted the Due North CRS System (www.londontenders.org) instead of a standalone system. As the Council uses Due North for its e-Procurement system, it means it is easy to promote data once a contract is awarded or order placed, to the CRS. Strategic Business Commissioning has now rolled out training for the Council so every procurement should take place through the system, meaning it we can be more confident that the data is correct, and there is now only one place this information is stored.

4. Contract managers currently have responsibility across the organisation for ensuring that contract data is correct and up-to-date and is published on time. In addition they are require to ensure they have the appropriate sign-off of contracts and hold an approved contract. Strategic Business Commissioning are carrying out a programme of upskilling contract managers across the Council. This includes contract administration and performance management. Contract Management is a key capability for the Council under the Our Kingston Programme.

5. Some further work is being undertaken to improve how contracts are stored and the potential for using the Pro-contract system as a repository for contracts data.

Proposal and Options

6. That the Council will continue to use the Due North CRS system as a tool for publishing contracts.

7. Strategic Business Commissioning will undertake a further communications to managers that it is mandatory to publish all contracts on the system which are over £5k and that any procurement leading to an order or contract award must also be carried out on the system.

8. Strategic Business will carry out six monthly refresh activities on the system and as part of this will additionally request that service managers/contract managers confirm they have appropriate sign-off of contracts.

Consultations

9. No consultations needed.

Timescale

10. Strategic Business will undertake a regular refresh of the CRS and ensure managers across the services input into the system.

Resource Implications

11. No additional budgets needed, but the Committee are asked to note that the activities to oversee and manage the CRS are undertaken within existing Strategic Business Commissioning resources.

Legal Implications

12. There are implications if the Council does not provide accurate data on the CRS, as it would be in breach of the transparency code, as well as ensuring it has correct oversight of contracts across the Council.
Risk Assessment

13. The process for updating the CRS is now more streamlined, with key data being promoted once a procurement activity is undertaken. Also, Strategic Business

Equalities Impact Assessment

14. There are no equalities implications with the content of this report.

Network Implications

15. There are no network implications with the content of this report.

Environmental Implications

16. There are no environmental implications with the content of this report.

Background papers - Local Government Transparency Code 2015

Author of report - Chris Morgan, Capability Lead Commissioning,
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Audit, Governance and Standards Committee
28 June 2016
2015-16 Annual Accounts Update

Report by Director of Finance

Purpose

To update the committee on progress in completing and submitting the Council’s draft Statement of Accounts for audit by the statutory deadline of 30 June 2016.

Recommendations

To Resolve that -

1. The progress made producing the 2015/16 Statement of Accounts for audit by the statutory deadline of 30 June 2016 be noted;

Key Points

A. As in 2015, the Statement of Accounts will not be presented to the Committee until it has been audited and the Committee has received an Audit Findings report from the Council’s external auditors, Grant Thornton LLP. This, along with the approval of the Statement of Accounts, will take place at the meeting of the Committee on 22 September 2016.

B. There is no statutory requirement for the unaudited Statement of Accounts to be presented to this Committee. The statutory requirements detail that the unaudited accounts must be signed as authorised for issue by the Council’s Chief Financial Officer and presented for audit before 30 June 2016. The Statement of Accounts is then required to be audited and approved with an audit opinion, by the Audit and Governance Committee before 30 September 2016.

C. The Council is on course to complete the Statement of Accounts and supporting working papers for submission to audit before the 30 June 2016 deadline. In previous reports to the Committee it was intended to complete the work and submit draft accounts by 31 May 2016, as part of the process for preparing for the change in the Regulations which will bring forward the deadline from 2017-18. This has not been achieved for reasons detailed below.

D. The 2015/16 Statement of Accounts will, again contain Group Accounts which consolidate the Council’s interest in Achieving for Children Ltd (AfC). The accounts for this company were submitted for audit at the end of May 2016 with the audit currently progressing.

E. High level and key features of the 2014/15 Statement of Accounts are highlighted within this report for the Committee to note subject to the audit of the Council’s accounts. A full analysis of the Council’s audited accounts will be presented to the Committee at its September meeting.
Context

1. The Audit and Governance & Standards Committee is required to approve the audited Statement of Accounts 2015/16 and receive the report on those accounts from the Council’s external auditor, Grant Thornton LLP, by 30 September 2016. The Council must also publish its audited Statement of Accounts, including the auditor’s opinion by this date.

2. The Council is required to submit its unaudited Statement of Accounts 2015/16 to the external auditors with supporting working papers by 30 June 2016. This includes the Pension Fund Accounts as well as the draft Annual Governance Statement.

Statement of Accounts 2015/16 Production

3. At the time of writing the Statement of Accounts had been completed and submitted for review by Senior Officers. The Group Accounts element of the Statement of Account is in draft awaiting confirmation of the results of AfC’s audit and any changes that might arise from that process.

4. The process in 2015/16 has been less smooth than last year’s, with some slippage against the initial timetable which was set ambitiously to provide a “trial run” towards achieving what will become the deadline for submission in 2017/18 of 31 May.

5. The main reasons for the delay are
   - Work associated with the development of Outcome Based Budgeting has meant that during the year, the level and amount of Finance team support to service managers was reduced. This, in turn meant that some work which could have been completed in the period January to March 2016 was not done until April, and impacted on the finalisation of the revenue outturn position.
   - Some staffing changes and unexpected illness within the team has meant that the key staff leading the process have changed.

6. However, despite this, the Committee can be assured that the Statement of Accounts will be signed by the Chief Financial Officer on or before the statutory deadline of 30 June 2015.

7. Once the accounts have been finalised, a key task will be the production of a “lessons learned report” which will highlight areas where the process can be improved or streamlined to ensure that the earlier deadline can be achieved in future years.

Accounting Policies 2015/16

8. There are no significant changes to accounting policies for 2015/16.

AfC - group accounts

9. The Council is required to produce Group Accounts for inclusion in its Statement of Accounts. This is to recognise the Council’s interest in its joint venture, AfC. AfC’s accounts have been consolidated with the Council’s single entity accounts using the equity method, recognising AfC as a joint venture from the Council’s perspective. The Group Accounts therefore contain consolidated
versions of the main statements (Movement in Reserves Statement; Comprehensive Income & Expenditure Statement and Balance Sheet).

10. The Group Accounts will recognise 50% of the profit or loss realised by AfC in 2015/16, in accordance with the Council’s ownership share. At the time of writing the audit of AfC’s accounts is ongoing, but it is hoped that it will conclude in time to allow the Councils to consolidate audited statements before submission of the accounts to the Council’s auditors by 30 June statutory deadline.

11. Further details on AfC’s audited accounts and their effect on the Council’s Group Accounts will be provided to the Committee when approving the Council’s Statement of Accounts at its September meeting.

Statement of Accounts 2015/16 – key features

12. The financial performance against the Council’s revenue budgets for the General Fund, Housing Revenue Account (HRA) and Schools budget will be presented to and scrutinised by the Treasury Committee on 30 June 2016. Both the General Fund and HRA achieved under spends which have enhanced their respective balances or earmarked reserves. There was a significant overspending Schools budget that has led to an overdrawn balance on that account. The capital programme outturn will be reported to the same meeting.

13. The key features below show the effect on the balance sheet of accounting adjustments and the results of fair value revaluation and indicators in the Council’s performance in managing its short term creditors and debtors. Items are described only where there has been a material change between 31 March 2015 and 31 March 2016. A full report on the Statement of Accounts will be presented to Committee, along with the audit findings report in September 2016.

14. Asset Valuations – the value of Property, Plant and Equipment at 31 March 2016 has increased by £56.69m to £839.64m largely due to a combination of upward revaluations in the 2015/16 property valuation cycle driven by the property market and additional assets brought on to the balance sheet of £41.77m emanating from the capital programme.

15. Pension Fund Liability – the Council’s actuary has calculated that, in accordance with IAS19, Pension Fund assets have increased by £9.65m and pensions liabilities, in the same period, have decreased by £45.23m. This has led to a decrease in the Council’s net pensions liability of £54.87m. The Pension Reserve at 31 March 2016 is £195.197m. In common with other local authorities, the Council’s pension provision is by way of a funded scheme.

16. Whilst the net current current asset (that is current asset less current liabilities) have marginally reduced between years by £1.55m. Current assets have reduced by £4.78m to £71.26m. Within current assets short term debtors have reduced from £50.17m to £45.14m. Short term investments have reduced by £5.35m and there has been a reclassification of assets held for sale is now regarded as a current asset which was previously classified as long term assets.

17. Cash and cash equivalents has remained relatively stable with a slight movement of £0.607m increase in balances, which now stand at £3.70m.
18. Current liabilities have also reduced by £3.22m to £50.19m with short term creditors reducing by £5.04m to £43.48m, whereby both short term provisions and short term borrowing have increased by £1.19m and £0.378m respectively.

19. Usable Reserves has a net movement reduction of £2.18m – Earmarked reserves have increased by £3.31m which are earmarked reserves for specific items as planned.

20. Unusable Reserves – have increased by £115.57m largely due to the effect of pension movement on the Pension Reserve of £54.88m; the asset revaluations on the Revaluation Reserve of £38.21m and Capital Adjustment account of 27.84m. There are net reduction adjustment of £5.3m relating to the Collection Fund and Available for Sale adjustment accounts.

21. Collection Fund - the Council has reported a cumulative deficit of £5.60m at 31 March 2016. This deficit takes into account both Council Tax (£2.39m surplus) and NNDR (£7.99m deficit). The RBK element of this cumulative deficit was a net £0.427m (£1.97m surplus relating to Council Tax and £2.39m relating to NNDR deficit). The remaining £5.18m relates to:
   - The Greater London Authority - £1.18m
   - Central Government - £4.00m

22. The deficit in respect of NNDR is inclusive of the provision made for the potential impact of appeals. The change of estimated impact of these appeals has been accounted for in 2015/16. The difference between the actual surplus of the Collection Fund and the estimate made when setting the 2015/16 budget will be taken into account when setting the 2016/17 budget.

**Pension Fund Accounts – 2015/16**

23. The Statement of Accounts includes the Council’s Pension Fund Accounts. There have been relatively few changes to the accounting requirements for the Pension Fund other than additional disclosure surrounding investment, administrative and oversight and governance expenses.

**Annual Governance Statement – 2015/16**

24. A draft Annual Governance Statement is submitted to the auditors as part of the Statement of Accounts. The final version of this statement will subject to a change in the Terms of Reference at July Council, be approved by Audit, Governance and Standards Committee at the meeting in September 2016.

**Timescale**

25. The statutory deadlines for the production and approval of the Statement of Accounts are indicated in body of this report.

**Resource Implications**

26. There are no resource implications arising from this report.

**Legal Implications**

27. None

**Risk Assessment**

28. There are no risks arising from this report.
Equalities Impact Assessment

29. There are no direct equalities implications arising from this report.

Network Implications

30. None

Environmental Implications

31. None

Background papers

held by author/other - Richard Jones (Capability Lead – Finance Accounting) - 020 8547 5586 richard.jones@kingston.gov.uk

Author of report - Jeremy Randall, Head of Finance - Strategy & Accounting - 020 8547 5572 jeremy.randall@kingston.gov.uk

  o None other than those referred to in this report
Audit, Governance and Standards Committee  
28 June 2016  

Treasury Management Annual Report 2015-2016

Report by the Director of Finance

**Purpose**
To inform the Committee of the Council’s Treasury Management activities and performance for 2015-16.

**Recommendations**
It is Recommended that the report.

**Key Points**

A. The Council’s debt management strategy continues to be prudent, whilst maintaining long-term stability of the debt portfolio.

B. The Council's investment objective, to invest prudently and have regard to the security and liquidity of investments before yield was maintained, by following the Council’s counterparty policy as set out in its Treasury Management Annual Strategy Report for 2015/16.

**Context**

1. The Chartered Institute of Public Finance and Accountancy’s Treasury Management Code (CIPFA’s TM code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year-end). The Authority’s Treasury Management Strategy for 2015/16 was approved by full Council on 3 March 2015, and the midyear position was reported to the 13 January 2016 meeting of this Committee.

2. The authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

3. Although the responsibility for treasury management decisions remains with the Council at all times, as Treasury Management is a complex and technical area, treasury management advisors are employed to provide specialist skills and resources. Following a competitive tendering process, Arlingclose Limited, an independent treasury advisory company, were appointed as the Council’s Treasury Management Advisors for a period of three years commencing July 2012. The agreement signed included an optional two year extension period.

4. Arlingclose continue to provide a good service, and as the Council looks to review its operating model and implement significant changes to service
delivery over the next few years, it was considered prudent not to carry out a routine procurement during the year, but to implement the extension.

ECONOMIC BACKGROUND

5. **Growth and Inflation:** The overall pace of UK economic growth slowed with GDP growth falling to 2.1% year-on-year in the first three months of 2016 from 2.4% the year before. CPI inflation hovered around zero through 2015 with deflationary spells in April, September and October. CPI picked up to 0.5% year-on-year in March, but this was still well below the Bank of England’s 2% inflation target. The prolonged spell of low inflation was attributed to -
   
   ● a collapse in the price of oil from $67 a barrel in May 2015 to just under $28 a barrel in January 2016 (up to $40 in March 2016);
   
   ● the appreciation of sterling since 2013 pushing down import prices;
   and
   ● weaker than anticipated wage growth resulting in subdued unit labour costs.

6. **Labour market:** The labour market continued to improve through 2015 and in Q1 2016, showed the employment rate at 74.2% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1% (down from 5.6% a year earlier). Wage growth however remained modest at around 2.0%, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers’ spending power.

7. **Global influences:** The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities’ intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June’s referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

8. **Central Bank's Policy:** The Bank of England’s MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its Inflation Reports and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

9. Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1
and markets pared back expectations to no more than two further hikes this year.

10. However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

11. **Market Reaction:** From June 2015 gilt yields were driven lower by weakening Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers’ unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

12. 10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

**DEBT MANAGEMENT ACTIVITY 2015-16**

13. The Council’s specific objective in relation to debt set out in the 2015/16 Treasury Management Annual Strategy Report, was to achieve the lowest level of interest paid on the Council’s debt as prudently possible, while at the same time minimising the potential volatility of the average rate of interest.

14. The Council’s underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 1 April 2015 was £264.6m. The Council’s strategy has been to maintain an under-borrowed position, as the “cost of carry” (the difference between the cost of new long term debt and the return from the proceeds temporarily held as investments) is significant. As borrowing is often for longer dated periods, the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Council’s wider financial position.

15. **Internal Borrowing** - The Council’s internal resources (reserves, balances and cash flow) have therefore been used in lieu of external borrowing. By essentially lending its own surplus funds to itself, the Council is able to minimise borrowing costs and reduce overall treasury risk by reducing both external debt and cash investments. Borrowing options and the timing of any future borrowing will continue to be assessed in conjunction with the Council’s treasury advisor.

16. **Public Works Loan Board (PWLB)** – If required the PWLB would be able to meet all of a local authority’s needs for long-term borrowing. The PWLB is prepared to lend to authorities who act prudently and comply with all relevant legislation. The Council qualified for borrowing at the ‘PWLB Certainty Rate’
(0.20% below the PWLB standard rate) for a 12 month period from 1st November 2014. In April, the Council submitted its application to Communities & Local Government (CLG) to access this reduced rate for a further 12 month period from 1st November 2015.

17. During 2015 CLG confirmed that HM Treasury (HMT) were taking the necessary legislative steps to abolish the PWLB. The CLG have stated that it will have no impact on existing loans held by local authorities or the government’s policy on local authority borrowing. Local authorities will continue to have access to an identical range of borrowing facilities and terms that currently exist with the PWLB.

18. A long awaited consultation on the new governance arrangements was published in May 2016 which close in August 2016. The consultation is about governance arrangements and does not change any of the policy or operational aspects of lending to local authorities. Loans out to a maximum of 50 years across a range of structures (maturity, annuity and equal instalments of principal) on fixed and variable interest rate terms will continue to be available.

19. **External Debt Position**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Balance on 31 March 2015 £m</th>
<th>New Debt £m</th>
<th>Debt Maturing £m</th>
<th>Balance on 31 March 2016 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>PWLB – Long Term¹</td>
<td>172.09</td>
<td>-</td>
<td>0.01</td>
<td>172.08</td>
</tr>
<tr>
<td>Banks – Long Term</td>
<td>61.00</td>
<td>-</td>
<td>-</td>
<td>61.00</td>
</tr>
<tr>
<td>Short Term Borrowing²</td>
<td>2.00</td>
<td>2.00</td>
<td>-</td>
<td>2.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>233.09</strong></td>
<td><strong>2.00</strong></td>
<td><strong>0.01</strong></td>
<td><strong>235.08</strong></td>
</tr>
</tbody>
</table>

¹ includes £115.5m borrowed in March 2012 for HRA self-financing settlement to maintain adequate liquidity at year-end - repaid 1st April 2016

20. During the financial year the average rate of interest paid was 4.26% (£9.9m interest paid).

21. **LOBOs**: The Council holds £61m of LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which RBK has the option either to accept the new rate or to repay the loan at no additional cost. No options on these loans were exercised by the lender during 2015/16.

22. **Debt Rescheduling**: Treasury Management officers are continuously aware of the need to keep debt servicing costs to a minimum. Officers monitor interest rates in order to identify any opportunities for completing debt restructuring exercises or premature repayment of debt. Debt restructuring involves early repayment and re-borrowing of loans. This can involve paying a premium or receiving a discount, but is intended to reduce the overall interest burden, since the replacement loans are borrowed at lower interest rates.

23. The premium charge for early repayment of PWLB debt remained relatively expensive for loans in the Council’s debt portfolio and therefore unattractive. No debt rescheduling or premature debt repayment was undertaken as a consequence.
INVESTMENT ACTIVITY

24. Investment of the Council’s cash balances is governed by Guidance on Local Government Investments issued by CLG. The key intention of the guidance is that Councils invest prudently, and that priority is given first of all to security (protecting the investment from loss), and then liquidity (keeping the money readily available for expenditure when needed) before yield.

25. The guidance requires certain investment policy parameters to be set within the Treasury Management Annual Investment Strategy Report. This sets out the Council’s criteria for choosing counterparties and limiting exposure to the risk of loss by setting maximum maturity and monetary exposure limits.

26. Investment Activity in 2015/16 - RBK managed significant funds, representing income received in advance plus balances and reserves held. During the year investments totalling £517m were placed, the total sum of maturities was £526m. The amount of deposits outstanding at 31 March 2016 was £19m. The Council maintained an average investment balance of £54m and earned an average rate of return of 0.60% (£0.32m interest receivable). The movement in the Council’s investments as at 31 March is categorised as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks (fixed term)</td>
<td>£11.5</td>
<td>£177.8</td>
<td>£181.3</td>
<td>£8.0</td>
</tr>
<tr>
<td>Building Soc. (fixed)</td>
<td>£3.5</td>
<td>£35.0</td>
<td>£37.5</td>
<td>£1.0</td>
</tr>
<tr>
<td>Call Accounts</td>
<td>£3.98</td>
<td>£9.30</td>
<td>£11.04</td>
<td>£2.24</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>£1.19</td>
<td>£281.93</td>
<td>£282.12</td>
<td>£1.0</td>
</tr>
<tr>
<td>Sub total</td>
<td>£20.17</td>
<td></td>
<td></td>
<td>£12.24</td>
</tr>
<tr>
<td>Achieving for Children¹</td>
<td>£7.66</td>
<td>£12.95</td>
<td>£14.25</td>
<td>£6.36</td>
</tr>
<tr>
<td>Chessington Comm. College</td>
<td></td>
<td>£0.19</td>
<td>£0.19</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>£27.83</td>
<td>£517.17</td>
<td>£526.21</td>
<td>£18.79</td>
</tr>
</tbody>
</table>

¹ As joint owners of AfC Community Interest Company, RBK and the LB Richmond provide AfC with a revolving credit facility.

27. Credit and Counterparty Risk Update - Credit risk arises from deposits with banks and financial institutions. The Council’s maximum exposure to credit risk in relation to its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council’s deposits, but the Council does not expect any losses from default by any of its counterparties in relation to deposits. The table below summarises the credit risk exposures of the Council’s investment portfolio by credit rating (excluding AfC & CCC):

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>31 March 2015</th>
<th>30 Sept 2015</th>
<th>31 March 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
</tbody>
</table>
28. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

29. Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeenten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.


31. Standard & Poor reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.

32. At the end of July 2015, the council’s treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

33. In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit
revised capital plans, since both firms had already improved their ratios over the year.

34. The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks’ 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues.

PERFORMANCE INDICATORS
35. The Council’s performance over the year measured against the performance indicators set out in the 2015/16 Treasury Management Annual Strategy Report was as follows:

a) Borrowing – average rate of borrowing compared to average available.

The Council did not draw any new long term loans during the year.

b) Debt – average rate movement year on year.

<table>
<thead>
<tr>
<th></th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average rate of interest paid</td>
<td>4.26%</td>
<td>4.26%</td>
</tr>
</tbody>
</table>

c) Investments – returns above the 7 day LIBID rate.

The objective set at the beginning of the financial year for the Council’s cash investments was to achieve an overall return on total deposits above the average 7-day notice London Inter-Bank BID Rate (LIBID). The 7-day LIBID is the set interest rate at which major banks in London are willing to borrow (bid for) funds from each other for different periods. The same rate is commonly used by external cash managers as their benchmark.

The Council’s overall return was 0.24% above the target rate (equates to £0.13m).

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Interest Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>RBK</td>
<td>0.598%</td>
</tr>
<tr>
<td>Average 7 day LIBID rate</td>
<td>0.361%</td>
</tr>
</tbody>
</table>

ACTIVITY INDICATORS
36. The purpose of the Treasury Management activity indicators shown below is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or
borrowing decisions impacting negatively on the Council’s overall financial position.

37. In measuring a council’s exposure to interest rate changes, CIPFA requires limits to be calculated by combining debt and investments together. These are approved before the start of each year by Budget Council. The tables below show that the Council complied with all the treasury management activity indicators.

38. Interest Rate Exposures

<table>
<thead>
<tr>
<th></th>
<th>Prudential Limits</th>
<th>Actual at 31 March 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper limit - fixed rates</td>
<td>301</td>
<td>174</td>
</tr>
<tr>
<td>Upper limit - variable rates</td>
<td>133</td>
<td>42</td>
</tr>
</tbody>
</table>

39. Maturity Structure of fixed borrowing as at 31 March 2016. The Code of Practice requires the maturity of LOBO loans to be determined by the earliest date on which the lender can require payment (see column 3). LOBO instruments have a fixed initial term (typically one to ten years) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the loan. However, these loans are expected to continue for much longer due to current market conditions. Column 4 shows the position if the LOBO loans ran to their final maturity date.

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3 (Classifies LOBOs at earliest repayment date)</th>
<th>Column 4 (Classifies LOBOs at final maturity date)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prudential Limits</td>
<td>Lower</td>
<td>Upper</td>
<td>26%</td>
</tr>
<tr>
<td>Under 12 months</td>
<td>0%</td>
<td>50%</td>
<td></td>
<td>33%</td>
</tr>
<tr>
<td>12 months - under 2 years</td>
<td>0%</td>
<td>50%</td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>2 years - under 5 years</td>
<td>0%</td>
<td>50%</td>
<td></td>
<td>12%</td>
</tr>
<tr>
<td>5 years - under 10 years</td>
<td>0%</td>
<td>70%</td>
<td></td>
<td>26%</td>
</tr>
<tr>
<td>10 years - under 20 years</td>
<td>0%</td>
<td>70%</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>20 years - under 30 years</td>
<td>0%</td>
<td>70%</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>30 years - under 40 years</td>
<td>0%</td>
<td>70%</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>40 years - under 50 years</td>
<td>0%</td>
<td>70%</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>50 years and above</td>
<td>0%</td>
<td>70%</td>
<td></td>
<td>0%</td>
</tr>
</tbody>
</table>

40. Maximum principal sums invested >364 days (at year end)

<table>
<thead>
<tr>
<th></th>
<th>LIMIT (%)</th>
<th>Actual (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 months to 2 years</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>2 to 3 years</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>3 years and above</td>
<td>10</td>
<td>0</td>
</tr>
</tbody>
</table>
41. **Local Treasury Management Limits** - In addition to the above activity indicators, local treasury management limits for debt and investments were set out in the 2015/16 Treasury Management Annual Strategy Report, based on what officers considered an acceptable risk.

42. **Fixed / Variable Interest Rate Exposures**

<table>
<thead>
<tr>
<th></th>
<th>Limits</th>
<th>Actual at 31 Mar 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Upper limits on variable interest rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Debt (excluding LOBO’s)</td>
<td>30</td>
<td>0</td>
</tr>
<tr>
<td>• Investments (&lt; 1 year)</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Upper limits on fixed interest rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Debt (excluding LOBO’s)</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>• Investments (&gt; 1 year)</td>
<td>40</td>
<td>0</td>
</tr>
</tbody>
</table>

43. **Debt maturity repayments**

<table>
<thead>
<tr>
<th></th>
<th>Limits</th>
<th>Actual at 31 Mar 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Maximum (%) of debt maturing in any one year</td>
<td>20</td>
<td>6.22% (2052/53)</td>
</tr>
<tr>
<td>Maximum (%) of debt maturing in next five years</td>
<td>50</td>
<td>0.02%</td>
</tr>
</tbody>
</table>

**Timescale**

44. As the report is for Members’ information, there is no particular timescale for action arising out of it. However, it is good practice for the Committee to review the annual report after the end of the financial year as soon as possible, but before the end of September.

**Resource Implications**

45. As the report is for Members' information, there are no resource implications arising out of it. However, proper management of the Council’s borrowing and investment position in accordance with the approved Treasury Management Strategy contributes significantly to the financial stability of the Council’s budget position.
Legal Implications

46. As the report is for Members’ information, there are no legal implications arising out of it.

Risk Assessment

47. The effective identification and management of risk are central to the Council’s treasury management strategy. Credit and counterparty risk are covered in paragraphs 27-34.

Equalities Impact Assessment

48. As the report is for Members’ information, an EQIA is not needed.

Environmental Implications

49. None arising directly from this report.

Background papers – None other than those referred to in this report

Author of report - Paul Godfrey, Senior Finance Analyst, tel: 020 8547 5621 - e-mail: Paul.Godfrey@kingston.gov.uk
Purpose
To consider the latest position on the assessment of the Council’s activities to confirm that the Council has effective corporate governance arrangements in place.

Recommendations
To RESOLVE to

1. note that, in response to the requirement for a local authority to have in place proper arrangements for the governance of its affairs and to undertake an annual open and honest assessment of its governance framework, the Council is undertaking an assessment of its corporate governance arrangements the outcome of which will be reported to the Committee’s September meeting;

2. recommend to Council that paragraph 8 (b) of the Committee’s Terms of Reference be amended to provide that it is no longer a requirement for the Annual Governance Statement to be submitted to the Treasury Committee for final sign off.

3. note the latest position on the implementation of the 2015/16 AGS Action Plan as set out in paragraphs 13 and 14 of this report.

Key Points

A. Local authorities are required to prepare and publish an annual Corporate Governance Statement, in accordance with Solace/CIPFA guidance published in July 2007 and updated in 2012. This is necessary to meet the statutory requirement set out in regulation 6(1) of the Accounts and Audit Regulations 2015.

B. The Annual Governance Statement (AGS) is an honest self assessment of the organisation’s performance across all of its activities with a statement of actions being taken, or to be undertaken, to address areas of concern or for improvement. There is no statutory timetable for this approval, but it is good practice for this statement to be published with the financial statements.

C. An assessment of the Council’s activities has been conducted throughout April, May and June to verify that the Council has effective corporate governance arrangements in place and to identify any areas of relative weakness where improvements can be made. The outcome of this process, and other activities that contribute to the self assessment, will be submitted to the Committee’s September meeting along with a draft Annual Governance Statement for formal approval.

D. Hitherto, this Committee has forwarded the approved AGS to the Treasury Committee for formal sign off. However, there is no legal requirement to do that and...
given the need for the signed AGS to be included with the approved Statement of Accounts (which is also approved by the Audit, Governance and Standards Committee) it is proposed that requirement be dispensed with.

E. An updated version of the 2015/16 AGS Action Plan which was approved by the Committee in September 2015 is also presented. This indicates that there are still certain actions to be completed which will be carried forward on to the 2016/17 Action Plan a draft of which will be submitted to the Committee’s September meeting.

Context

1. The Royal Borough of Kingston upon Thames (RBK) is responsible for ensuring its business is conducted in accordance with the law and proper standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. RBK has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

2. In discharging its responsibility, RBK is required to put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which include arrangements for the management of risk. RBK has approved and adopted a Code of Corporate Governance. The AGS confirms the Council has arrangements in place which support the Council’s compliance with the framework and the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

3. The Audit and Governance Committee’s role is to ensure, from its work and enquiries, that it addresses any key governance weaknesses and areas for improvement and to recommend the Statement to the Treasury Committee for approval and publication. There is no statutory timetable for this approval, but it is good practice for it to be published with the financial statements. Whilst the audited financial statements must still be approved by Members and published by 30 September under the new Regulations unaudited statements are no longer required to be approved by Members and published by 30 June. The Annual Governance Statement covering the year 2015/16 will be submitted for approval to the Committee in September alongside its consideration of the unaudited financial statements.

Preparation of the Annual Governance Statement

4. In preparing the Annual Governance Statement, RBK is required to undertake an open and honest self-assessment of the organisation’s performance across all of its activities, with a clear statement of the actions being taken or required to address areas of concern. The governance statement covers all significant corporate systems, processes and controls spanning the whole range of the authority’s activities, including in particular those designed to ensure that:

- the authority’s policies are implemented in practice
- high-quality services are delivered efficiently and effectively
- the authority’s values and ethical standards are met
- laws and regulations are complied with
• required processes are adhered to
• financial statements and other published performance information are accurate and reliable
• human, financial, environmental and other resources are managed efficiently and effectively.

Production and Approval Process for the Annual Governance Statement

5. The first stage of the AGS assessment process involves the completion of Control Effectiveness Statements by Service Managers. The Statements cover 11 key areas of corporate governance.

- Risk Management
- Performance Management
- Financial Management
- Legal
- Human Resources
- Agency Staff/Use of Consultants
- Information Governance and Data Protection
- Commissioning and Procurement
- Programme and Project Management
- Partnerships
- Other Significant Control Issues (including whistle blowing, records management and fraud)

6. Within each of the above areas there are a number of specific requirements, totalling 45 in all. Service Managers are asked to self assess their services against each requirement and indicate if they meet, partially meet, or do not meet it. Once completed meetings are arranged by Internal Audit and Risk & Assurance with Service Managers. They are “challenged” on their submissions to provide assurance that they were reflective of the existing situation. They are required to provide information on the arrangements they have in place where a requirement was indicated as met, and to note the actions they plan to take, and when, if a requirement is only partially met or not met.

7. Each of the Control Effectiveness statements completed by Service Managers is then analysed by the Risk and Assurance Team and Internal Audit to determine common themes across the Council and any areas of relative weakness where improvements to the Council’s governance arrangements could be made.

8. The information from each of the Control Effectiveness Statements, and from discussions with managers, is then analysed further to arrive at a council-wide view of the effectiveness of our governance arrangements and to determine areas for improvement that can be incorporated into an Action Plan to be addressed throughout the year.

Achieving for Children

9. The organisation delivering children’s services in Kingston and Richmond (Achieving for Children (AfC)), was formally launched on the first of April 2014. AfC have robust arrangements in place to ensure that Risk Management and Internal
Control systems are effective and appropriate. These are overseen by AfC’s Senior Leadership Team and the Audit and Risk Committee who then advise the AfC Board on the overall adequacy and effectiveness of their governance, risk management, internal control, Treasury management and value for money systems and frameworks.

10. This process is well under way within AfC and its outcome will be reported to this Committee’s September meeting.

Other Assurance Work

11. As usual, other pieces of assurance work will feed into the overall assessment of our governance arrangements this year. These include:

- An Internal Audit Review of Corporate Governance which is currently coming to a conclusion
- Other Internal Audit outcomes, as set out in the Annual Report to this Committee
- The Audit Opinion of the Head of Internal Audit
- A self assessment on the role of the Chief Financial Officer
- A self assessment on compliance with CIPFA Public Sector Internal Audit Standards (as reported separately on the Committee’s agenda).

Sign Off Arrangements for the 2016/17 AGS

12. Once this Committee has approved the Annual Governance Statement at its meeting in late September, it has previously recommended it to the Treasury or predecessor) Committee for final approval. In the current Municipal Year the Treasury Committee does not meet until after 30 September which is the deadline for approval of the AGS. In discussion with the External Auditors it has been confirmed that there is no legal or Regulatory requirement for the AGS to be signed off by another Committee. Given that, in any event, the Treasury Committee won’t be familiar with the activities that relate to the AGS process, all of which are within this Committee’s remit, it is suggested that the need for final sign off by the Treasury Committee be removed from this Committee’s Terms of Reference so that final approval of the AGS is given by this Committee.

AGS Action Plan 2015/16

13. As usual, an Action Plan to address areas of relative weakness was established following the submission of last year’s Annual Governance Statement. This has been monitored throughout the year by SLT and the Committee and good progress has been made in most areas.

14. The 2015/16 Action Plan is set out at Annex 1. All completed actions are in bold. Uncompleted actions will be carried over to the following year and form part of the AGS Action Plan for 2016/17 which will be submitted to the Committee’s September meeting for approval.
Financial Implications

15. Whilst there are no specific financial implications arising from this report a number of the areas for improvement listed in the Action Plan relate to financial systems and processes.

Risk Management


Timescale

17. The finalised Annual Governance Statement will be presented to the Committee’s September meeting for approval. However, in future years, there will be a requirement for the Council’s Accounts to be signed off by the end of June each year and, thus, the AGS will need to be prepared to a similar timescale.

Environmental Implications

18. There are no specific environmental implications arising from this report.

Equality Impact Assessment Implications

19. An Equality Impact Assessment is not required.

Background papers – held by author

List of reports/documents
1. Accounts and Audit Regulations 2015
2. Solace/CIPFA Delivering Good Governance in Local Government 2007 Guidance Note for Local Authorities
4. Audit Commission VFM Conclusion guidance 2010
5. Correspondence with AfC re assurance processes.
## 2015-16 Annual Governance Statement Action Plan

<table>
<thead>
<tr>
<th>No</th>
<th>Ref</th>
<th>Area</th>
<th>Issue</th>
<th>Action</th>
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<th>Owner</th>
<th>Expected Completion date (Exp) OR Completed Date (Comp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>AGS 1</td>
<td>Risk Management</td>
<td>Need for up to date Business Continuity plans.</td>
<td>Complete the updating of RBK Business Continuity Framework and individual Service Plans.</td>
<td>Updated Business Continuity Plan and Policy approved by SLT on 18 November. Individual Service Business Continuity Plans have now been finalised and arrangements are being made for testing.</td>
<td>AB</td>
<td>Sept 2015 (Comp)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Expected: Sept 2016.</td>
<td></td>
<td>Draft guidance on risk escalation completed, to be incorporated into updated Risk Management Toolkit</td>
<td></td>
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<td></td>
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<td></td>
<td>New format implemented to meet Internal Audit requirements.</td>
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<tr>
<td>2.</td>
<td>AGS 2</td>
<td>Performance Management</td>
<td>Lack of an up to date Data Quality Strategy.</td>
<td>RBK Data Quality Strategy to be reviewed and updated.</td>
<td>Data Quality Strategy has been completed, approved by SLT Performance Board in November and published to the intranet.</td>
<td>JRe</td>
<td>November 2015 (Comp)</td>
</tr>
<tr>
<td>No</td>
<td>Ref</td>
<td>Area</td>
<td>Issue</td>
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<tr>
<td>3</td>
<td>AGS 3</td>
<td>Legal</td>
<td>Concerns over capacity in Shared Legal Service.</td>
<td>Recruitment plan in place to address resilience issue. This continues to be monitored on a monthly basis by the SLLP Governance Board.</td>
<td>Continuing with implementation of recruitment plan. Some progress made but still a number of vacant posts currently filled by locums. Position continues to be monitored by the Shared Service Governance Board and other options being appraised.</td>
<td>NB</td>
<td>September 2016 (Exp)</td>
</tr>
<tr>
<td>4</td>
<td>AGS 4</td>
<td>Human Resources</td>
<td>Need for improved monitoring and feedback of compulsory Evolve training.</td>
<td>Improvements to the Evolve on line training system have now been made which allows easier monitoring of mandatory training modules. A re-promotion of mandatory training is taking place in the new year. It is the responsibility of line managers to ensure that staff have completed the compulsory modules and this can also be monitored through the annual appraisal process.</td>
<td>Reminders of the requirement for all staff to complete mandatory training has been cascaded through Managers. Monitoring through appraisals process. Specific compulsory training for agency workers being prepared.</td>
<td>MT/ PF/MG</td>
<td>Sept 2016 (Exp)</td>
</tr>
<tr>
<td>5</td>
<td>AGS 5</td>
<td>Commissioning and Procurement</td>
<td>Issues with active contract management: awareness and engagement.</td>
<td>Review of our approach to contract management to be initiated as part of the New Capabilities and Enablers Outcome Based Budgeting (Organisational Outcomes) identifying need within Enabling Council to develop</td>
<td></td>
<td>CM</td>
<td>Contract management framework refresh has</td>
</tr>
<tr>
<td>No</td>
<td>Ref</td>
<td>Area</td>
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<td>Our Kingston Programme Project. and increase contract management skills. Contract Management Framework has been refreshed and Strategic Business Commissioning are currently training a further cohort of managers in contract management skills. Next steps are to develop Finance &amp; Performance Board into wider remit of overseeing contract management, including top 20 strategic contracts, and developing contract management tool. Strategic Business are updating the overall contracts register so it reflects more accurately what is being held at service level.</td>
<td></td>
<td></td>
<td>been completed. Further training completed February but another refresh underway for mandatory training (date Aug 2016) OK programme capabilities being developed. Next phase to programme design underway (date August 2016) CRS refresh six monthly. Finance &amp; Performance Support Board regular monitoring (Comp)</td>
</tr>
<tr>
<td>No</td>
<td>Ref</td>
<td>Area</td>
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<tr>
<td>6.</td>
<td>AGS 6</td>
<td>Information Governance and Data Protection</td>
<td>Asset lists of IT hardware not currently held by services or ICT.</td>
<td>Improved asset management processes are being implemented as part of the shared ICT service infrastructure. Routine maintenance of asset registers will be built into the service management processes. Arrangements are in place to record equipment that is issued to staff through the ICT service desk, assets are tagged when they are issued and registers are maintained.</td>
<td>Enhanced tools are being implemented to ensure that routine maintenance of asset registers is built into the service management processes. The new ITSM system implementation has started. Asset tagging equipment is underway but improvement is needed for our asset registers.</td>
<td>MT/CG</td>
<td>August 2016 (Exp) October 2016 (Exp)</td>
</tr>
<tr>
<td>7.</td>
<td>AGS7</td>
<td>Information Governance and Data Protection</td>
<td>Not all staff have completed mandatory online information governance/data protection training.</td>
<td>The existing data Protection Training Module will be revised once the alignment of the Kingston and Sutton Information Governance framework has been completed.</td>
<td>Direct link with iTrent being established to regularly update and integrate data between the HRIS and Evolve. New support service now in place that will enable reports to be ordered on a regular basis which can be circulated to DMTs, for example, quarterly. The guidance to staff re: the Data Protection Act is</td>
<td>MT/ PF</td>
<td>Sept 2016 (Exp)</td>
</tr>
<tr>
<td>No</td>
<td>Ref</td>
<td>Area</td>
<td>Issue</td>
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<tr>
<td>8.</td>
<td>AGS 8</td>
<td>Information Governance and Data Protection</td>
<td>Lack of corporate guidance on sharing sensitive personal information internally.</td>
<td>Corporate guidance on sharing data internally to be developed by Strategic Business and Legal via the Information Governance Board.</td>
<td>Risk and Assurance currently working with ICT towards completion of Corporate Guidance on Sharing Data Internally. Work ongoing. Draft guidance on emailing has been agreed by the I&amp;SGB</td>
<td>PF</td>
<td>August 2016 (Exp)</td>
</tr>
<tr>
<td>9.</td>
<td>AGS 9</td>
<td>Issues carried forward from 2013/14 AGS Action Plan</td>
<td>Scheme of Delegation to be reviewed and updated.</td>
<td>Review commenced during 2013/14 to be completed and submitted to the Treasury Committee, and Council, for formal approval.</td>
<td>Completion of review delayed by a recent Court ruling affecting another Borough which has implications for the way the RBK Scheme is structured, together with recent changes to the Council’s decision making arrangements. Now scheduled for completion during 2016/17.</td>
<td>AB</td>
<td>March 2017 (Exp)</td>
</tr>
<tr>
<td>10.</td>
<td>AGS 10</td>
<td>Issues carried forward from 2013/14 AGS Action Plan</td>
<td>Corporate procedures on conflicts of interest, fraud and whistle blowing should be made more robust and promoted/embedded more widely.</td>
<td>Finalise on-line anti-fraud Evolve training model module and incorporate into the induction process for new staff.</td>
<td>Anti-fraud briefing sessions were delivered to DMTs in covering key fraud risks, whistle blowing and conflicts of interests. An online anti-fraud training module has been developed on Evolve and is due to be rolled out in 2016.</td>
<td>AW/MG</td>
<td>August 2016 (Exp)</td>
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<tr>
<td>No</td>
<td>Ref</td>
<td>Area</td>
<td>Issue</td>
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<tr>
<td>12</td>
<td>AGS</td>
<td>Other Significant Concerns</td>
<td>20 Priority 1 Internal Audit Recommendations Outstanding.</td>
<td>Heads of Service/Department Managers to address Priority 1 Internal Audit recommendations by stated implementation date.</td>
<td>Internal audit has carried out follow-up work on audits where Priority 1 recommendations have previously been made. Reports have been presented to the Strategic Leadership Team (SLT) for consideration. There has been some progress in completing the recommendations since the previous report and Internal Audit will continue to monitor this closely.</td>
<td>HoS (Heads of Service)</td>
<td>As per Internal Audit Action Plan Implementation date</td>
</tr>
<tr>
<td>13</td>
<td>Corp Gov Review (i)</td>
<td>Purpose, Outcomes, and Vision</td>
<td>The DCG pages on the intranet should be updated to include recent meeting agendas and minutes in relation to on-going change programmes and Our Kingston.</td>
<td>A DCG Google Community has been established to ensure that DCGs can access all DCG minutes and agendas and share good practice. This compliments the bi-monthly publication of DCG Matters.</td>
<td>Completed</td>
<td>MG</td>
<td>Oct 2015 (Comp)</td>
</tr>
<tr>
<td>No</td>
<td>Ref</td>
<td>Area</td>
<td>Issue</td>
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<tr>
<td>14.</td>
<td>Corp Gov Review (ii)</td>
<td>Purpose, Outcomes, and Vision</td>
<td>The Terms of Reference for the Kingston Strategic Partnership should be updated to reflect the removal of the Partnership Delivery Board and published on the Council’s website with the minutes and agendas of all Kingston Strategic Partnership meetings.</td>
<td>To update the Terms of Reference for the KSP.</td>
<td>The KSP terms of reference has been reviewed and is no longer required.</td>
<td>KM</td>
<td></td>
</tr>
<tr>
<td>15.</td>
<td>Corp Gov Review (iii)</td>
<td>Purpose, Outcomes, and Vision</td>
<td>Further work is required on complaint handling to achieve target timescales for responses.</td>
<td>Complaint handling process to be developed to ensure target timescales are met.</td>
<td>Services are now receiving prior notice of complaints that are approaching the target date to remind them that a response by the target date is required. Complaints performance continues to improve and is an agenda item at PaCE and SLT. We are currently reviewing the process looking for smarter ways of managing complaints.</td>
<td>MS</td>
<td>July 2016 (Exp)</td>
</tr>
<tr>
<td>No</td>
<td>Ref</td>
<td>Area</td>
<td>Issue</td>
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<td>16</td>
<td>Corp Gov Review (iv)</td>
<td>Members and Officers Working Together</td>
<td>The revised version of the Local Code of Corporate Governance should be put on the Council's intranet.</td>
<td>The revised version of the Local Code of Corporate Governance will be made available on the intranet as part of the new Corporate Governance section of the intranet.</td>
<td>Local Code of Corporate Governance is now available on the RBK intranet.</td>
<td>AB/PF</td>
<td>Sept 2015 (Comp)</td>
</tr>
<tr>
<td>17</td>
<td>Corp Gov Review (v)</td>
<td>Members and Officers Working Together</td>
<td>The approved Pay Policy should be published on the intranet for staff reference.</td>
<td>The approved Pay Policy is to be included on the intranet.</td>
<td>Completed</td>
<td>MG</td>
<td>October 2015 (Comp)</td>
</tr>
<tr>
<td>18</td>
<td>Corp Gov Review (vi)</td>
<td>Values and High Standards of Conduct</td>
<td>The Kingston Plan should be reviewed to reflect changes since its launch in 2009.</td>
<td>To review the Kingston Plan.</td>
<td>The Kingston Community Plan was published in March 2009 and has served as a useful framework for Partnership work. It does need to be refreshed to reflect the priorities of the wider partnership network going forward and we will consider this later in the year after the annual conference in September. The Kingston Community Plan is expected to be replaced, pending annual conference in Autumn 2016.</td>
<td>KM</td>
<td>April 2017 (Exp)</td>
</tr>
<tr>
<td>No</td>
<td>Ref</td>
<td>Area</td>
<td>Issue</td>
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<tr>
<td>19</td>
<td>Corp Gov Review (vii)</td>
<td>Values and High Standards of Conduct</td>
<td>The Code of Conduct for employees on the Council website requires updating to remove references to staff who are no longer working at the Council.</td>
<td>Staff details within the Code of Conduct have been updated.</td>
<td>Completed</td>
<td>MG/NB/AB</td>
<td>October 2015 (Comp)</td>
</tr>
<tr>
<td>20</td>
<td>Corp Gov Review (viii)</td>
<td>Developing Capacity and Capability of Members and officers</td>
<td>Consideration should be given to developing a performance framework in reviewing the performance of Portfolio Holders.</td>
<td>Development of a performance framework to review the performance of Portfolio Holders.</td>
<td>This issue is now being looked at as part of a wider review of the role of Members in the context of the changing role of the Council.</td>
<td>AB</td>
<td>October 2016 (Exp)</td>
</tr>
<tr>
<td>21</td>
<td>Corp Gov Review (x)</td>
<td>Engaging with Local People and Stakeholders to ensure Public Accountability</td>
<td>The whistleblowing pages on the Council's intranet require updating as they refer to members of staff who are no longer Council employees.</td>
<td>Whistleblowing pages have been updated to include the contact details of staff.</td>
<td>Completed</td>
<td>MG/VS</td>
<td>October 2015 (Comp)</td>
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</table>

**Officers Initials/Actions**

<table>
<thead>
<tr>
<th>Officer</th>
<th>Action No(s)</th>
<th>Action No(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB - Andrew Bessant</td>
<td>1,9,16,19,20</td>
<td>MG - Marie Gadsden 10,13,17,19</td>
</tr>
<tr>
<td>AW - Alix Wilson</td>
<td>10</td>
<td>MT - Matthew Taylor 4,6,7</td>
</tr>
<tr>
<td>CG - Carl Godbehere</td>
<td>6</td>
<td>NB/Legal - Nick Bishop/Legal 3,8,11,19</td>
</tr>
<tr>
<td>CM - Chris Morgan</td>
<td>5</td>
<td>PF - Phillip Furby 4,8,11,16</td>
</tr>
<tr>
<td>CR - Cynthia Rodney</td>
<td>15</td>
<td>R&amp;A - Risk and Assurance Team 8,11</td>
</tr>
<tr>
<td>KM - Kevin Mitchell</td>
<td>14,18</td>
<td>SW - Sheila West 19,21</td>
</tr>
<tr>
<td>HoS - Heads of service</td>
<td>12</td>
<td>VS - Veronika Siggers (SWLFP) Wandsworth 21</td>
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<td>JRe - Justine Rego</td>
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Audit, Governance and Standards Committee  
28 June 2016

Summary Corporate Risk Register and Risk Monitoring  
Report by the Head of Corporate Governance

**Purpose**

To provide the Committee with an update to the Summary Corporate Risk Register.

**Recommendation**

It is Recommended that

1. the updates to the Summary Corporate Risk Register (SCRR) are noted - Annex 1 for Members of the Committee only;

2. it is noted that the SCRR will continue to be reviewed and updated (where required) and reported at every meeting of the Committee.

**KEY POINTS**

A. The Committee reviews the full Corporate Risk Register on an annual basis but considers, at each meeting, a Summary version which represents the Strategic Leadership Team’s view of the top 10 or so risks that the Council is currently facing.

B. This Committee last reviewed the Summary Corporate Risk Register at its meeting on 20 April 2016. An updated version, following the Strategic Leadership Team’s latest quarterly review is now presented.

**Summary Risk Register**

1. As a result of the Strategic Leadership Team’s (SLT) previous (April) quarterly review of the Corporate Risk Register it now has three additional risks included. These relate to the Council’s reduced ability to prevent Homelessness: Pensions Service wok-load and resourcing levels; and the potential insecure transmission of data.

   During the course of the most recent (June) review by SLT a number of adjustments have been made to the Summary Risk Register as reflected in the updated version at Annex 1. – A3 copy enclosed separately and is Exempt information.

   In addition, in response to earlier Internal Audit recommendations and subsequent discussions, a new format has been developed for the Risk Register which has been utilised for the Summary version that is attached. The new format is intended to make clearer the exact nature of the risk and reduce some of the historical information that previously was included. The Committee’s views on the new format would be welcome.
2. The Committee is due to undertake its full review of the Corporate Risk Register at its meeting on 22 September 2016. At that meeting, in accordance with usual practice, the Committee will be invited to identify two risks for fuller review during the course of the year.

Background papers - held by author

Author of report - Andrew Bessant, Head of Corporate Governance, 020 8547 4628, andrew.bessant@kingston.gov.uk

- None other than those referred to in this report
By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.
Purpose
To consider the Internal Audit and Fraud Report (the review of performance for the past year) summarising some highlights from the Service’s work in 2015/16.

Recommendation
To RESOLVE that the report on the activities of Internal Audit and Fraud for 2015/16 is noted

Key Points
A. The Internal Audit Service “primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”. Each year it submits to Members an Internal Audit Plan (the service’s work programme for the forthcoming year), and an Internal Audit Report

Resource Implications
There are no resource implications arising directly from this report’s recommendations.

Background papers – held by the author of the report:
Head of South West London Audit Partnership

Annual Internal Audit Report 2015-16

Royal Borough of Kingston upon Thames
# CONTENTS

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2 PLANNED COVERAGE AND OUTPUT  4
3 IMPLEMENTATION OF RECOMMENDATIONS  10
4 PERFORMANCE OF INTERNAL AUDIT  10
5 FRAUD  12
6 IMPLEMENTATION OF RECOMMENDATIONS  16
1 EXECUTIVE SUMMARY

Introduction

1.1 Internal Audit work is carried out in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards 2016 (PSIAS). Internal Audit procedures are designed to allow the Council’s Head of Internal Audit to provide an annual opinion on the adequacy and effectiveness of internal controls to mitigate principal risk exposures to the Council.

Planned coverage and output

1.2 The total number of audit and fraud days commissioned for 2015/16 was 1370 days. This was made up of the following:

<table>
<thead>
<tr>
<th>No. of days</th>
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<tr>
<td>Internal audit plan</td>
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<td>AfC audit plan</td>
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<tr>
<td>(50% share of 285 AfC audit days)</td>
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<tr>
<td>Fraud plan days</td>
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<td>1370</td>
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1.3 The Audit Committee in April 2015 agreed a plan of 679 audit days for the financial year 2015/16. This was 21.5 days over and above what was commissioned by the Shared Service Board (657.5 days) but it was anticipated that a number of the audits may not take place during the year and also that flexibility would need to be built into the plan to accommodate work as required on the transformation and commissioning programme. A further 285 days were agreed for the AfC Audit Plan, split equally between Kingston and Richmond (142.5 days each).

1.4 On the basis of the above, we can report that we have completed 100% of the total number of commissioned audit days (800 days) for 2015/16. Only 86% of the fraud days were delivered due to a number of staff vacancies carried by the service resulting in a budget underspend. This underspend has been shared between the partner authorities through a reduced charge for 2016/17.

1.5 The plan was compiled with reference to the Council’s Corporate Risk Register and following discussions with each of the Directorate Management Teams (DMTs). This ensured that audit work was focused on the council’s key risks and targeted areas where senior managers required independent assurance over controls in their service areas.

1.6 Changes to the plan and updates on progress were discussed at DMTs quarterly and significant changes reported to the Audit and Governance Committee in the Audit Update Reports.
1.7 In terms of reports delivered by the audit team, the audit plan at the start of the year included 48 audits (and a further 25 audits for AfC); the plan is always flexible to allow for movement in the number of audits in the plan and days delivered reflecting changing client needs. The overall number of reports will be subject to change over the course of the year as audits may be deferred or no longer required. However, additional reviews may be added if concerns are raised about a specific control area or existing reviews may have their budgets increased. During the year, 7 additional reviews were added to the plan.

1.8 To date, 36 reports have been issued as final or are at draft stage. This is covered in more detail in the planned coverage and output section. A further 10 reports are nearing completion and were due to be issued at the time of this report. Any high priority issues relating to these will be reported to Audit Committee in September 2016. 5 audits have been carried forward to 2016/17 and 4 audits have been cancelled from the original plan.

1.9 Although only 36 out of an original 48 audits were completed in 2015/16, there were an additional 21.5 days included in the original audit plan (see above) that were not resourced.

Implementation of recommendations

1.10 Follow up of priority 1 recommendations is undertaken quarterly and progress reported to SLT prior to Audit Committee twice a year. Management responses to reports issued this year have been positive. However, whilst management have agreed and set timely target dates for Priority 1 recommendations; limited progress in completing recommendations during the year was made.

1.11 We reported in April that there were 13 Priority 1 recommendations that were past their originally agreed due date. This is an area that Internal Audit will focus on in more detail to try and improve progress and reduce the number of unimplemented recommendations.

Operational assurance

1.12 To date we have issued 36 reports and were able to place reliance on the operation of all of the key systems reviewed. A further 10 reports were due to be issued at around the time of writing this report and any high priority issues relating to these will be reported to the next Audit Committee. 5 audits have been carried forward to the 2016/17 plan at the request or agreement of the Service.

Performance of the Internal Audit service

1.13 A requirement laid down in the Accounts and Audit (England) Regulations 2015 states that “the relevant body shall, at least once in a year, conduct a review of the effectiveness of its internal audit”. Previously, an annual self-assessment against CIPFA’s Code of Practice for Internal Audit in Local Government was carried out and reported to Audit Committee.

1.14 The Code of Practice was replaced by new standards and guidance following the launch of new Public Sector Internal Audit Standards (PSIAS) in 2012. These came into effect from 1st April 2013, were revised in 2016 and the 2015/16 assessment has been undertaken against these updated standards.
1.15 A separate report will be presented to the Committee with the detailed self-assessment, and the resultant Quality Action Improvement Plan (QAIP) as is required by the new standards. In summary, the self-assessment has demonstrated substantial compliance with the standards – 99.7% fully or partially compliant.

1.16 The key focus of the review of the effectiveness of internal audit is the delivery of the service to the required standard in order to produce a reliable assurance on internal controls and the management of risks in the authority. In coming to a view on the effectiveness of the system of internal audit, the following are all indicators that should be taken into account:

- Performance of the internal audit provider (in-house and / or contractor) in terms of both quality & cost
- Views of external audit & reliance placed on work by internal audit
- Role and effectiveness of the Audit and Governance Committee
- The extent to which internal audit adds value to the organisation and helps delivery of objectives

1.17 During 2015/16, the internal audit service has achieved the following:

- Delivery of 100% of the Audit Plan
- 100% client satisfaction for audit work
- Successful transfer of fraud staff to South West London Fraud Partnership in May 2015
- Expansion of the South West London Audit Partnership to a 4 Borough Shared Service to include LB Merton from the 1st October 2015 and LB Sutton from the 1st April 2016.

Overall assurance

1.18 As Head of the South West London Audit Partnership and Statutory Head of Internal Audit for the Royal Borough of Kingston upon Thames, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes. In assessing the level of assurance to be given, I based my opinion upon:

- All internal audit assignments undertaken during the year;
- Any follow-up action taken in respect of previous audit work;
- Any significant recommendations not accepted by management and the consequent risks;
- Matters arising from previous reports to the Audit Committees;
- Any limitations which may have been placed on the scope of the internal audit;

Opinion

I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council’s control environment. In my opinion, the Council does have an adequate and effective control process to manage the achievement of its objectives. However, I must caveat this opinion in respect of the key issues reported below in Section 2.
2 PLANNED COVERAGE AND OUTPUT

Actual days compared to planned days

2.1 The annual plan, approved by the Audit Committee in April 2015, was for a total of 679 days that would be flexible to take account of the nature of skills required and the areas under review. The audit plan agreed by committee exceeded the number of days commissioned from the Shared Service (657.5 days) as it was accepted that, as in previous years, there would be changes to the plan during the course of the year. During the year the Audit Plan was revised to reflect changes in management requirements and consequently a plan of 679 days was developed through consultation with DMTs. On the basis of the 657.5 commissioned days, we delivered 100% of the audit plan. This was through the use of a combination of in-house auditors and specialist staff in areas such as computer audit.

Actual Assignments against planned assignments

2.2 As above, a number of revisions were made to the original plan approved by the Audit Committee in April 2015. As with any Internal Audit plan, the plan needs to offer flexibility during the year for changing priorities and specific issues arising within individual service areas. To accommodate this, some of the original reviews were deleted, replaced or moved into 2016/17. A summary of the planned against actual days is provided in Table 1 below:

Table 1: Planned v actual days delivered

<table>
<thead>
<tr>
<th>Area</th>
<th>Actual Days 2014/15</th>
<th>Planned Days 2015/16</th>
<th>Revised Days 2015/16</th>
<th>Actual Days 2015/16</th>
<th>% of Planned days to plan delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>62</td>
<td>63</td>
<td>54</td>
<td>48</td>
<td>76</td>
</tr>
<tr>
<td>Key Financial Systems</td>
<td>116</td>
<td>177</td>
<td>178</td>
<td>156</td>
<td>88</td>
</tr>
<tr>
<td>Adult and Health Services</td>
<td>108</td>
<td>106</td>
<td>79</td>
<td>97</td>
<td>91</td>
</tr>
<tr>
<td>Place</td>
<td>86</td>
<td>100</td>
<td>106</td>
<td>104</td>
<td>92</td>
</tr>
<tr>
<td>Finance Services</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Proactive and real-time Auditing</td>
<td>18</td>
<td>15</td>
<td>15</td>
<td>11</td>
<td>73</td>
</tr>
<tr>
<td>Heritage &amp; Culture</td>
<td>11</td>
<td>30</td>
<td>15</td>
<td>17</td>
<td>57</td>
</tr>
<tr>
<td>Organisational Development &amp; Strategic Business</td>
<td>62</td>
<td>25</td>
<td>36</td>
<td>33</td>
<td>132</td>
</tr>
<tr>
<td>Risk Management &amp; Assurance Framework</td>
<td>16</td>
<td>23</td>
<td>23</td>
<td>20</td>
<td>87</td>
</tr>
<tr>
<td>Completion of prior year audits</td>
<td>81</td>
<td>50</td>
<td>50</td>
<td>63</td>
<td>126</td>
</tr>
<tr>
<td>Management &amp; Assurance</td>
<td>65</td>
<td>50</td>
<td>65</td>
<td>68</td>
<td>116</td>
</tr>
<tr>
<td>Follow Up &amp; Contingency</td>
<td>22</td>
<td>20</td>
<td>20</td>
<td>26</td>
<td>136</td>
</tr>
<tr>
<td>Fraud Management and reactive work</td>
<td>-</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Sub Total</td>
<td>657</td>
<td>679</td>
<td>661</td>
<td>663</td>
<td>98</td>
</tr>
<tr>
<td>AfC</td>
<td>143</td>
<td>143</td>
<td>143</td>
<td>143</td>
<td>100</td>
</tr>
<tr>
<td>TOTAL</td>
<td>800</td>
<td>822</td>
<td>804</td>
<td>806</td>
<td>98</td>
</tr>
<tr>
<td>% of commissioned days completed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

(Figures rounded to 2 decimal places)
2.3 The key changes were as follows:

- **Reduced IT days** – One audit, Civica Housing System, has been carried forward to the 2016/17 plan due to a lack of audit client resource. The Information Governance Toolkit (Phase 2) audit was deemed no longer relevant and was cancelled from the plan.
- **Reduced Adult & Health Services days** – Three audits, Better Care Fund, Care Act 2014 and the Independent Living Fund, were cancelled as it was felt that there was insufficient risk/scope to audit. Consideration may be given to undertaking some work in these areas during 2016/17. One audit, Residential Placements has been moved forwards to Q1 of the 2016/17 audit plan.
- **Reduced Proactive and real-time audit days** – work prioritisation resulted in less time being used in this area than planned. Proactive work on duplicate payments was given priority and resulted in £13k savings being identified during 2015/16. There will be a focus on achieving a greater coverage in the 2016/17 audit plan.
- **Reduced Heritage and Culture days** – One audit, Kingston Theatre Grant, was rolled forward into the 2016/17 audit plan at the request of the service.
- **Increased Organisational Development & Strategic Business days** – One audit, Workforce Planning, was brought forward from the 2014/15 plan. One audit, Flood Resilience Grant, was added at the request of the service.
- **Increased Management Days** – The increase was predominantly due to a failure to include time in the original audit plan to attend Departmental Management Team; and Senior Leadership Team meetings. A small amount of extra time was also used for advice and information and for special project work.
- **Increased Follow Up days** – This was directly related to the large number of Priority 1 recommendations that significantly passed their agreed review date.

**Assurance opinions**

2.4 70% of all the audits undertaken were given either substantial or full assurance (compared to 78% in 2014/15 and 74% in 2013/14). The fall in the percentage of substantial assurance audits is a reflection of the development work and close relationship with DMTs which has helped to focus on areas of management concern, as well as areas identified as audit concern.

2.5 For each audit carried out, Internal Audit provides an opinion as to the quality of the control environment in the following processes:

- Risks have been identified, evaluated and managed
- Internal controls reduce risks to acceptable levels
- Action is being taken to promptly remedy significant failings or weaknesses
- The current levels of monitoring are sufficient

2.6 Each audit is given an opinion based on 4 levels of assurance depending on the conclusions reached and the evidence to support those conclusions. Members and management should note that the assurance level is an opinion of controls in operation at the time of the audit. The auditor will agree with management a number of recommendations which, when implemented, will result in a reduction of the exposure to risk. Each recommendation is given a priority ranking and an implementation date and these are monitored on a regular basis by the internal audit team. Priority 1 recommendations are defined as being those where major issues have been identified for the attention of senior management.
Levels of assurance

<table>
<thead>
<tr>
<th>Assurance Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Assurance</td>
<td>There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.</td>
</tr>
<tr>
<td>Substantial Assurance</td>
<td>Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.</td>
</tr>
<tr>
<td>Limited Assurance</td>
<td>There are significant weaknesses in key control areas, which put the system objectives at risk.</td>
</tr>
<tr>
<td>No Assurance</td>
<td>Control is weak, leaving the system open to material error or abuse.</td>
</tr>
</tbody>
</table>

Priority of recommendations

<table>
<thead>
<tr>
<th>Priority</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Major issues that we consider need to be brought to the attention of senior management.</td>
</tr>
<tr>
<td>2</td>
<td>Important issues which should be addressed by management in their areas of responsibility.</td>
</tr>
<tr>
<td>3</td>
<td>Detailed problems of a minor nature that were resolved through on-site discussion with local management.</td>
</tr>
</tbody>
</table>

2.7 Table 2 below identifies the overall levels of assurance provided for the Key Financial System audits:

Table 2: Levels of Assurance (KFS)

<table>
<thead>
<tr>
<th>Audit Assignment</th>
<th>Assurance given 2014/15</th>
<th>Assurance given 2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Substantial</td>
<td>Substantial*</td>
</tr>
<tr>
<td>Council Tax</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>General Ledger</td>
<td>Not covered this year</td>
<td>Substantial*</td>
</tr>
<tr>
<td>Housing Rents</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>NNDR (Business Rates)</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Payroll &amp; Staff Expenses</td>
<td>Substantial</td>
<td>Substantial*</td>
</tr>
<tr>
<td>Pensions Administration</td>
<td>Not covered this year</td>
<td>Substantial</td>
</tr>
<tr>
<td>Pensions Investments</td>
<td>Not covered this year</td>
<td>Not covered this year</td>
</tr>
<tr>
<td>Treasury Management</td>
<td>Not covered this year</td>
<td>Substantial</td>
</tr>
<tr>
<td>Housing Benefits</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Cash &amp; Bank</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>Not covered this year</td>
<td>Limited*</td>
</tr>
</tbody>
</table>

*Subject to issue of final report

2.8 In addition to the in-house work, there has been a joint 4 borough audit undertaken on the iTrent payroll system. This was led by the London Borough of Sutton as host authority for the system, and they commissioned an ISAE audit report, the scope for which was agreed by all 4 boroughs now using the system (Kingston, Richmond, Sutton and Merton). The audit was awarded a Reasonable Assurance opinion (equivalent to Substantial Assurance).
2.9 Table 3 below identifies the other audits where ‘Limited’ audit assurance was given or where Priority 1 recommendations were made.

Table 3: Priority 1 recommendations

<table>
<thead>
<tr>
<th>Audit</th>
<th>Assurance Opinion</th>
<th>Number of Priority 1 recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Project Management*</td>
<td>Limited</td>
<td>1</td>
</tr>
<tr>
<td>Schools Financial Management System</td>
<td>Substantial</td>
<td>1</td>
</tr>
<tr>
<td>Capital Expenditure*</td>
<td>Limited</td>
<td>2</td>
</tr>
<tr>
<td>Your Healthcare</td>
<td>Limited</td>
<td>10</td>
</tr>
<tr>
<td>Occupational Therapy Equipment*</td>
<td>Limited</td>
<td>4</td>
</tr>
<tr>
<td>Right to Buy*</td>
<td>Limited</td>
<td>1</td>
</tr>
<tr>
<td>Housing Team Performance*</td>
<td>Limited</td>
<td>1</td>
</tr>
<tr>
<td>Planning Applications</td>
<td>Limited</td>
<td>4</td>
</tr>
<tr>
<td>Adecco Contract</td>
<td>Substantial</td>
<td>1</td>
</tr>
<tr>
<td>Business Continuity</td>
<td>Limited</td>
<td>0</td>
</tr>
</tbody>
</table>

*Subject to issue of final report

2.10 We now summarise the key issues arising as a result of our work.

**Key issues arising**

**Key Financial Systems**

2.11 Substantial assurance was provided on 11 of the 12 Key Financial Systems in 2015/16. There were 2 Priority 1 recommendations raised in the Capital Expenditure review: we examined four new capital projects and for two schemes worth more than £500,000 found no evidence of a feasibility report being approved by the relevant Strategic Committee or the Infrastructure, Projects and Contracts/Treasury Committee (Sheltered Remodelling and Affordable Housing Development). Capital Budgets are currently not held on the Council’s general ledger system (Agresso) these are recorded on an Excel spreadsheet maintained by the Senior Finance Analyst.

**ICT Reviews**

2.12 A programme of ICT audits was completed during 2015/16 and identified control weaknesses in the following main areas:

- **IT Project Management** – For the sample of projects reviewed there was a lack of project documentation, specifically we were unable to identify clear stage sign off documentation including that for user acceptance testing or go live approval. Whilst there was some documentation that could support the sign off decision this was inconsistent in format or incomplete.
- **Schools Financial Management System** – At the time of the audit it was confirmed by schools visited that there was no Disaster Recovery or Business Continuity Plan for the SIMS financial system application.
Other Key findings

2.13 A number of other Priority 1 recommendations were raised during the year:

- Adecco – The contract in place with Adecco with a value of £1.2m was signed by the Contract Manager on behalf of the Council however it was not sealed by Legal Services in accordance with the Council’s Contract Standing Orders.
- Your Healthcare – The audit identified a number of concerns around governance, performance monitoring, compliance with agreed policies/procedures, retention of records, accuracy of data and realisation of objectives. The findings of the report will be reported in detail at the September Committee meeting.
- Occupational Therapy Equipment – Budget monitoring was not being performed routinely or effectively and at the time of the audit the budget was reported as overspent. Reliance could not be placed on the process for authorising payments to the contractor. The Council pays all invoices and then recharges partner organisations, the process is complicated and has resulted in: extra resource being required to administer it at a cost to the Council.
- Right to Buy – Testing identified one instance where the discount had been miscalculated in favour of the house buyer by £5000 resulting in a loss to the Council. The control weakness has since been addressed by the department.
- Housing Team Performance – Sample testing identified that training needs were not routinely being identified through the supervision and appraisal process.
- Planning Applications – The audit was requested by management and identified a number of concerns specific to Telecom applications around the accuracy of planning application validation dates, content of acknowledgement letters, management and access arrangements in relation to the planning system and general administration arrangements. The findings of the report will be reported in detail at the September Committee meeting.
- Business Continuity – Key areas of concern identified during the audit included a lack of participation in the most recent business continuity exercise, plans that were overdue for review, the list of critical services within the corporate business continuity plan was out of date.

Follow up work

2.14 In addition to audits contained within the Audit Plan for 2015/16 Internal Audit introduced formal procedures to carry out follow up work on reports where Priority 1 recommendations have been made. Updates are now provided to SLT prior to reporting to the Audit and Governance Committee.

2.15 We reported in April that limited progress had been made in completing recommendations and at that time there were 13 outstanding P1 recommendations. There are a number of key areas where management action remained outstanding at the previous Audit and Governance Committee.

2.16 **Caldicott Follow up** – A review of staff access to systems within Adult Social Care should be undertaken to ensure that staff have defined and documented access rights and that these are agreed by the Caldicott Guardian. Access to folders and drives is being managed through the modern desktop migration, which should be complete for Adult Social Care by the end of April 2016. Audit will re-visit this area to assess implementation.

2.17 **Liquid Logic Application Review** – Adult Social Care should develop a Business Continuity Plan as soon as possible. This should then feed into the overall Disaster Recovery Plan.
2.18 **Liquid Logic Application Review** – The contract between the Royal Borough of Kingston and Liquid Logic for the IAS system should be checked to see if it has been extended to cover the current period and it should be signed by both parties.

2.19 **Information & Physical Security (Adults’ Establishments)** – It was recommended that a plan be developed and resources allocated to review client data held at Sessions House and Murray House to ensure that it was being held securely and confidentially and that there is a review of archived data within Adult Social Care to ensure that the correct retention and disposal timescales have been applied to existing archived data. Destruction dates have been added to boxes of client data at Murray House and Sessions House however, an update is required with respect to archived data within the rest of Adult Social Care.

2.20 **Asbestos and Legionella** – The Council should satisfy itself that all members of staff, where appropriate, should have the required qualifications and have received the appropriate health and safety training specific for their role. Managers should ensure that this information is captured during the annual performance appraisal process as required.

2.21 Internal Audit attended a Health & Safety Board meeting at the end of May to discuss this issue and to agree a way forward. Further follow-up work will be completed and the results reported back to the Audit, Governance and Standards Committee in September.
3 IMPLEMENTATION OF RECOMMENDATIONS

3.1 Following each internal audit assignment, we make recommendations for improvement. The priority of recommendation can be defined as follows:

Priority 1: - Major issues that we consider need to be brought to the attention of senior management;

Priority 2: - Important issues which should be addressed by management in their areas of responsibility;

Priority 3: - Detailed problems of a minor nature that were resolved through on-site discussion with local management.

3.2 Management has responded to each of our recommendations stating whether action will be taken to implement. 100% of the high priority recommendations reported to management have been agreed.

4 PERFORMANCE OF INTERNAL AUDIT

Quality assurance

4.1 Internal Audit operates a Quality Assurance system for its internal audits. This includes detailed independent review of all planning documents, terms of reference, audit files and reports.

Compliance with Standards

4.2 Based upon our ongoing assignment and review processes, together with the results of our Customer Surveys, we believe that we are substantially compliant with those Performance Standards. The self-assessment against the Public Sector Internal Audit Standards (PSIAS) for 2015/16 identified substantial compliance with 99.7% of the standards fully or partially met. Some areas where processes and documentation could be improved have been included within a Quality Action Improvement Plan which will be monitored by the Shared Service Board. None of the areas for improvement have had any significant adverse impact on the audit work undertaken.

Customer Surveys

4.3 We send out a Customer Survey at the end of each audit assignment in order to assess whether the auditee is satisfied with both the processes and the outcomes of the audit. Since December 2015 we have trialled the use of Survey Monkey to collect survey responses, this option takes less time for respondents to complete and take-up has been positive. 100% of the responses indicated that the auditee found the internal audit to be ‘good’ or ‘satisfactory’.
Quality control

4.4 Quality control is achieved through:

- Preparation of a detailed audit plan which is reviewed by the Director of Finance and the Head of Corporate Governance prior to submission to the Audit Committee for approval;
- Regular review of progress against the plan to ensure we are delivering the work we have promised;
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to a review protocol;
- The use of qualified, trained and experienced staff;
- Monitoring of performance against targets;
- The review of all audit files and reports by the Audit Manager and Head and Deputy Head of the South West London Audit Partnership.
5 FRAUD

5.1 Richmond Council joined the South West London Fraud Partnership (SWLFP) on the 1st April 2015. The SWLFP is a 5 Borough shared fraud investigation service with RB Kingston, LB Sutton, LB Merton and led by LB Wandsworth. The purpose of the shared service was to ensure that an effective fraud investigation and prevention service would be maintained following the transfer of benefit fraud investigation to the Department for Work and Pensions (DWP). The bringing together of retained knowledge and expertise under a single team strengthens resilience for the individual authorities, enabling a collaborative approach to fraud investigations and introduces the ability to undertake regional proactive counter fraud exercises.

5.2 During 2015/16, the SWLFP has undertaken counter fraud activities in the following areas:

- National Fraud Initiative (NFI)
- Blue Badge/Parking Permits
- Council Tax Reduction/Discount
- Employee Fraud
- NNDR/ Business Rate Relief
- Social Care fraud
- Housing Tenancy Fraud/abuse

5.3 A Fraud Plan was established and agreed for 2015/16 to ensure that fraud investigation work continued to be directed to areas at highest risk of fraud.

Investigation Caseloads

5.4 In total, 168 cases have been opened as a result of referrals received and concerns highlighted through proactive fraud drives during the year. A breakdown of fraud referrals accepted for investigation is show in Table 4 below:

Table 4: Investigation Caseloads

<table>
<thead>
<tr>
<th>2015/16</th>
<th>Open Cases b/fwd</th>
<th>New Cases in Year</th>
<th>Total Cases</th>
<th>Closed No Sanction</th>
<th>Closed With Sanction</th>
<th>Open Cases c/fwd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenancy Fraud</td>
<td>14</td>
<td>63</td>
<td>77</td>
<td>41</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Right to Buy</td>
<td>0</td>
<td>44</td>
<td>44</td>
<td>16</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Permit Fraud</td>
<td>2</td>
<td>9</td>
<td>11</td>
<td>6</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Corporate – Internal</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>0</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Corporate - External</td>
<td>0</td>
<td>31</td>
<td>31</td>
<td>7</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>16</strong></td>
<td><strong>152</strong></td>
<td><strong>168</strong></td>
<td><strong>70</strong></td>
<td><strong>38</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>

National Fraud Initiative (NFI)

5.5 The SWLFP is responsible for co-ordinating the NFI data matching exercises and investigating matches on behalf of the partner authorities.
5.6 On the abolition of the Audit Commission in 2015 responsibility for the NFI was transferred to the Cabinet Office and we are required to provide them with defined sets of data so that they can be matched with information provided by other public bodies.

5.7 Key data sets submitted for the 2015/16 data match were:

- Creditors,
- Market Traders,
- Personal Alcohol Licences,
- Parking,
- Payroll,
- Pensions,
- Personal Budgets,
- Residential Care,
- Council Tax and
- Electoral Registration data

5.8 Kingston, along with other partners within the SWLFP, have been accepted for the Council Tax Reduction (CTR) data match pilot. CTR records were submitted as part of the NFI data matching pilot and from these 1,448 potential matches for investigation were highlighted of which 1,039 matches were within NFI defined high risk reports. In addition, the SWLFP has been piloting joint working with the Single Fraud Investigation Service (DWP) on National Benefit, Housing Benefit and CTR.

5.9 As at the 30th April 2016;

- 1,474 matches had been completed and closed;
- 249 matches were in progress (had some action taken on them)
- 3 matches had been closed as fraud;
- 32 matches were identified as errors.

5.10 In total £194,720.09 has been identified as overpaid/incorrectly paid as a result of the NFI.

5.11 Through the NFI-Flexible Matching Service, the Council Tax and Electoral Registration Data were matched and they were released to view in March 2016 following the completion of the compliance declaration.
Reactive Fraud Investigations

5.12 Reactive fraud investigations are undertaken where suspected cases of fraud and irregularity are identified. These can be identified from a number of different sources:

- By Internal Audit, identified as part of an individual audit assignment;
- Reported under the Council’s Whistle Blowing policy
- Reported via the Confidential Fraud Hotline
- Reported online via the public website (Report a Fraud)
- Reported directly to the Internal Audit or the SWLFP via, staff, members, contractors, members of the public, other local authorities, the police, parking enforcement and other external agencies.

5.13 A number of corporate cases have been investigated during the year with the following outcomes:

- A referral was received for missing IT equipment linked to the major IT upgrade for Kingston and Sutton as stock piles of essential kit appeared to be lower than expected. Following the review of CCTV, a member of staff was arrested and additional equipment discovered at his home address. The member of staff pleaded not guilty to charges and the case is due to go to trial. Their contract of employment was terminated with immediate effect.
- An employee was identified as working whilst off sick. This was confirmed by the secondary employer and resulted in their resignation.
- An officer was found to have used the Council’s client transport taxi scheme for personal use. This officer resigned prior to the formal disciplinary hearing and repaid the cost of the fares.

5.14 Work has also been undertaken on a number of external cases, not involving Council staff:

- 3 investigations undertaken as part of the NFI Council Tax Reduction (CTR) pilot identified that the claimants had failed to notify of changes in circumstance. All three were issued with Administrative Penalties to the total value of £2,704 based on overpayments totalling £5,409.
- 5 formal cautions were issued where individuals were identified as misusing blue badges.

5.15 Statistics around the number and types of referrals received and sanctions issued as a result of reactive fraud investigations undertaken in 2015/16 are included in Tables 4 and 5.

Housing Fraud

5.16 16 properties have been recovered so far this year which have resulted in notional savings of £288k (16 x £18k). The properties were recovered based on the following:

- 5 for suspected subletting,
- 6 for suspected abandonment,
- 1 false succession,
- 4 for Anti-Social Behaviour.
5.17 The possession of two further properties has been awarded by the courts and we are awaiting eviction. 4 cases are awaiting court hearings and 3 notices to quit the property had been issued as at the 31st March 2016. The notional savings in respect of these cases will be included in the 2016/17 savings figures.

Right to Buy (RTB)

5.18 11 Right to buy applications were withdrawn following intervention in 2015/16. This has delivered notional savings of £1.1m (11 x £100k). There are currently 30 RTB applications being investigated.

Social Housing Investigation Partnership (SHIP)

5.19 The SHIP continues to provide a sound framework for partnership working to identify and respond to tenancy fraud and abuse. This includes facilitating training, promoting fraud awareness, discussions on emerging themes and concerns and the sharing of intelligence. Membership of the SHIP has been extended following the establishment of the SWLFP with other organisations from across the fraud partnership now in attendance.

Summary of Actual and Notional savings identified on Fraud cases

Table 5: Summary of Overpayments and Notional savings

<table>
<thead>
<tr>
<th></th>
<th>2015/16 February 2016 £</th>
<th>2014/15 £</th>
<th>2013/14 £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total benefit overpayments/savings</td>
<td>194,720 (NFI)</td>
<td>556,512</td>
<td>850,495</td>
</tr>
<tr>
<td>Social Housing (notional @ £18k per property recovered* - does not include properties pending recovery)</td>
<td>288,000 (16 prop)</td>
<td>360,000 + 29 Hsg App w/drawn</td>
<td>306,000 (17 prop)</td>
</tr>
<tr>
<td>Right to buy (notional @ £100k discount)</td>
<td>1,100,000</td>
<td>1,100,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Blue Badges &amp; Parking Permit (notional @ £500 per case*)</td>
<td>2,500</td>
<td>8,000</td>
<td>15,500</td>
</tr>
<tr>
<td>Internal (notional £5k per case*)</td>
<td>15,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Internal (UKBA @ notional £10k per case*)</td>
<td>0</td>
<td>20,000</td>
<td>0</td>
</tr>
<tr>
<td>Total Savings</td>
<td>1,600,220</td>
<td>2,064,512</td>
<td>2,260,705</td>
</tr>
</tbody>
</table>

(* notional savings figures as per Audit Commission estimates)
6 IMPLEMENTATION OF RECOMMENDATIONS

6.1 Following each internal audit assignment, we make recommendations for improvement. The priority of recommendation can be defined as follows:

Priority 1: - Major issues that we consider need to be brought to the attention of senior management;

Priority 2: - Important issues which should be addressed by management in their areas of responsibility;

Priority 3: - Detailed problems of a minor nature that were resolved through on-site discussion with local management.

6.2 Management has responded to each of our recommendations stating whether action will be taken to implement. 100% of the high priority recommendations reported to management have been agreed.

Alix Wilson
Head of the South West London Audit Partnership

June 2016
Audit, Governance and Standards Committee

28 June 2016

REVIEW OF THE EFFECTIVENESS OF THE SHARED INTERNAL AUDIT & INVESTIGATIONS SERVICE 2015/16

Report by the Head of the South West London Audit Partnership

Purpose
To summarise the self assessment review of the effectiveness of the Shared Internal Audit and Investigations Service against the Public Sector Internal Audit Standards (PSIAS).

Recommendation
It is Recommended that:

1. the self-assessment review of the effectiveness of the Shared Internal Audit & Investigations Service for 2015/16, is considered and commented on in accordance with the Public Sector Internal Audit Standards upon and

2. the Quality Improvement Action Plan (QAIP) attached at Annex 1 is approved

Key Points

A. The Accounts and Audit (England) Regulations 2015 require relevant bodies to conduct an annual review of the effectiveness of its internal audit and for a committee (ideally an Audit Committee) of the body to consider the findings. This process is to be regarded as part of the wider review of the effectiveness of the system of internal control.

B. For 2015/16, the SWLAP must comply with the Public Sector Internal Audit Standards (PSIAS) which came into effect 1 April 2013. These were updated in March 2016 and two new areas added; Mission of Internal Audit and Core Principles for Professional Practice of Internal Auditing. A self-assessment has been undertaken against the revised standards.

C. The objectives of the PSIAS are to:
- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
• establish the basis for the evaluation of internal audit performance and to drive improvement planning.

D. The Head of the SWLAP has undertaken a self-assessment against the revised standards. This has been more difficult for 2015/16 as LB Merton joined the shared service part way through the year and LB Sutton on the 1st April 2016. In summary, this self-assessment shows that there is substantial compliance with 99.7% of the 346 standards being met or partly met (95.8% met, 3.9% partially met, 0.3% not met, excluding areas which are N/A to the service). Areas of non compliance largely relate to the rolling out of consistent audit practice across the partnership and updating the Audit Manual to ensure consistency and best practice.

E. The SWLAP aims for substantial compliance provided it is cost effective to implement the required actions. The self-assessment has shown there are some gaps which need to be addressed. The actions required to address these gaps are identified in the Quality Assurance and Improvement Plan (QAIP) at Appendix A together with target dates for their completion. Some of these recommendations were included in the 2015/16 QAIP and have been delayed as a result of work undertaken as part of the expansion of the shared service.

F. The PSIAS require that an independent external review should be undertaken at least once in every five years. Arrangements have been in place since the introduction of the PSIAS for the external reviews to be undertaken on a collaborative basis across the 33 London Boroughs. Most of the authorities have now had a peer review carried out by audit officers from another borough, including LB Merton. As they now form part of the SWLAP, a peer review will be undertaken of the partnership as a whole although the date of this is still to be agreed.

Resource Implications

There are no resource implications arising from this report.

Background papers – held by the author of the report:

Alix Wilson  Alix.Wilson@kingston.gov.uk

G.
This action plan sets out the actions, responsibilities and timescales for ensuring compliance with the PSIAS. The actions relate to new requirements, requirements that have been enhanced from previous standards or those where requirements are only partly met. All other requirements have been met and Internal Audit will continue to review the PSIAS on an annual basis to ensure compliance. All of the actions below will be implemented by April 2017 apart from Action 3 which will be completed as required.

<table>
<thead>
<tr>
<th>Ref</th>
<th>Action</th>
<th>Responsibility</th>
<th>Timescale</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The internal audit manual should be updated and reviewed regularly to reflect changes to working practices and standards as part of the development of the SWLAP.</td>
<td>Head of the SWLAP</td>
<td>December 2016</td>
<td>Golden Rules have been established and shared across the partnership providing key procedures and targets for the team. The Audit manual is out of date however and this will be reviewed and updated to ensure it reflects best practice and consistent procedures across the SWLAP.</td>
</tr>
<tr>
<td>2</td>
<td>The Internal Audit Charter should be updated to include a Mission statement for the SWLAP articulating what it aspires to accomplish across the partner organisations.</td>
<td>Head of the SWLAP</td>
<td>March 2017</td>
<td>This is partly met in that the Audit Charter identifies the aims and objectives of the service but needs to be developed further as a defined Mission statement.</td>
</tr>
<tr>
<td>3</td>
<td>The core principles for professional practice of internal auditing should be included within the Internal Audit Charter.</td>
<td>Head of the SWLAP</td>
<td>March 2017</td>
<td>This is largely covered in the Audit Charter however not specifically in respect to the core principles.</td>
</tr>
<tr>
<td>4</td>
<td>The Internal Audit Charter should establish the responsibility of the Shared Service Board and also the role of the statutory officers (such as the CFO, the monitoring officer and the Head of Paid Service) with regards to internal audit.</td>
<td>Head of the SWLAP</td>
<td>March 2017</td>
<td>The Audit Charter includes reporting arrangements and the role of the Shared Service Board but not the Heads of Paid Service or Monitoring Officers, other than stating that the Head of Internal Audit has unrestricted access to these statutory officers.</td>
</tr>
<tr>
<td>5</td>
<td>The appointment or removal of the Head of Internal Audit (HIA) should be reported to Audit Committee for approval.</td>
<td>Director of Finance and Corporate Services</td>
<td>As required</td>
<td>For any new appointment/removal. The Charter will be updated to reflect this requirement.</td>
</tr>
<tr>
<td>6</td>
<td>Feedback should be sought from the Chairs of the Audit Committees (within the Partnership) as part of the HIA’s annual appraisal.</td>
<td>Director of Finance and Corporate Services/ Head of the SWLAP</td>
<td>March 2017</td>
<td>This will be undertaken as part of the end of year appraisal review.</td>
</tr>
<tr>
<td>7</td>
<td>Internal auditors should maintain a record of their professional development and training activities</td>
<td>Head of the SWLAP</td>
<td>July 2016</td>
<td>Richmond Council has recognised accreditation for the organisation’s training and appraisal processes so detailed individual records are not always completed. However, staff will be instructed that CPD should be up to date and the Internal Audit Manual will be updated to this effect.</td>
</tr>
<tr>
<td>8</td>
<td>The risk-based plan should set out how internal audit’s work will identify and address local and national issues and risks?</td>
<td>Head of the SWLAP</td>
<td>March 2017</td>
<td>There needs to be some standardisation of Audit Committee reporting to each of the Audit Committees/General Purposes Committee as some reports provide more detailed information to support the inclusion of an audit in the annual plan. This needs to be explicitly included in the Audit plan report and standardised across the partnership.</td>
</tr>
<tr>
<td>9</td>
<td>The Council’s risk management frameworks and relative risk maturity should be taken into account when developing the risk based plan.</td>
<td>Head of the SWLAP</td>
<td>March 2017</td>
<td>Formal assessment of the risk management maturity of each of the partner Authorities should be undertaken for the 2017/18 Audit Plans.</td>
</tr>
<tr>
<td>10</td>
<td>The internal audit activity’s plan of engagements should be based on a documented risk assessment undertaken on an annual basis.</td>
<td>Head of the SWLAP</td>
<td>March 2017</td>
<td>This is partly met, a risk based approach is used to identify audit engagements however, the audit universe and strategic plan require further development to ensure that all service areas and risks are covered by internal audit across the</td>
</tr>
</tbody>
</table>
The risk based plans should include the approach to using other sources of assurance and any work that may be required to place reliance on other assurance sources. An assurance mapping exercise should be undertaken as part of the development of the 2017/18 audit plans.

**Head of the SWLAP**

**November 2016**

Consideration is given to other sources of assurance as part of the audit planning process however a formal assurance mapping exercise is not undertaken.

Audit engagements should consider the objectives of the service area under review

**Head of the SWLAP**

**June 2016**

A planning document is in place which considers the key risks of the area under review but this is not directly linked to its key objectives. The planning document has recently been updated to reflect this but needs to be rolled out for use across the partnership.

The timeliness of audit reports needs to be improved. This should be monitored closely as part of robust audit monitoring processes.

**Head of the SWLAP**

**Ongoing**

There are still delays in getting some reports issued and this needs to be addressed. The Golden Rules have been updated and targets set within individual appraisals to ensure that this improves.
Audit, Governance and Standards Committee

28 June 2016

EXTENSION OF THE SOUTH WEST LONDON AUDIT PARTNERSHIP

Joint Report by the Head of the South West London Audit Partnership and the Head of Corporate Governance

**Purpose**

To consider the proposal to extend the South West London Audit Partnership (SWLAP) to include the London Borough of Wandsworth (LBW) from the 1st October 2016. This is in light of the Richmond/Wandsworth Shared Staffing arrangement (SSA) which involves the alignment of services and the joint employment of staff. Proposals include the consolidation of the SWLAP and the South West London Fraud Partnership (SWLFP) into one five borough shared service for internal audit and fraud investigations.

**Recommendation**

To RESOLVE that the proposal to extend the South West London Audit Partnership is endorsed and recommended for approval by the Treasury Committee.

**Key Points**

A. The Shared Internal Audit and Investigations Service was established with the LB Richmond on the 1st June 2012. In April 2015, following the transfer of benefit investigation work to the DWP, the South West London Fraud Partnership (SWLFP) was established led by LB Wandsworth. This is a 5 Borough shared fraud investigations service covering the Royal Borough of Kingston and London Boroughs of Wandsworth, Richmond, Sutton and Merton.

B. With staff numbers depleted and the resilience of the audit teams reduced as a result of the transfer of staff to the SWLFP, this paved the way for the development of the 4 Borough shared service. LB Merton and LB Sutton joined the shared audit service in October 2015 and April 2016 respectively and the service was renamed the South West London Audit Partnership.

C. In light of the Wandsworth and Richmond shared staffing arrangement, and the already established SWLFP, it is proposed that LB Wandsworth will join the shared service from the 1st October 2016. This proposal includes the consolidation of the SWLFP into one 5 Borough shared service covering both internal audit and fraud investigation. Approval will be sought from the other partners within the SWLAP through their own schemes of delegation and decision making processes.

D. A project plan is in place to develop and implement the 5 Borough shared service by the 1st October 2016 and Audit Committee will be kept up to date with the development and implementation.

**Resource Implications**
1. The key driver for the expansion of the current shared service is to establish a more resilient, flexible and effective internal audit service. Whilst it is anticipated that there will be some savings from the sharing of management costs and other economies of scale, (estimated to be approximately £100k). Any further savings will be made through improved audit processes and the development of in-house expertise, some of which is currently procured externally via the LB Croydon through their framework contract with Mazars.

2. The model is based on maintaining the same level of service at no additional cost other than initial development costs which are anticipated as being minimal. Any savings made as a result of this expansion will be shared between the partners in the form of reduced annual charges based on the number of audit and fraud days delivered.

3. A Business case has been established and is attached at Annex 1 to this report.

4. The proposal to admit Wandsworth to the Shared Internal Audit Service has been endorsed by the officer level Shared Service Governance Board and, internally within RBK, through the Commissioning Support Board and the Strategic Leadership Team. Whilst the addition of a fifth and larger partner to the Internal Audit Shared Service might seem to carry certain risks in terms of ensuring that the existing level of service is not diluted in any way, this aspect will be monitored closely by the Governance Board of which both the Director of Finance and the Head of Corporate Governance are members. In fact, as previously indicated, the addition of a fifth member authority will further increase the capacity and resilience of the service, as well as yielding a financial saving to the five Councils.

5. The proposal to combine the currently separate Internal Audit and Counter Fraud shared services in to a single South West London Audit and Fraud Partnership, headed by the Head of the existing South West London Audit Partnership, is also positive as it will reunite two closely related activities under single management and further increase overall resilience and capacity. It is also intended that the new Service Head will continue to undertake the Head of Internal Audit role for RBK and Richmond, which will also provide useful continuity.

Background papers – held by the authors of the report:

Alix Wilson  Alix.Wilson@kingston.gov.uk
Executive Summary

(i) Summary
The Council intends to extend the current shared internal audit service (South West London Audit Partnership) between LB Richmond, RB Kingston LB Merton and LB Sutton to include LB Wandsworth from the 1st October 2016. This extension is in light of the Wandsworth/Richmond Shared Staffing Arrangement (SSA) which is due to formally go live on the 1st October 2016 and involves the sharing of all services with staff jointly employed. As part of these proposals, the South West London Fraud Partnership (SWLFP) currently led by LB Wandsworth will be absorbed back in to create a 5 Borough audit and investigation service.

(ii) Overview of the Services to be commissioned
The extension to the current shared service arrangement will cover both the internal audit and investigation functions with the SWLFP being absorbed to create one 5 Borough shared audit and investigations service. The shared internal audit and investigation service will deliver the following to the 5 Councils:

- Internal audit – delivery of the agreed annual audit plans in each authority
- Internal audit – management support & advice as required to senior managers
- Risk management consultancy – LB Wandsworth/ LB Richmond under the SSA. This may also be provided to LB Sutton depending on their future arrangements for Risk Management.
- Fraud investigation service – currently delivered by the SWLFP
- Insurance – LB Wandsworth/LB Richmond

The Accounts & Audit Regulations 2015 require that “A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”. It is the Chief Financial Officer / S151 officer’s responsibility to ensure that an effective internal audit function is resourced and maintained, and that an appropriate level of internal audit work is undertaken to fulfil this statutory requirement. There is no clearly defined minimum statutory level set; this is a professional judgement made by the S151 Officer and the Head of Internal Audit to ensure that there is sufficient audit coverage on which to base assurance on the Council’s overall control environment and on which External Audit can rely.

It is essential given the level of organizational change that the internal audit service is fit for purpose and proportionate to any new organizational structures. In periods of significant change there are risks in reducing the level of audit resource and there may be a need for increased audit in some key areas. However, with Councils reducing in size, increasing commissioning and establishing a greater number of shared services, the level of internal audit required may well reduce over time. Audit plans may be subject to change as a result of the alignment of services, particularly for Richmond and Wandsworth under the SSA. In light of this, the shared service must, above all else, be a flexible resource to expand and contract depending on organizational requirements.

(iii) Strategic Fit
Kingston, Richmond, Merton, Sutton and Wandsworth are members of the South London Partnership, the group of South London Boroughs which have agreed to work together where appropriate in delivering new service delivery vehicles. Wandsworth and Richmond are currently in the process of developing and implementing a Shared Staffing Arrangement (SSA). As a 5 Borough shared investigation service already exists (SWLFP), and under the SSA all services delivered by Richmond and Wandsworth Councils will combine from the 1st October 2016, the proposal is to consolidate both
the 5 Borough audit and fraud teams into one shared service. This will provide an opportunity for the service to bed in and be able to support other SSA service changes as well as providing advice and support where new service arrangements are established across the other partner authorities.

The shared service will offer the opportunity to combine the closeness and understanding of the business offered by a mixed service (mix of in-house and contractor resource), with the opportunity for resilience, efficiency and development enabled through a larger core of in-house staff.

(Iv) Considerations
Consultation and engagement

Expansion proposals have been discussed and agreed by the Directors of Finance/Resources at each of the authorities and form part of the SSA project currently being developed for implementation by the 1st October 2016. Formal endorsement will also be sought from Audit Committees at LBS and RBK and General Purposes Committee at LBM. Additional endorsement is not required by LBW or LBR outside of the SSA.

Staff will be involved in the project, some by being involved in project work streams looking at future arrangements for ICT, accommodation etc. A Staff workshop event is planned and there will be regular update briefings to keep staff up to date with progress.

Formal staff consultation has already been undertaken as part of the SSA however some informal consultation will be undertaken as part of the development of the service. TUPE will not apply under the SSA as all staff will be jointly employed under by Wandsworth and Richmond Councils.

Finance and efficiency

A financial evaluation of the business case for expanding the current shared Internal Audit service has been carried out. This is based on the enlarged shared service commencing on 1st October 2016.

The key driver for the shared service is resilience and the realisation of future savings and economies of scale as other parties join the shared service. It is anticipated that there will be a saving of approximately £100k through the sharing of management resource and some economies of scale. This will be reflected within a lower charge to each of partners dependent on the number of audit and fraud days delivered. Work will be undertaken to streamline processes and undertake audits across five Authorities which should produce efficiencies and make further savings in terms of the number of audit days. The service aims to develop a more commercial approach to service delivery building sufficient resilience and capacity to offer services to other Local Authorities and external partners.

Development costs are expected to be minimal although the ICT solution for the South West London Fraud Partnership has been problematical and has not yet been resolved due to the delayed rolling out of the Modern Desktop.

In the longer term, the shared service will seek to improve productivity and methods of working to achieve further efficiency savings. Also, the service will remain flexible so that it can expand or contract to meet organisational and/or statutory needs.

Policy implications

The commissioning role rests with the Directors of Finance/Resources who have the statutory S151 responsibility to meet the requirements of the Accounts & Audit Regulations 2015.

The role of the Audit Committees (LBR, LBS, LBW and RBK) and General Purposes Committee (LBM) will remain in line with their current Terms of Reference

Risks

Risks are detailed at 2.4.1.

One of the key risks, particularly in the interim period, is that the Head and Deputy Head of the SWLAP will have a reduced capacity to undertake work for the shared service whilst proposals to include LB Wandsworth are developed and implemented.

The key target for both the SWLAP and LBW’s internal audit service to deliver 100% of the 2016/17 Audit Plan remains in place. Following transfer of the investigations service to the SWLFP, the risk of a major fraud impacting on the delivery of these Plans was largely negated, however input from the
respective Heads of Internal Audit is still required. Consolidating both services into one team may increase this risk slightly however there will be a much larger pool of resources in which to absorb this. Events that highlight significant control issues e.g. a fraud, error or loss, may require additional audit resource to be made available within a particular auditable area. Where possible, this will be managed through current audit and fraud plan days given the flexibility to cancel audits, add new ones and carry forward audits into the new year. Where this need cannot be met from existing resources, this will be discussed with the relevant S151 officer, Audit Committee and Shared Service Board.

Equality impact/considerations

An Internal Audit Services Equality Impact and Needs Analysis (EINA) has been completed and is attached at Appendix 2. A Screening for Relevance has also been completed and this is included in the EINA (Annex 1 and 2). These assessments conclude that there is no evidence to suggest that the expansion of the shared service will bring about any negative or positive effects on any external groups with protected characteristics.

The proposals may have an impact on staff and a further EINA may be completed as part of the informal staff consultation process.

**Part 1: Business Plan from Service / Description of Proposed Delivery Vehicle**

1.1 Description of the Business Need

Internal audit is a statutory service and has to be provided in accordance with the Accounts and Audit Regulations 2015.

CIPFA’s Public Sector Internal Audit Standards (PSIAS) set out how an internal audit function should be established and managed to meet the statutory requirements.

Internal audit delivers an annual audit plan, undertaking audit work across all the Councils’ services. The plan is a mix of risk based, compliance and systems based audit and includes ICT audits, key contracts and schools and other establishments.

Internal Audit has to
- develop so that it can continue to meet the needs of the changing organisations that it serves,
- improve its efficiency and effectiveness in delivering the service.
- continue to provide independent assurance over risks and management controls which increases the likelihood of the Councils achieving their key objectives.

1.2 Current Service Delivery Arrangements

**South West London Audit Partnership**

The current shared internal audit service comprises 20 FTE posts. In addition, it supplements the in-house audit team with contract auditors from Mazars (acquired via the Croydon Framework contract) to the equivalent of c2.3 FTE. The Statutory Head of Internal roles are held by the Head and Deputy Head of the SWLAP. The Head is responsible for LBR, RBK and AfC and the Deputy for LBM and LBS.

The internal audit team has a number of vacancies and these are also covered by our contract partner auditors (Mazars) and via Agency staff.

The current shared service delivers the following audit days:
- Richmond 657.5
- Kingston 657.5
- Achieving for Children 285
- Merton 908
- Sutton 765
- Total 3273
Wandsworth
The current service comprises 10 FTE’s in addition to the equivalent of 1.5 days of external contractor resource. The service delivers 1900 audit days.

The SWLFP comprises 15 FTE staff.

The current four borough shared service did not involve a significant restructure although some additional posts were created with a view to establishing a structure which was better aligned with that required as a 5 Borough shared service. These will not be filled until after the implementation of the 5 Borough proposals.

From the 1st April 2015, the fraud investigation work has been delivered by the South West London Fraud Partnership (SWLFP) on behalf of Merton, Sutton, Richmond and Kingston and Wandsworth, led by Wandsworth. The Head and Deputy Head of the SWLAP, as statutory Heads of Audit for the 4 Boroughs, and the Head of Audit for LBW currently oversee the management and delivery of this function through attendance at bi-monthly Steering Group meetings and through receipt and monitoring of monthly performance reports. From the 1st October 2016, it is proposed that both the audit and fraud investigation partnerships are consolidated into one 5 Borough shared service which will be managed by the Head of the SWLAP and overseen by the Shared Service Board.

1.3.1 The proposed service delivery vehicle

In summary, the following services will be delivered to the 5 Councils:

- Internal audit – delivery of the agreed annual audit plans in each authority
- Internal audit – management support & advice as required to senior managers
- Risk management consultancy – LB Wandsworth/ LB Richmond under the SSA and LB Sutton (see comments above)
- Fraud investigation (SWLFP)
- Insurance (LB Wandsworth/LB Richmond)

The full range of services proposed will include:

- Compliance – ensure stated and approved polices are being complied with
- Operational – ensure systems of internal control are effective, risk are well managed and operations achieve objectives
- Regularity – support of external audit to ensure key financial controls work
- Analytical – support managers? with specialist analytical skills
- Computer – ensure IT controls are working effectively
- Contract – monitor all aspects of the delivery of major contracts
- Value for Money – measuring effectiveness and efficiency against the economies of any particular activity
- Advice and Guidance
- Fraud investigation work following the consolidation of the fraud investigation service (currently delivered by the SWLFP) into the SWLAP
- Attendance and reporting to Audit Committees (RBK, LBS, LBW and LBR) and General Purposes Committee (LBM)
- Co-coordinating and preparing the AGS (LBM and LBW/LBR under the SSA)
- Risk Management (LBS and LBW/LBR)
- Insurance (LBW/LBR)

At a time when all of the Councils are undergoing significant organisational and service changes, the level of risk exposure is increased and therefore it is critical that an adequate level of internal audit
work is maintained to ensure new working systems and processes are implemented well across the organisations. Once the changes have become embedded, then the level of internal audit required may well reduce. For example, the implementation of the SSA and shared services operating across other partner authorities will have a direct impact on the number of audit days and it is likely that over time, the number of audit days in the plans will reduce. In light of this, the shared service must, above all else, be a flexible resource to adapt and be fit for purpose in the new organisational structures.

Both the current shared service and LBW have in-house teams, and rely on an external contract partner, to help deliver the audit service. This will continue although there are other options available through the employment of agency staff or procurement of audit days from other external providers. These will be considered more fully as part of ongoing service delivery. The Internal Audit shared service provides an opportunity to make best use of existing resources and expertise to develop a more flexible and resilient service, which is fit for purpose. This will include developing specialisms within the in-house team to reduce reliance on external contractor resource which is more expensive. This should deliver savings in the longer term. The current framework contract with LB Croydon for the procurement of days from Mazars is due to be retendered in 2018. The operating model will be reviewed in the light of this.

1.3.2 Main aims and strategic vision

The overall aim of the SWLAP is to combine the closeness and understanding of the business offered by a mixed service (mix of in-house and contractor resource), with the opportunity for resilience, efficiency and development enabled through a larger core of in-house staff. The aims of the shared service are to:

- Deliver a programme of assurance on all key governance, risk and control systems to each Council, operating in accordance with legislative requirements and recognised best practice methodology;
- To deliver the service through a mix of in-house staff and contract days procured through the Croydon framework contract (or similar). This allows greater flexibility to buy in specialist audit services and in a period of significant organisational change in both authorities, to expand or contract as and when required;
- Deliver high standards of customer service and be responsive and flexible in its approach, offering the benefits of a mixed service which understands its clients.
- Offer a wider base of experience, resilience, specialisms and skills, taking advantage of the economies of scale available to larger audit teams
- Deliver efficiencies through exploiting opportunities for joined up working, adopting a common methodology and service standards
- Expand the current shared service and develop a more commercial approach to the delivery of services. This expansion will take into account the opportunities for future expansion or providing services direct to other Councils and external organisations.
- Deliver an effective fraud investigation service (following consolidation of the SWLFP into the SWLAP)

The existing shared service is a high performing service which contributes to the overall sound governance and control environment in LBR, LBM, LBS and RBK. This includes consistent delivery of 100% of audit plan days.

1.3.3 Proposed organisational structure

See structure chart attached at Appendix 1

There will be one combined team, providing a flexible pool of staff resource working across all authorities.

The structure includes a mix of in-house and contractor staff. Whilst the structure includes a core of in-house staff, it also allows for internal audit resource to be procured from an external contractor. The initial options appraisal reviewed a number of options for service delivery. However the mix of in-house and contractor resource was recommended as the preferred option as this allowed greater flexibility and resilience,
essential particularly in a time of significant organizational change. This model will be reviewed in the light of the retendering of the Croydon Framework contract with Mazars in 2018.

In the existing structures, the current internal audit shared service has 20 FTE posts. LBW have 10 FTEs, plus a part share of the costs of the Assistant Head of Audit who is also the Head of the SWLFP. These numbers exclude the Assistant Director of Finance (Financial Services) who acts as the statutory Head of Audit for LBW. This makes a total of 30 FTE; excluding the contractor costs of the SWLAP and LBW (which equate to approx. 4FTE), there is an existing combined budget of £1.8m.

Looking at the current numbers of staff against the planned audit days, it is proposed to establish a structure of 26.5 posts. This is expected to deliver a saving of approximately £100k.

The SWLFP currently has 15FTEs including the Fraud Manager and a budget of £748k.

The total number of posts in the proposed new structure is 41.5 FTEs.

1.3.4 Location and hosting arrangements

The main working base for staff is currently the Civic Centre in Twickenham but there are satellite offices at each of the partner authorities with locally based teams. The location of the main site is to be reviewed as part of the SSA although there will still be a need for office space at each Authority.

All five authorities are committed to hot-desking and home-working and staff will need to work flexibly at the different location as required to attend meetings and respond to client needs.

An ICT workstream will be established to develop an ICT solution which allows staff to have access to the necessary ICT systems across all five authorities. This will utilize systems and expertise already established through other shared service arrangements.

1.3.5 Support Services Arrangements

It is proposed that as the shared service will be hosted by LBR/Wandsworth under the SSA, so in the main support services will be provided by LBR/Wandsworth. However, as indicated above, there will need to be a continued presence at the other locals sites and staff will need to utilise RBK, LBM and LBS support services as required.

1.4 Service Delivery Vehicle

Alternative delivery vehicles were considered in the initial Outline Business Case undertaken as part of the current shared service development in 2011/12 this included a reduced in-house service, and full or partial outsourcing. The initial options appraisal identified that a shared service with a mix of in-house and contract resources would be the optimal solution. This initial business case was subject to an officer challenge / review session to validate the findings.

A further independent review was undertaken in 2013/2014 recommending a shared service delivery model. Although this was not taken forward at the time, the review related to the establishment of a four borough shared service which was subsequently implemented on the 1st April 2016.

Part 2: Council Perspective of the Business Plan

2.1.1 Savings and Value for Money

Although a saving of £100k is anticipated, the key driver for expansion is the establishment of a more
resilient service, better able to expand and contract in accordance with need. It is anticipated that additional savings will be identified through improving process, undertaking joint audits across authorities and potential future expansion of the service.

Costs are based on estimates for 2016/17 and changes to the structure of the shared service. There could be an impact on productivity in year 1 to allow a period of settling into new working practices, and additional staff development but productivity and efficiency would be expected to improve from year 2. There may be some time lost due to staff travelling between sites; however this will be managed and kept to a minimum.

There will be some development costs for ICT, and it is not anticipated that there will be any redundancies as a result of restructuring.

The shared service will charge each authority on the basis of an agreed number of audit days. Regular reports will be made to the Shared Service Board (SSB) governing this arrangement, so that the SSB can monitor costs and performance levels. Any under or over spends at the year end will be shared equally between the five authorities.

2.1.2 Service Quality

It is absolutely essential that the quality of internal audit service is not adversely affected as a result of the shared service arrangement. Poor quality of audit work can lead to the provision of audit assurance to senior managers which is incorrect and could ultimately result in key control weaknesses having a detrimental effect on the achievement of objectives and / or resulting in an inefficient use of resources; at worst, it could result in a fraud being committed.

The Internal Audit service works to Public Sector Internal Audit Standards (PSIAS) and is subject to annual review to monitor compliance with the expected service standards. There are also working protocols for internal audit work and with the external auditors.

A number of factors will work to ensure the quality of services is maintained:

- structure – skills matched to audit work required
- audit protocols and service plans will include performance indicators for audit work
- post audit quality questionnaires to ascertain client feedback
- monitoring of the delivery of the Fraud plans currently delivered by the SWLFP including achievement of key performance indicators.

2.1.3 Service Continuity

As mentioned previously, access to a larger pool of staff will provide greater resilience and better use of audit skills. The sharing of knowledge across five boroughs will provide staff with improved experience and improved professional development opportunities.

Although the key driver is the provision of a more resilient and effective audit service, it needs to be recognized that the Head and Deputy Head of the SWLAP may have less capacity to be involved in corporate / management events/projects than in the past.

2.2.1 Consultation / Customer Engagement
The Head and Deputy Head of the SWLAP will be attending Directorate Management Teams (DMTs) at all the authorities to discuss the proposed Shared Service arrangement, enabling senior managers in the five authorities to have an opportunity to comment on the proposals and to indicate what they see as important issues for the service to provide / address.

LBR, LBS, LBW and RBK Audit Committees and General Purposes committee at Merton will be kept up to date with developments and have expressed views previously that they would not wish to see the level of service reduced. All are mindful that the expansion forms part of the joining together of services under the Richmond/Wandsworth SSA and that the expanded shared service arrangements should not have a detrimental impact on the service currently provided.

Staff will be involved in the project, some by being involved in project work streams looking at future arrangements for ICT, accommodation etc. Staff meetings will be held, and periodic update briefings will be provided to keep staff up to date with progress.

Formal staff consultation has been undertaken as part of the SSA but some informal consultation will be undertaken with staff around how the service will operate. Formal consultation under the SSA ran from January to May 2016.

2.2.2 Equalities

An Internal Audit Equality Impact and Needs Analysis (EINA) has been completed and is attached at Appendix 2. A Screening for Relevance has also been completed and this is included in the EINA (Annex 2). These assessments conclude that there is no evidence to suggest that changing to a shared and jointly managed service will bring about any negative or positive effects on any external groups with protected characteristics.

The proposals may have an impact on staff and a further EINA will be done as part of the formal staff consultation process.

2.3.1 Statutory duties

Internal audit is a statutory service and has to be provided in accordance with the Accounts and Audit Regulations 2015 which require that “A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”. It is the S151 officer’s responsibility to ensure that an appropriate level of internal audit work is undertaken to fulfil this statutory requirement. There is no clearly defined minimum statutory level set; this is a professional judgement made by the S151 Officer and the Head of Internal Audit to ensure that there is sufficient audit coverage on which to base assurance on the Council’s overall control environment and on which External Audit can rely.

Internal audit delivers an annual audit plan, undertaking audit work across all the Councils' services. The plan is a mix of risk based, compliance and systems based audit and includes ICT audits, key contracts and schools and other establishments.

Under the shared service arrangement, an annual audit plan will be agreed with each authority, via the respective Director of Finance (s151 officer) and Audit Committees/General Purposes Committee. These plans will be subject to discussion with the Directorate Management Teams as now.

Fraud investigations work is not in itself a statutory function but is an essential service to “protect the public purse” from misuse, loss or theft. It forms part of the council's anti-fraud strategies. From the 1st October 2016, the SWLFP will be consolidated into the five borough shared service.

2.3.2 Peer Review

The original (LBR/RBK) shared service arrangement has been in place since 1st June 2012. As part of the establishment of this service, independent reviews of the audit and investigation services were undertaken. Other shared service arrangements were researched and a number of learning points...
taken into account in developing the shared service. The authorities reviewed were: Hertfordshire, South Devon, South West Audit Partnership, Preston/Lancaster/Fylde Borough Council and Cambridgeshire CC & Northamptonshire CC shared investigations service. Prior to Merton joining the shared service, discussions were held with the Tri-Borough service (Kensington & Chelsea, Westminster and Hammersmith and Fulham).

Lessons learnt can be summarised as follows:

- The importance of sound communication with staff and other key stakeholders
- Need to ensure ICT is fit for purpose
- Whilst savings are not always significant, there are benefits from increased resilience created in the service and improved focus on performance

A Peer review of compliance with the Public Sector Internal Audit Standards was undertaken at Merton in 2013/14 and is due to be undertaken for the SWLAP in 2017/18.

2.4.1 Risk
<table>
<thead>
<tr>
<th>Description</th>
<th>Recommended Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>New shared service not able to meet statutory requirement and / or business need due to uncertainty in each authority and the extent of changes to services as yet undetermined</td>
<td>New structure must be flexible so as to be able to expand / contract resources &amp; capacity to fit requirements</td>
</tr>
<tr>
<td></td>
<td>Legal agreement with each authority must include provision for mechanism to review / agree funding requirements and / or charges</td>
</tr>
<tr>
<td></td>
<td>Legal structure of shared service must be such that allows it to take on new work with other organisations in the future whilst complying with procurement legislation</td>
</tr>
<tr>
<td>The sharing of statutory Head of Internal Audit (HIA) resource across the 5 boroughs results in a reduced and unacceptable lower profile of HIA in one or more boroughs</td>
<td>Governance arrangements to clearly specify role and responsibilities of HIA in each authority</td>
</tr>
<tr>
<td></td>
<td>Structure and roles and responsibilities of staff to ensure adequate support is provided to the HIAs</td>
</tr>
<tr>
<td>Loss of experienced staff during period of setting up new arrangements</td>
<td>Staff engagement in change process to allay fears arising from uncertainties</td>
</tr>
<tr>
<td></td>
<td>Ensure staff can use mentoring services if required</td>
</tr>
<tr>
<td>Business as usual suffers as focus diverted to creating new arrangements</td>
<td>Robust project management of business as usual and shared services (audit monitoring, timesheets)</td>
</tr>
<tr>
<td></td>
<td>Use additional temporary resource to support delivery of business as usual</td>
</tr>
<tr>
<td>Budgets overspend during expansion of the shared service</td>
<td>Robust budget monitoring in each authority</td>
</tr>
<tr>
<td></td>
<td>Funding for any set up costs (e.g. IT, systems costs) to be agreed by each authority</td>
</tr>
<tr>
<td>Cost efficiencies arising from new shared service are not achieved</td>
<td>Robust budget monitoring, and performance management to ensure chargeable time is kept to minimum to maximise outputs</td>
</tr>
<tr>
<td></td>
<td>Shared Service Board to receive regular budget monitoring reports to agree remedial action if overspends arise</td>
</tr>
<tr>
<td>Flexible service not achieved due to failure on part of contractor to provide acceptable level and quality of resource</td>
<td>Engagement of contractor during development of new shared service arrangements</td>
</tr>
<tr>
<td></td>
<td>New arrangements to consider use of other flexible resource providers (e.g. use of interims, agency staff, seasonal workers)</td>
</tr>
<tr>
<td></td>
<td>Robust performance management of contract staff</td>
</tr>
<tr>
<td>Quality of audit work declines and fails to be sufficiently adequate for external audit to place reliance on, resulting in increased external audit fees</td>
<td>Engagement with External Audit to agree expectations, systems, procedures and quality standards</td>
</tr>
<tr>
<td></td>
<td>Regular liaison with External audit to discuss service delivery under new arrangements</td>
</tr>
<tr>
<td>Client satisfaction at one or more of the authorities decreases and the credibility / reputation of the shared service gives rise to criticism from senior management and / or members</td>
<td>Engagement with clients, senior management and members as part of set up.</td>
</tr>
<tr>
<td></td>
<td>Governance arrangements must include creation of IA Charter and plan for marketing of services</td>
</tr>
<tr>
<td></td>
<td>Robust client satisfaction questionnaire process required (improve level of returns) &amp; reporting</td>
</tr>
<tr>
<td>Occurrence of significant fraud or other significant call on IA resources in one or more of the authorities impacts on setting up and delivery of shared service arrangement</td>
<td>Business continuity / contingency plan to be agreed. Audit and Fraud Plans remain flexible and allow for in year changes. This risk is reduced where the SWLAP and SWLFP are consolidated into one shared service.</td>
</tr>
<tr>
<td>Support services are not available or are inadequate to support the shared service, or delay the implementation of the new shared service arrangement. This includes IT access issues.</td>
<td>Engagement with support services throughout implementation (HR &amp; Payroll, IT, Facilities Management). Involvement in individual workstreams.</td>
</tr>
</tbody>
</table>
### 2.4.2 Constraints / Assumptions

At LBR, the Head of the SWLAP reports to the Director of Finance and Corporate Services. Under the SSA, this will change to the Assistant Director of Finance (Financial Services). At RBK, the reporting lines are different with the shared service reporting initially to the Head of Corporate Governance who reports then to the Executive Head of Organisational Development and Strategic Business. There is a dotted reporting line to the Director of Finance. For LBM, the HIA has a dotted reporting to the Director of Corporate Services. At Sutton, the HIA reports to the Executive Head of Finance. At Wandsworth, the statutory HIA is the Assistant Director of Finance (Financial Services) and reports to the Director of Finance.

Different reporting structures could have an impact on the effectiveness of internal audit across the shared service however this will be monitored as part of governance arrangements through the Shared Service Board.

Although the expansion of the shared service is likely to deliver some savings in the short term, in the longer term, the shared service will seek to improve productivity and methods of working to achieve further efficiency savings. The service will remain flexible so that it can expand or contract to meet organisational and/or statutory needs. The proposed expansion of the shared service to include the LB Wandsworth should deliver further economies of scale which should happen particularly as the service develops.

The model for service delivery must be capable of being adapted to allow other partners to join or for the service to bid for other work.

### 2.4.3 Interdependencies

The shared internal audit service is inextricably linked to other change programmes within each authority. Until the future shape and delivery of services across these authorities is defined, the volume of internal audit activity is not quantifiable. Hence it is critical that the shared service has a flexible structure and resource to be able to expand or contract depending on levels of audit required.

## Part 3: The Council’s Commissioning Approach

### 3.1 Services to be commissioned

The details of the service to be commissioned by LBR/LBW, RBK, LBS and LBM and managed by the shared service are as set out in Section 1.3.1. These may be subject to change depending on the requirements of the partners.

The overall requirement is to have a flexible structure and resource which can expand or contract to meet statutory and client needs. The main deliverable is completion of the annual audit plan at each authority.

### 3.2 Process for acquiring the service

As this is to be an internal service hosted by the Council, no procurement process will be required to commission the service. Any decisions relating to the arrangements between the five Councils will be delegated to the Shared Service Board (see 3.9).

### 3.3 Contract / Agreement

The shared service arrangement between the five authorities will be overseen by a Collaboration Agreement to which all five Councils subscribe. This will be based on the Collaboration Agreement already in place to govern current arrangements. The Agreement once drafted will be signed off by the Shared Service Board as well as by the five Councils.

### 3.4 Length of Agreement

The shared service Agreement will commence from 1st October 2016. The proposed period for the agreement is 3 years, with provision included within the Agreement for at least 12 months notice from each party should they wish to terminate the agreement. The agreement will include details of how any dissolution costs will be dealt with and how overspends and savings will be shared.
### 3.5 Charging Mechanism

The charging mechanism will be agreed by the SSB. It is proposed that the current method of charging remains based on the number of deliverable audit days and that invoices will be raised on a 6 monthly basis in arrears.

### 3.6 Performance Indicators

These will be developed and agreed with the SSB and will follow common benchmarking performance indicators for internal audit. Performance will also be monitored via customer satisfaction returns and feedback from senior managers / audit clients on a regular basis as is currently the case.

### 3.7 Arrangements for use of Council support services *(if applicable)*

As the shared service is relatively small, the impact on other support services will be minimal. As LBR/LBW will be the hosts under the SSA, the support services will be provided by LBR/LBW. However, for staff working across RBK, LBS and LBM, appropriate support services will also continue to be provided by those authorities and efforts will be made to ensure that duplication of support costs is minimised.

### 3.8 Arrangements for use of Council accommodation *(if applicable)*

The exact accommodation requirements are still to be identified but it is expected that the existing accommodation at all five of the Boroughs will continue to be used to facilitate the operation of locally based teams.

### 3.9 Governance Arrangements

A SSB with senior representative officers from LBR/LBW, RBK, LBS and LBM, including the Directors of Finance/Resources (S151 officers) will oversee the delivery of the Shared Service, and the arrangements between the five authorities.

Regular reports will continue to be made to the Audit Committees/General Purposes Committee.

Decisions regarding the volume / level of audit and investigation work will rest with the SSB so that the Directors of Finance/Resources can fulfill their Local Government Act S151 responsibilities. This will also be subject to relevant member approval at each authority.

The Head of the South West London Audit Partnership will be line managed by the Assistant Director of Finance (Financial Services) and will report direct to the SSB.

### 3.10 Client Management Arrangements

As the service will be hosted by LBR/LBW there will not be the requirement for any specific client management function for the service. The Directorate Management Teams across the five authorities will effectively act as the service’s clients – therefore the statutory Heads of Internal Audit will visit Directorate Management Teams in both authorities on a quarterly basis to discuss internal audit work and whether client needs are being met. At all times, the statutory Heads of Internal Audit remain accountable to the Directors of Finance/Resources (S151 officers) and the respective Audit Committees/GP Committee.

### 3.11 Summary of Implementation Plan

**June 2016**
- Establish project workstreams and develop timetable for managing processes

- Approval of proposal by all five Councils

**July 2016**
- Informal consultation with Staff
- Accommodation and ICT requirements agreed

**August 2016**
• Legal agreements drafted

September 2016

• Final proposals on organizational delivery / process agreed for implementation including accommodation and ICT
• Legal agreement signed off
• Staff event prior to go live

October 2016

• Go live
• Debrief and identification of lessons learnt.
South West London Audit and Fraud Partnership (SWLAFP) - Structure

Head of Shared Service

Deputy Head of Shared Service (Internal Audit)

Audit Manager (incl AFC)

External Contractor

Pool of Auditors: Senior Auditors x 7, Auditors x 13.5, Audit Trainees x 2

Deputy Head of Shared Service (Fraud, ICT, Risk Management) (0.25 Audit FTE, 0.25 Risk, 0.5 Fraud)

Audit Manager (incl Insurance - the current structures to remain)

Fraud Manager (Housing)

Pool of 12 Investigators (Investigators, Housing Investigators)

Fraud Manager (Corporate)
Equality Impact and Needs Analysis (EINA) for the SWLAP

<table>
<thead>
<tr>
<th>Directorate:</th>
<th>Finance &amp; Corporate Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Area:</td>
<td>Internal Audit Service</td>
</tr>
<tr>
<td>Name of service/ function/ policy/ being assessed:</td>
<td>Shared Internal Audit Service (expansion of current arrangements)</td>
</tr>
<tr>
<td>Officers leading on assessment:</td>
<td>Alix Wilson – Head of Internal Audit Service</td>
</tr>
<tr>
<td>Other staff involved:</td>
<td>Jill Pain – Principal Auditor</td>
</tr>
</tbody>
</table>

**BACKGROUND**

1. **Briefly describe the service/function/policy:**

   The current shared Internal Audit Service (SWLAP) provided to the London Borough of Richmond upon Thames (LBR), the London Borough of Merton (LBM), the London Borough of Sutton (LBS) and the Royal Borough of Kingston (RBK) is delivered by a mix of in-house staff and through an external contract with Mazars (via the Croydon Framework contract).

   The in-house team consists of 20FTE posts. Mazars work as part of the team, providing auditors as and when required. The shared service is hosted by LBR and sits within the Finance and Corporate Services Directorate, with the Head of the SWLAP line managed by LBR’s Director of FCS. The Head of the SWLAP has a direct reporting line to the Head of Corporate Governance at RBK and a dotted reporting line to LBS Executive Head of Finance and the RBK and LBM Directors of Finance. The Statutory Head of Internal roles are held by the Head and Deputy Head of the SWLAP. The Head is responsible for LBR, RBK and AfC and the Deputy for LBM and LBS.

   The shared service reports to the Shared Service Board, which includes the three Directors of Finance (LBR, LBM, RBK), the Executive Head of Finance (LBS) and the Head of Corporate Governance (RBK).

   Internal Audit’s role is to protect the public purse – to ensure Council Tax payers’ funds are used for proper purposes, in accordance with agreed plans and priorities, and to ensure value for money is obtained. This also includes the management of risks associated with all the Council’s activities.

   An effective system of Internal Audit is a statutory function within Local Government, as required by the Accounts and Audit Regulations 2015.

   Internal Audit work is governed by CIPFA’s Public Sector Internal Audit Standards. This sets out the framework for internal audit and identifies the key objectives, status and processes for internal audit.

   The investigation service, which previously formed part of the shared service arrangements, is currently delivered through a five borough shared service arrangement by the South West London Fraud Partnership (SWLFP).

   It is proposed that in light of the Wandsworth/Richmond SSA that the London Borough of Wandsworth (LBW) will join the SWLAP on the 1st October. It is also proposed that as part of this arrangement, that the South West London Fraud Partnership (SWLFP) currently led by Wandsworth, will be absorbed into the shared service arrangements to form a five Borough audit and investigations service.
2. **Why is the equality impact and needs analysis being undertaken?**

The SWLAP currently serves LBR, LBM, LBS and RBK Councils. An EINA is being undertaken because it is proposed that the current shared service arrangements are extended to include the London Borough of Wandsworth (LBW).

The service will be governed by the Shared Service Board, which will include the Directors of Finance from all five Councils. Under the Wandsworth/Richmond SSA, there is one Director of Finance covering both Authorities. The EINA is being prepared to help ensure that there is transparency, fairness and accountability in the decision-making process and to seek to ensure that the needs and rights of different members of the community are considered.

Under the Wandsworth/Richmond SSA, Wandsworth/Richmond will be the host authority for the shared service.

3. **SUMMARY OF THE KEY FINDINGS**

Set out the key findings from the equality impact needs analysis of the service/ function/ policy. Key questions to consider when completing this section:

There is no evidence to suggest that expanding the shared service arrangements will bring about any negative or positive effects on any external groups with protected characteristics.

There may be an impact on staff currently employed by the shared service and the LBS Audit Team. The impact of any changes as a result of the expansion to the shared service may be considered in a separate staff EINA as part of the informal consultation process.

4. **Has this service/ function/ policy undertaken a screening for relevance?**

A Screening for Relevance exercise for the extended shared service is attached as Annex 1.

The following protected characteristic was identified as medium relevance:
- Disability

The following aims were identified as high priorities for the service to address:
- Eliminate discrimination, harassment or victimisation
- Foster good relations

5. **What sources of information have been used in the preparation of this equality impact and needs analysis?** For example, this could include equalities monitoring information, performance data, consultation feedback or needs assessment. Please provide the details in the table below:

<table>
<thead>
<tr>
<th>Information source</th>
<th>Description and outline of the information source</th>
</tr>
</thead>
<tbody>
<tr>
<td><a href="http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards">http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards</a></td>
<td>Public Sector Internal Audit Standards: CIPFA document that sets out the framework for internal audit and identifies the key objectives, status and processes for internal audit.</td>
</tr>
</tbody>
</table>
ANALYSING IMPACT, NEEDS AND EFFECTS

It is important that the analysis addresses each part of the duty assessed as relevant to the area being examined.

6. Key questions to consider:
   What does customer feedback, complaints or discussions with stakeholder groups tell you about the impact of the service/ function/ policy on the protected characteristic groups, where assessed as relevant to area being examined?
   Are there any barriers to accessing services for any groups?
   Do differences in service take up, feedback or satisfaction levels indicate that it is not accessible to certain protected groups, or does not meet their needs?
   Are there population changes that might indicate new needs?
   Have the needs of disabled people been identified and addressed where these are different from the needs of non-disabled people?
   Is there evidence of differential impact or different outcomes which need to be addressed?
   Are there opportunities to promote equality or improve participation by diverse groups?
   Have you identified any need to tackle prejudice or promote understanding between different groups?

<table>
<thead>
<tr>
<th>Protected Group</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>Breakdown of all staff employed by LBRuT (October 2015):</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-20</td>
<td>2%</td>
</tr>
<tr>
<td>21-30</td>
<td>12%</td>
</tr>
<tr>
<td>31-40</td>
<td>22%</td>
</tr>
<tr>
<td>41-50</td>
<td>25%</td>
</tr>
<tr>
<td>51-60</td>
<td>28%</td>
</tr>
<tr>
<td>61+</td>
<td>11%</td>
</tr>
</tbody>
</table>

No potential issues have been identified for this protected characteristic.

Disability | 5% of LBR staff stated that they considered themselves disabled (October 2015).
As host borough to the shared service, the work environment at LBR and LBW is fully accessible to disabled staff members involved in an audit.

### Gender (Sex)
As of October 2015, 59% of staff employed by LBR are female. No potential issues have been identified for this protected characteristic.

### Gender reassignment
No potential issues have been identified for this protected characteristic.

### Marriage and civil partnership
No potential issues have been identified for this protected characteristic.

### Pregnancy and maternity
No potential issues have been identified for this protected characteristic.

### Race/ethnicity
Breakdown of all staff employed by LBR (October 2015):

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>75%</td>
</tr>
<tr>
<td>Black/Black British</td>
<td>8%</td>
</tr>
<tr>
<td>Asian/Asian British</td>
<td>9%</td>
</tr>
<tr>
<td>Mixed</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Not provided</td>
<td>5%</td>
</tr>
</tbody>
</table>

No potential issues have been identified for this protected characteristic.

### Religion and Belief
No potential issues have been identified for this protected characteristic.

### Sexual orientation
No potential issues have been identified for this protected characteristic.

---

7. **Have you identified any data gaps in relation to the relevant protected characteristics and relevant parts of the duty?**
   If so, how will these data gaps be addressed? What further information is needed to enable a robust equality analysis of the area?

<table>
<thead>
<tr>
<th>Gaps in data</th>
<th>Action to deal with this</th>
</tr>
</thead>
<tbody>
<tr>
<td>No gaps in data have been identified.</td>
<td></td>
</tr>
</tbody>
</table>
8. CONSULTATION IN THE EINA PROCESS

What consultation have you undertaken with stakeholders or critical friends to help inform the EINA process? What consultation has been undertaken about the key findings? What feedback did you receive as part of the consultation?

Senior managers have been consulted via DMT meetings and Audit Committee members have received regular reports regarding the shared service proposal. Feedback indicated that managers and Audit Committee members were happy with the existing levels of service and would not wish to see any diminution in service under the shared service.

This EINA will also be reviewed by the FCS Equality and Diversity Steering Group.

Formal consultation has been undertaken as part of the Richmond/Wandsworth Shared Staffing Arrangement (SSA).
ACTION PLANNING

9. What issues have you identified that require equality actions? What are these equality actions, who will be responsible for them and when will they be completed?

<table>
<thead>
<tr>
<th>Issue identified</th>
<th>Planned action</th>
<th>Lead officer</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>No actions have been identified during the production of this EINA.</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

MONITORING AND REVIEW

10. How will the actions in the action plan be monitored and reviewed? For example, any equality actions identified should be added to business, service or team plans and performance managed.

No issues were identified when producing this EINA so an action plan has not been developed.

On-going monitoring for equality impact will be performed by reviewing any complaints received about the extended shared service arrangement.

PUBLISHING THE FULL COMPLETED ANALYSIS

Please note that after completion of EINA findings, a member of DMT can approve the equality analysis, in order to inform further stages of a decision making process. Once fully completed as part of a final decision making, EINA can be published on the Council website. Please also note that various stages of the EINA process can accompany decision making at Cabinet/Committee levels and can be published as part of that decision. Once it is in the public domain it can be open to scrutiny.

Please provide details below:

<table>
<thead>
<tr>
<th>Approved by</th>
<th>Date of approval</th>
<th>Date of publication</th>
</tr>
</thead>
</table>

DECISION-MAKING PROCESS

11. Has a copy of this EINA or summary of key findings been provided to key decision-makers, where relevant, to help inform decision making, for example as an appendix to a Cabinet or Committee report or report for DMT or Exec Board?

Audit, Standards and Governance Committee – RBK (June 2016)
Treasury Committee – RBK (June 2016)

A copy of this EINA will be made available as an Appendix to the reports to these meetings.
Appendix 1 - Screening for Relevance

<table>
<thead>
<tr>
<th>Name of Directorate</th>
<th>Finance &amp; Corporate Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact</td>
<td>Jill Pain – Principal Auditor</td>
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<table>
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<tr>
<th>Service/ Function</th>
<th>Are the areas listed below relevant to your service/ function?</th>
<th>Please answer H, M or L for ‘High’ Medium or Low’</th>
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<tbody>
<tr>
<td>Expansion of shared service arrangements</td>
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<td>Age</td>
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Legend

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<th>Race</th>
<th>Disab’</th>
<th>Re&amp;B</th>
<th>SO</th>
<th>GeR</th>
<th>P&amp;M</th>
<th>M&amp;CP</th>
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<tr>
<th>Re &amp; B</th>
<th>SO</th>
<th>Gender re-assignment</th>
<th>Marriage and civil partnership</th>
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<tbody>
<tr>
<td>Religion and Belief</td>
<td>Sexual orientation</td>
<td>Pregnancy and maternity</td>
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