Rutland County Council

Audit and Risk Committee 11 July 2017

External Update

The main points for the Committee's attention are:

- We presented the 2016/17 audit plan to the January 2017 meeting and updated the Committee on progress at its April 2017 meeting. We have continued to liaise with management on the significant financial and operational issues at the Council. There are no changes to the significant audit risks report in our audit plan.
- The interim audit was carried out at in April 2017 and there are no matters of concern that we need to report to the Committee. Our work included a short review by our IT audit colleagues of the Council's arrangements for migrating data during its 2016/17 Agresso upgrade. There are no specific findings from that assessment that we need to bring to the Committee's attention.
- Our work over the coming quarter will include:
    - ongoing liaison with finance staff and Internal Audit and further meetings with senior officers as part of the audit process to better understand the current and longer term issues that the council is addressing;
    - starting our final accounts audits, which is planned to start 17 July 2017; and
    - revisiting our VFM conclusion risk assessment and forming our VFM conclusion for 2016/17.
- The results of our audit will be reported to the 19 September 2017 Audit and Risk Committee.

Grant Claims

We have confirmed the arrangements for the certification of this year's Housing Benefits claim and the testing is in progress. There are no matters arising from the work carried out to date that we need to bring to the Committee's attention.

Other work

No non-audit work has been carried out at the Council since the Committee's last meeting.

Technical update

We have included at Appendix 1 to this update a technical update on recent relevant reports and publications by National Audit Office, CIPFA and other bodies.

Appendix 1: Technical Update

Procurement of Audit Services
Public Sector Audit Appointments Ltd (PSAA) announced on 20 June 2017 the results of this process which will see the award of the following contracts: Lot 1 (value: approx. £14.4 million per audit year) awarded to Grant Thornton LLP; Lot 2 (value: approx. £10.9 million per audit year) awarded to EY LLP; Lot 3 (value: approx. £6.6 million per audit year) awarded to Mazars LLP; Lot 4 (value: approx. £2.2 million per audit year) awarded to BDO LLP; Lot 5 (value: approx. £2.2 million per audit year) awarded to Deloitte LLP; and Lot 6 (value not pre-determined) awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP. These contracts will cover a five year period commencing with the audit of accounts for 2018/19. PSAA has an option to extend the contracts for a further two year period, to a total of seven years, if it chooses to do so. PSAA has yet to inform Councils which Lot they are in and who their auditor will be. KPMG is obviously disappointed to not be able to continue as the Council's external auditor beyond the audit of the 2017/18 accounts but we can assure the Committee that we will continue to be focused on delivering the current and next year's audit to the required quality standards. PSAA's press release can be found at the following link: http://www.psaa.co.uk/press-release-procurement-of-audit-services-delivers-outstanding-results/
Building Financial Resilience
The Chartered Institute for Public Finance and Accountancy (CIPFA) is calling on councils to watch for five warning signs of financial stress and to build resilience into all aspects of planning and operations, with the launch of its new report *Building Financial Resilience*. Local government financial pressures are mounting, and CIPFA's snapshot survey of English local authority chief financial officer confidence to deliver public services revealed serious spending pressures. Through its work with council financial teams, CIPFA has identified five key symptoms of financial stress: **A rapid decline in reserves** – using reserves to avoid cuts will only provide temporary relief **A failure to plan and deliver savings in service provision**, so that councils are not living within their resources **Shortening of medium-term financial planning** – a failure to plan ahead could indicate a lack of strategic thinking and an unwillingness to confront tough decisions **Firm objectives missing from savings plan**, such as a saving plan with 'still to be found' gaps or consisting of targets rather than robust plans; this may also include a tendency for over optimism in timing and scale of savings **Tendency for unplanned overspends** – carrying forward undelivered savings into the following year only creates the need for greater cuts in subsequent years. CIPFA's report dentifies the warning signs and outlines the steps towards building better financial resilience. Financial resilience is about a council planning appropriately for the future and protecting itself against unexpected shocks. CIPFA is working with councils to ensure they have four of essential ingredients to resilience in place: • Ensuring the right financial management systems are working effectively. Everyone from the CFO and senior management team to the political leadership must understand the financial strategy and have a clear appreciation of the financial position. • Effective use of benchmarking data, including comparing costs, income and activity levels with similar authorities. • A single, consolidated document that tracks its saving plans, including what has been agreed and how much progress has been made. • Managing reserves effectively. CIPFA's full report can be found at the following link: http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-signals-five-warning-signs-of-council-financial-stress

Protecting information across Government

This May 2017 report highlights some issues relevant in light of the malware cyber-attack on 12 May. It sets out the increasingly complex challenge of protecting information while re-designing public services and introducing the technology necessary to support them.

According to the NAO, too many bodies with overlapping responsibilities operate in the centre of government, confusing departments about where to go for advice. As accountability for information security is devolved to departments, government does not currently collect or analyse its overall performance in protecting information on a routine basis. This means it has little visibility of information risks in each department and has limited oversight of the progress departments are making to better protect their information. Reporting personal data breaches is chaotic, with different mechanisms making departmental comparisons meaningless. In addition, the Cabinet Office does not have access to robust expenditure and benefits data from departments, in part because they do not always collect or share such data. Some departments have made significant improvements in information governance, but most have not given it the same attention as other forms of governance. In the context of a challenging national picture it has been difficult for government to attract people with the right skills.

According to the NAO, the Cabinet Office is taking action to improve its support for departments, but needs to set out how this will be delivered in practice.

The report can be found at the following link:
https://www.nao.org.uk/report/protecting-information-across-government/

Online Fraud

According to this June 2017 NAO report Fraud is the most commonly experienced crime in England and Wales and most happens online. While the landscape for tackling online fraud is complex, the Home Office's response is not, according to the NAO, proportionate to the threat. Although the face of crime is changing, police forces take different approaches to tackling online fraud and for some it is not a priority.

According to the NAO, the Joint Fraud Taskforce, led by Home Office Ministers, is a positive step. The Department, through the Taskforce, is seeking to raise awareness of online fraud, reduce card not present fraud and to return money to fraud victims. The Department faces though a challenge in influencing other partners such as banks and law enforcement bodies to take on responsibility for preventing and reducing fraud.

In addition, without accurate data, the Department does not know whether its response is sufficient or adequate. Not only is online fraud under-reported, but where data is available, there is a lack of sharing of information between government, industry and law enforcement agencies. There is, for example, no formal requirement for banks to report fraud or share reports with government.

Measuring the impact of campaigns and the contribution government makes to improving online behaviours is challenging. The growing scale of online fraud suggests that many people are still not aware of the risks and that there is much to do to change behaviour.

The NAO found the protection banks provide varies, with some investing more than others in educating customers and improving their anti-fraud technology. The ways banks work together in responding to scams also needs to improve.

The report found there is no clear mechanism for identifying, developing and sharing good practice to prevent people becoming victims. The nature of online fraud makes it difficult to pursue and prosecute criminals. In addition, there is a lack of data on how many fraudsters are prosecuted and judicial outcomes for fraud offences. The NAO found that stakeholders had mixed views on the adequacy of current legislation. The international and hidden nature of online fraud makes it difficult to pursue and prosecute criminals because of the need for international cooperation and an ability to take action across borders.

The full report can be found at the following link:
https://www.nao.org.uk/report/online-fraud/

Progress in setting up combined authorities

DCLG worked speedily to make sure combined authority areas were ready for the mayoral elections in May 2017, according to the NAO in this July 2017 report.

The introduction of combined authorities, however, has meant that inherently complex structures have been added to England's already complicated local government arrangements. The evidence that investment, decision-making and oversight at this sub national level is linked to improved local economic outcomes is mixed and inconclusive. The NAO finds that there is a risk that local councillors will have limited capacity for the overview and scrutiny of combined authorities. Furthermore, in May 2017, six mayors were elected to combined authorities in England, with candidates having campaigned on manifestos which frequently made policy commitments beyond the current remits of these organisations. NAO says that this raises the question of whether mayors can be credible local advocates if they only deal with the limited issues under the remit.

Combined authorities are not uniform, and vary in the extent of the devolution deals they have struck with government. The combined authority with the greatest degree of devolution, Greater Manchester, has now absorbed control over the office of the police and crime commissioner and fire and rescue services. Others are currently primarily focused on transport issues, as well as housing and regeneration.

If the United Kingdom's departure from the European Union (EU) results in reductions in regional funding, the economic regeneration role of combined authorities would become more pressing. Combined authorities are generally in areas which receive the most EU funding.

A number of authorities have been unable to bring local authorities together to establish combined authorities, while areas with a long history of working together have often found it most straightforward to establish combined authorities. The capacity of most combined authorities is currently limited and the lack of geographical coherence between most combined authorities and other providers of public services could make it more problematic to devolve more public services in the future.

Among the NAO's recommendations is that the Department should continue to work with combined authorities to develop their plans for assessing their impact, including demonstrating the value they add.

The full report can found at the following link:

https://www.nao.org.uk/report/progress-in-setting-up-combined-authorities/

Reality Check: Next steps in developing Sustainability and Transformation Plans

The NHS planning guidance set out the notion of Sustainability and Transformation Plans (STPs) in 2015. The plans aimed to bring together local leaders in health, local government and patient representation to plan how services would become sustainable between 2016 and 2021. The 44 STPs which form the basis for NHS planning in the coming years, and explicitly link it to social care, are all now public in their draft forms.

In this May 2017 'Insight' report CIPFA concludes that the success of the STPs is reliant on realistic plans that set out appropriate actions, while fostering a culture of genuine sharing and working together.
In its assessment of the 44 draft STP plans, CIPFA says that while in principle STPs represent a positive, place-based step forward, the timescales and speed of savings required have led to a number of 'business as usual' propositions, rather than the development of the concrete, transformational changes needed to deliver financial sustainability in the long term.

If STPs are going to have a meaningful impact on what CIPFA estimates to be a £10bn funding gap by 2020/21, CIPFA says there must be adequate upfront investment; robust governance arrangements; and thorough contingency planning, with realistic assessments of alternative scenarios.

CIPFA's report can be found at the following link:
http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/sustainability-of-the-nhs-is-reliant-on-upfront-investment,-robust-governance-and-awareness-of-risk