

## AUDIT AND STANDARDS COMMITTEE

27 June 2018

<b>Title:</b> Internal Audit and Corporate Counter Fraud Annual Report 2017/18	
<b>Open Report</b>	<b>For discussion</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
<b>Report Authors:</b> Rachel Paddon, Head of Audit (Internal Audit report) & Kevin Key, Corporate Investigation Manager (Counter Fraud report)	<b>Contact Details:</b> <a href="mailto:rachel.paddon@lbbd.gov.uk">rachel.paddon@lbbd.gov.uk</a> , 07795 177099 <a href="mailto:kevin.key@lbbd.gov.uk">kevin.key@lbbd.gov.uk</a> , 0208 227 2850
<b>Accountable Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary</b> These reports outline the internal audit and corporate counter fraud work (including whistleblowing) carried out for the year ended 31 March 2018.  The internal audit annual report contains the Head of Internal Audit Opinion based on the work undertaken in the year. This is “generally satisfactory with some improvements required”.  These reports are timed to inform the Annual Governance Statement.	
<b>Recommendation(s)</b> ASC to note: <ul style="list-style-type: none"><li>• Internal Audit Annual Report 2017/18</li><li>• Corporate Counter Fraud Annual Report 2017/18</li></ul>	

### 1 Internal Audit Annual Report 2017/18

- 1.1 This report outlines the internal audit work carried out for the year ended 31 March 2018.
- 1.2 The report contains the Head of Internal Audit Opinion based on the work undertaken in the year. This is “generally satisfactory with some improvements required”.
- 1.3 All 2017/18 were at final report prior to presenting this report.
- 1.4 *The report is set out at Appendix 1 and is presented for discussion.*

### 2 Corporate Counter Fraud Annual Report 2017/18

- 2.1 This report outlines the corporate counter fraud activity, including whistleblowing, for 2017/18.
- 2.2 *The report is set out at Appendix 2 and is presented for discussion.*

**3 Financial Implications**

3.1 Internal audit and corporate counter fraud were fully funded for 2017/18.

**4 Legal Implications**

This has no legal implications.

**5 Other Implications**

5.1 **Risk Management** – The internal audit and corporate counter fraud activity is risk-based and therefore support effective risk management across the Council.

5.2 **No other implications to report**

**6 Public Background Papers Used in the Preparation of the Report: None**

**7 List of appendices:**

Appendix 1: Internal Audit Annual Report 2017/18

Appendix 2: Corporate Counter Fraud Annual Report 2017/18

# Appendix 1: Internal Audit Annual Report 2017/18

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## 1. Introduction

This report outlines the internal audit work we have carried out for the year ended 31 March 2018.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The 2017/18 Internal Audit Plan, approved by the Public Accounts and Audit Select Committee, included 50 audits, consisting of 34 risk and compliance audits and 16 audits of schools. 40 audits were delivered, consisting of 24 risk and compliance audits and 16 audits of schools.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards.

My annual internal audit report is timed to inform the organisation's Annual Governance Statement.

## 2. Head of Internal Audit Opinion

I am satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

My opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted and/or addressed by management and the resulting risks.
- The effects of any significant changes in the organisation's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.
- What proportion of the organisation's audit needs have been covered to date.

My opinion is as follows:

**Generally satisfactory with some improvements required.**

Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are some areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.

Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

An explanation of the types of opinion that may be given can be found in Appendix 2.

I would like to take this opportunity to thank the Council's staff, for their co-operation and assistance provided during the year.

### **3. The 2017/18 internal audit service**

During the year, the in-house team has consisted of one substantive post, an auditor working towards qualification. The other posts have been vacant. A recruitment exercise during 2017/18 for a Lead Auditor was unsuccessful.

The internal audit service commenced 2017/18 supported by the London Borough of Redbridge on an interim basis. Following a review of the arrangements, the decision was taken during Q3 to pause the Redbridge shared service to enable LBBB to build up internal capacity and develop the service. A part-time seconded Head of Audit commenced in November 2017.

The internal audit service continued to be supported throughout 2017/18 by Mazars through the Council's contract with Croydon in 2017/18.

The internal audit has remained independent of the business in 2017/18 and has had no direct operational responsibility or authority over any the processes reviewed.

The internal audit service was fully funded for 2017/18.

#### **4. 2017/18 internal audit work conducted**

The approved 2017/18 internal audit plan consisted of:

- 34 risk and compliance internal audits, of which ten were deferred or cancelled.
- 16 audits of schools.

No audits were added to the plan in the year.

The following ten (all risk and compliance, no schools) audits of the original approved plan of 50 audits were deferred or cancelled as follows:

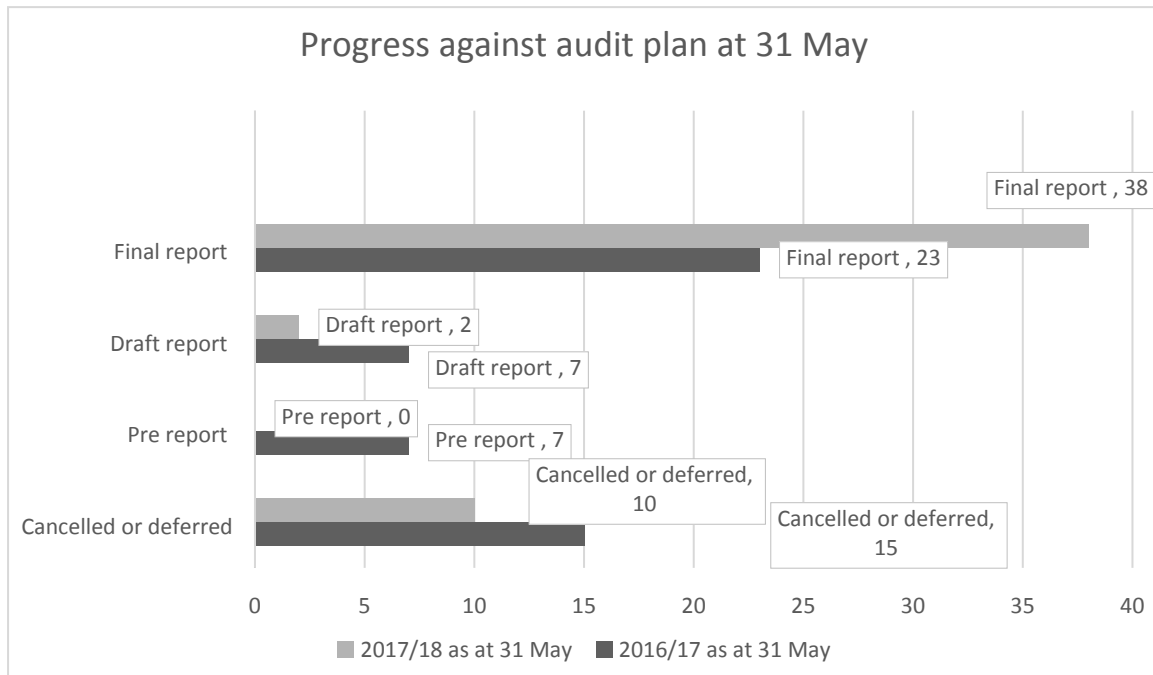
- Information Governance Framework: ICO audit took place in 2017/18 providing external assurance over the Information Governance Framework.
- Highways Licence: Removed to avoid over burdening Highways (audit activity in year over Maintenance, Asset Management and Street Lighting).
- Bereavement Service: Unallocated as at November 2017, not considered a priority area for audit in 2017/18.
- Integrated Community Equipment: Removed as new integrated service to be implemented in early 2018/19.
- Compliance establishment reviews at:
  - Libraries; and
  - Children's Centres.
- Risk management: Deferred to 2019/10 as due to undergo review and transformation so limited value in reviewing existing arrangements or until revised arrangements are implemented and embedded.
- Waste collection: Deferred to 2018/19 as processes under review in 2017/18 so limited value in reviewing existing arrangements or until revised arrangements are implemented and embedded.
- Food safety: Cancelled as planning identified independent assurance being provided by the Food Standards Agency so internal audit activity would unnecessarily duplicate assurance activity.
- Child protection – MASH: Cancelled as planning identified independent assurance being provided by a London SCB review of MASH so internal audit activity would unnecessarily duplicate assurance activity.

#### **5. Progress against audit plan**

Of the remaining 40 audits (24 risk and compliance and 16 audits of schools), as at 31 March 2018, 15 were at draft report and 23 at final report stage. The total of 95% at report stage exceeded the target of 80%.

During April and May 2018, further progress was made in finalising draft reports meaning that, as at 31 May 2018, 2 were at draft report and 38 at final report stage. This met the target of 100% at draft report stage by this date.

Progress status	2017/18 as at 31 May 2018		2016/17 as at 31 May 2018	
Final report	38	92%	23	60%
Draft report	2	8%	7	20%
Pre-report	0	0%	7	20%
TOTAL	40		37	
Cancelled / deferred	10		15	



The two audits not at final report stage as at 31 May 2018 were finalised by 12 June 2018.

## 6. Results of the internal audit work

### Risk and compliance audits

Internal audit reports include a summary level of assurance using the following scale:

- Substantial.
- Reasonable.
- Limited.
- No.

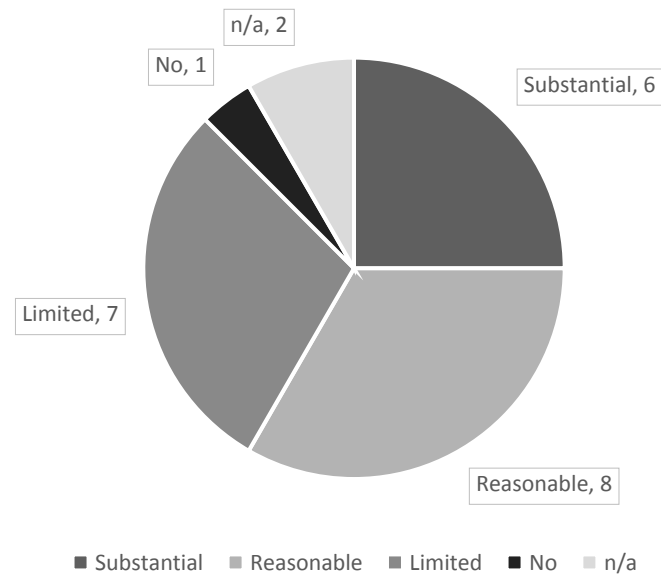
Internal audit findings are categorised critical, high, medium and low risk (or advisory) depending upon the impact of the associated risk attached to the recommendation.

Definitions of the ratings can be found at Appendix 3.

The table below sets out the results of our 24 risk and compliance 2017/18 internal audits:

Review title	Period covered	Report classification	Number of findings			
			Critical	High	Medium	Low
Payroll	April 2017 to October 2017	Substantial	0	0	0	2
Council tax	April 2017 to October 2017	Reasonable	0	0	4	2
Accounts payable	April 2017 to December 2017	Reasonable	0	0	3	3
Insurance	April 2017 to September 2017	Reasonable	0	1	1	0
Housing rents	April 2017 to October 2017	Limited	0	2	1	3
IT asset management	As at September 2017	Reasonable	0	0	3	0
IT security framework	As at September 2017	Limited	0	1	3	2
Street lighting	April 2017 to January 2018	Substantial	0	0	1	2
Highways maintenance	April 2017 to November 2017	Reasonable	0	0	5	0
Highways asset management	2017/18 Highways Improvement Programme	Reasonable	0	0	2	1
Licensing	April 2017 to January 2018	Limited	0	3	1	1
Corporate landlord and asset management – fire safety	April 2017 to November 2017	Reasonable	0	0	3	2
CIL / Section 106	April 2017 to October 2017	Limited	0	1	5	1
Planning applications	April 2017 to January 2018	Reasonable	0	1	1	2
Planning enforcement	April 2017 to January 2018	Limited	0	2	2	0
Responsive repairs – housing service contracts and direct labour organisation	April 2017 to July 2017	Limited	0	0	6	1
Adaptation grant scheme	April 2017 to September 2017	No	0	3	4	2
Looked after children	April 2017 to March 2018	Substantial	0	0	1	0
Foster care	April 2017 to November 2017	Substantial	0	0	0	1
Schools admissions	Admissions for September 2017	Substantial	0	0	1	1
Electoral registration	April 2017 to December 2017	Substantial	0	0	0	1
Security of corporate buildings	April 2017 to October 2017	Limited	0	1	6	4
Transformation governance	As at November 2017	n/a – report summarised key themes and further details of specific areas of relevance				
Parks and grounds maintenance	n/a – review considering the controls planned for implementation from April 2018					
<b>TOTAL:</b>			<b>0</b>	<b>15</b>	<b>53</b>	<b>31</b>

## 2017/18 risk and compliance audits - report classifications



The majority of report classifications were positive, i.e. “substantial” or “reasonable” assurance.

We issued one “no” assurance report in the year as follows:

Title and audit objective	Summary of findings and current progress to address reported high-risk findings
<p><b>Adaptation Grant Scheme – no assurance</b></p> <p>The objective of this review was to consider the design and operating effectiveness of internal control systems operating in respect of the Adaptation Grant Scheme from April 2017 to September 2017.</p>	<p>There was a significant budget underspend in 2016/17 with £188k spent against a budget of £400k. The forecast for 2017/18 is again an underspend with £200k predicted spend against £400k budget.</p> <p>We found that there were grant application and budgetary controls in place as well as relevant management information.</p> <p>We identified no critical rated issues. The following high-risk issues were identified:</p> <ul style="list-style-type: none"> <li>• <b>Policy and Procedures</b> – The location of the approved AGS policy is currently unknown. The scheme has not been reviewed since implementation and there are no procedures in place.</li> <li>• <b>Additional AGS applications</b>– There are no controls to confirm the correct use of an initial grant before a further claim is approved, for example the Council does not inspect the completion of the first property adaptation before approving a second grant.</li> <li>• <b>Approval of AGS Payment</b>– There is no scheme of delegation in place for the approval of AGS applications. From a random sample of 20 AGS payments it was noted that there were three cases where the letter that was prepared for the authoriser was not signed and one other case where it was signed off by the Unit Manager and Life Planner on behalf of the Head of Disability Service.</li> </ul> <p>We also identified four medium risk and two low risk issues.</p> <p><i>Management reported that the agreed action plans relating to the reported high-risk issues had been implemented prior to 31 March 2018. A follow up internal audit of the Adaptations Grant Scheme is planned for 2018/19 to verify implementation.</i></p>



We issued nine “limited” assurance report in the year as follows:

Title and audit objective	Summary of findings and current progress to address reported high-risk findings
<p><b>Responsive repairs – Housing service contracts and Direct Labour Organisation – limited assurance</b></p> <p>The objective of this audit was to consider the design and operating effectiveness of key controls in place over Responsive repairs from April 2017 to July 2017.</p>	<p>Subcontractors used for responsive repairs are part of a subcontractor framework agreement, which covers all aspects of voids, responsive repairs and other property works.</p> <p>We identified no critical or high rated issues. The limited assurance level was due to identifying six medium and one low risk issue.</p> <p><i>Current progress not applicable as no high-risk findings.</i></p>
<p><b>Housing rents – limited assurance</b></p> <p>The objective of this audit was to undertake a review of the internal control systems in relation to monitoring and controlling rent arrears, both current and former tenants, as well as to form an opinion on the reliability, accuracy, completeness and validity of the management information. Our audit focussed on reviewing the internal control system operating within the income recovery team. The audit covered the period from April 2017 to October 2017.</p>	<p>We found that there were known processes in place to recover rent arrears and a system in place for delivery of the arrears process.</p> <p>The following high-risk findings were identified:</p> <ul style="list-style-type: none"> <li>• <b>Arrangements</b> – A formal process for staff use for making arrangements has not been provided and there is currently no requirement for tenants to be provided with confirmation of the new arrangement amount and frequency. It was found during testing that 14 out of 15 tenants who had made arrangements had subsequently broken them, and 10 of the 15 had made multiple arrangements.</li> <li>• <b>Write offs</b> – Our testing of three amounts written off due to being “unable to trace” found all three within a number of minutes using the Council Investigation’s team (found using call credit). All 3 were written off within quarter 2 and totalled £20,199.63.</li> </ul> <p>We also identified one medium risk, three low risk findings and three advisory findings.</p> <p><i>Management reported that the agreed action plans relating to the reported high-risk issues had been implemented prior to 31 March 2018.</i></p>
<p><b>Licensing – limited assurance</b></p> <p>The objective of this audit was to undertake a review of the design and operating effectiveness of key controls in place for the processing of Licence Applications. The audit covered application decisions during the period from April 2017 to January</p>	<p>We identified no issues in relation to management information, income collection and the enforcement process. There had not been any appeals within the audited period, and appeals are carried out by the Magistrates Court.</p> <p>We identified five areas of improvement, four of these related to processing licence applications. These included the following high-risk findings:</p> <ul style="list-style-type: none"> <li>• <b>Completeness of public records</b> – There is a statutory requirement for the Council to have a public register of licence applications made. There is currently no such register available and the records required were not easily or readily available.</li> <li>• <b>Documentation of evidence</b> – Our testing found that nine out of 25 records on Flare were missing documentation required by legislation</li> </ul>

<p>2018.</p>	<p>to process a licence application.</p> <ul style="list-style-type: none"> <li>• <b>Document Storage</b> – Hard copy documents containing personal data are not held securely. Both hard copy and electronic documentation is retained indefinitely by the Licensing team, and there is no policy in place for hard copy disposal.</li> </ul> <p>We also identified one medium risk and one low risk finding.</p> <p><i>Management have not yet provided an update on implementation of the agreed action plans relating to the reported high-risk issues due to be implemented by the end of May 2018.</i></p>
<p><b>IT Security Framework – limited assurance</b></p> <p>The objective of this review was to consider the design and operating effectiveness of key controls in respect of the IT Security Framework as of September 2017.</p>	<p>We found that several controls were already in place, in particular:</p> <ul style="list-style-type: none"> <li>• An Information Management Strategy has been defined in April 2017.</li> <li>• An IT Risk Register is maintained.</li> <li>• Security issues and projects are part of the monthly steering committee agenda between the Council and Elevate East London.</li> <li>• Windows patches are deployed on a timely manner on both servers and workstations.</li> <li>• An anti-malware solution is deployed and maintained on both servers and workstations.</li> <li>• USB ports are restricted on the workstations through the DESLOCK solution.</li> </ul> <p>However, we identified a number of areas of improvement regarding access management, patch management and Incident management and escalation. We identified no critical rated issues and the following high-risk issue:</p> <ul style="list-style-type: none"> <li>• <b>Lack of Disaster Recovery Plan</b> – There is no Disaster Recovery Plan since the migration of the Council's servers to the Cloud.</li> </ul> <p>We also identified three medium risk and two low risk issues.</p> <p><i>Management have stated that funding has been agreed to address the reported high-risk issue and the project is expected to run for most of 2018/19.</i></p>
<p><b>Community Infrastructure Levy / Section 106</b></p> <p>The objective of this review was to consider the design and operating effectiveness of key controls operating in respect of CIL / S106 from April 2017 to October 2017.</p>	<p>At the time of the audit, the Council's Planning Team was responsible for the establishment and collection of CIL Charges and income, as well as the monitoring of S106 agreements. Although processes and procedures were in place, our review identified weaknesses in records management and the monitoring and management of CIL and S106 income.</p> <p>We identified no critical risk issues. The following high-risk issue was identified:</p> <ul style="list-style-type: none"> <li>• <b>Debt management</b> – Debt is monitored quarterly. Current outstanding debt for the Mayor of London's CIL was £311,158.74. We were unable to verify the total of the S106 and the CIL outstanding debt, as the current reports could not establish the outstanding totals.</li> </ul> <p>In addition, five medium risk and one low risk issue were identified.</p> <p><i>Management have stated that improved recording of income and debts has been implemented for 2018/19 and quarterly reporting will also be introduced for both CIL and S106.</i></p>
<p><b>Planning enforcement</b></p> <p>The objective of this audit was to undertake a review of the design</p>	<p>We identified four areas for improvement across all areas of our scope, no critical risk findings and the following high-risk findings:</p> <ul style="list-style-type: none"> <li>• <b>Lack of policies and operational procedures</b> – there are no operating procedures in place.</li> <li>• <b>Unassigned cases on Uniform</b> – there is currently no process in</li> </ul>

<p>and operating effectiveness of key controls in place for identifying and resolving planning breaches. The audit covered enforcement investigations and decisions during the period from April 2017 to January 2018.</p>	<p>place to identify unassigned cases and we identified 28 unassigned cases logged within the last 12 months. These had not been identified as outstanding and had not been investigated.</p> <p>We identified two medium risk and no low risk findings.</p> <p><i>Management have confirmed plans to address both high-risk rated findings by the end of June 2018.</i></p>
<p><b>Security of corporate buildings – limited assurance</b></p> <p>The objective of this review was to consider the design and operating effectiveness of key controls in place over the Security of Corporate Buildings.</p>	<p>We found that there were some policies and procedures in place by which the security of corporate buildings is managed and that there were controls in place that were working effectively in relation to the reporting of accidents / incidents.</p> <p>We were advised, as part of our discussions with lead staff during this audit that the roles and responsibilities assigned across the Council in respect of the Security of Corporate Buildings have been fluid over the past 12 months. This was advised to be as a direct consequence of a restructure / re-configuration of the service overall. Consequently, there are issues listed below where it has been necessary to raise recommendations not necessarily because no control exists, but rather because evidence was requested but not provided (as responsibility / accountability for the areas in question could not be determined).</p> <p>We identified no critical risk issues and the following high-risk issue:</p> <ul style="list-style-type: none"> <li>• <b>Security risk assessments</b> – While we requested details of security risk assessments completed for corporate buildings and responsibility for their completion, none were provided.</li> </ul> <p>In addition, six medium and four low risks were identified.</p> <p><i>Management have confirmed plans to address the high-risk rated finding by the end of July 2018.</i></p>

A critical risk is defined as requiring immediate and significant action. A high risk is defined as requiring prompt action to commence as soon as practicable where significant changes are necessary. Management are expected to implement all critical and high-risk recommendations by the agreed target dates. Internal Audit tracks management progress by way of a chase up or follow up to the audit client accordingly. Slippage in implementing agreed actions does occur and requires management to instigate revised targets and consider ways to mitigate the identified risks.

No findings have been rated critical risk in the year.

The following table summarises the high-risk findings, as at 31 March 2018, that have reported, implemented, were outstanding and were beyond their due date:

	Reported	Implemented	Outstanding	Beyond due date
Previous years b/f:	11	8	3	2
Current year:	16	5	11	0
<b>Total:</b>	<b>27</b>	<b>12</b>	<b>8</b>	<b>2</b>

The progress as at 31 May 2018 in implementing the high-risk recommendations overdue as at 31 March 2018 has been reported in the following table:

Finding	Agreed Action	Latest progress as reported by management
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<b>Records Compliance</b>		
<p>There is no list of information asset owners (IAO), a list is in the process of being compiled. The roles and responsibilities of the IAOs has not been defined or communicated to officers. A part time consultant has been appointed and is in the process of identifying IAOs.</p>	<p>a. Roles and responsibilities for IAOs should be clearly defined and communicated and incorporated into job descriptions</p> <p>b. Basic training on the requirements of IAOs should be given to those holding the role.</p> <p>Target date: 31/12/2016</p>	<p>Paper presented to the April 2018 Assurance Group stated that the Information Asset Register is now in its infancy. IAOs have been identified for 136 IT systems. The first set of questions have been sent to Asset Owners and are 82% completed. However, this has identified that numerous asset owners are unaware of their responsibilities and know little about the assets they are responsible for. The second phase will be a training delivery programme prior to the next set of questions regarding processing activities.</p>
<b>Ordering and Accounts Payable</b>		
<p>Supplier documentation is not requested and validated against supplier details (banking details, registration number, and addresses). Reports are not run to identify changes made to standing data to check that there is appropriate supporting documentation.</p>	<p>Where supplier details are added or amended, details such as company registration documents, letters from the bank confirming banking details and proof of supplier address amongst others should be provided and validated by Accounts Payable. Before new suppliers are set up or any changes to the supplier details are affected, Accounts Payable should review and sign off the request forms.</p> <p>Target date: 31/08/2016</p>	<p>For many years, our current Oracle provider has attempted to work on a system change that incorporated a process whereby all changes made to Supplier Data would require secondary approval prior to the details being released into the Production Oracle environment. Despite many attempts, they failed to produce a fully workable, accurate and practical solution. Also, due to the nature of the Oracle set-up across the 7 One Oracle partners, allowing Suppliers to update their own data via the iSupplier module has not been possible as it would lead to sensitive data, principally Bank Account details, being made visible to each Council.</p> <p>With the One Oracle Partnership now dissolving and the support of Oracle going to a new party, there is the possibility of a new process and/or a report being written that will help on the checking and approval of supplier changes. We are therefore committed to working on this once the new support agreement is in place and the support team briefed on our requirements.</p> <p>Revised target date: 30 September 2018.</p>

### **Audits of schools**

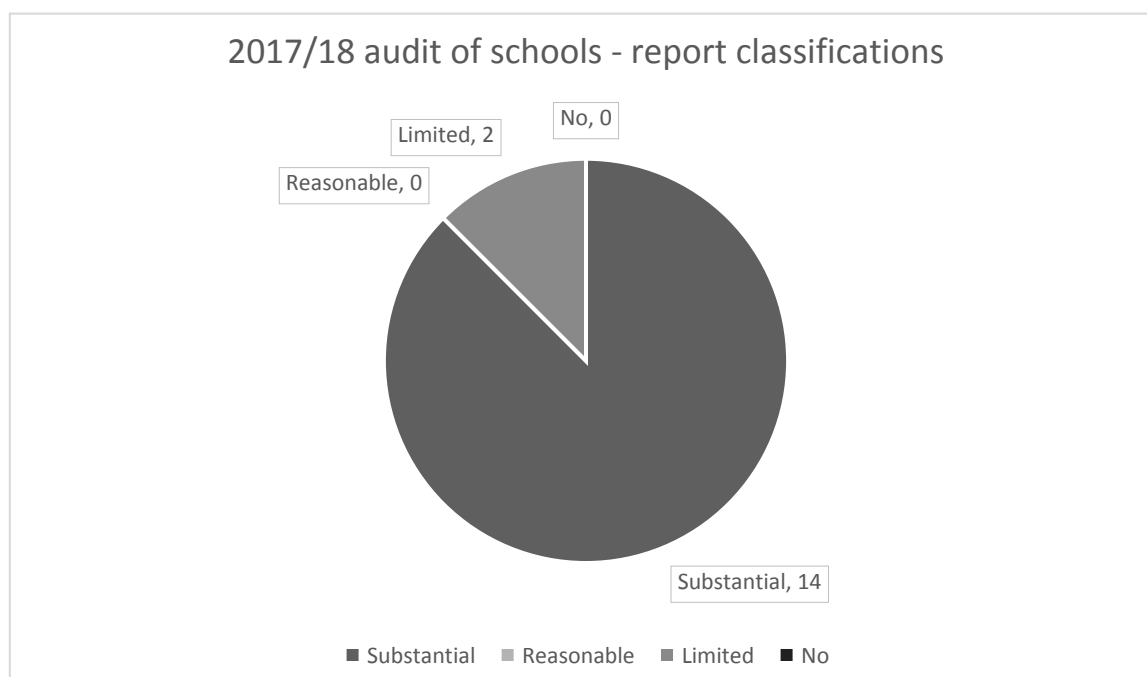
Schools within the Borough are audited once every three years. The audits of schools are fully outsourced to Mazars, the Council's internal audit co-source provider.

The objective of these audits is to ensure that the schools have adequate and effective controls with regards to the financial management and Governance of the school.

The table below sets out the results of Mazars 2017/18 internal audit work auditing 16 schools:

School	Report	Number of findings
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	classification	Priority 1	Priority 2	Priority 3
Five Elms Primary School	Substantial	0	5	2
St Joseph's Catholic Primary School Barking	Substantial	0	3	3
St Joseph's Catholic Primary School Dagenham	Substantial	0	5	3
St Vincent's Catholic Primary School	Substantial	0	4	1
Trinity School	Substantial	0	4	2
Village Infants' School	Substantial	0	1	0
William Ford C of E Junior School	Substantial	0	8	1
Furze Infants School	Substantial	0	4	5
William Bellamy Primary School	Limited	0	8	2
Warren Junior School	Substantial	0	3	5
Godwin Primary School	Substantial	0	2	8
Parsloes Primary School	Substantial	0	4	2
Manor Junior School	Limited	0	7	5
Valence Primary School	Substantial	0	5	5
The St Teresa Catholic Primary School	Substantial	0	5	1
Rush Green Primary School	Substantial	0	5	5
<b>TOTAL:</b>		<b>0</b>	<b>73</b>	<b>50</b>



Nearly all audit of schools reports were rated “substantial assurance”. We issued no “no assurance” and two “limited assurance” reports in the year as follows:

School	Summary of findings
<b>William Bellamy School</b>	<p>No recommendations were raised in the following areas:</p> <ul style="list-style-type: none"> <li>• Staffing;</li> <li>• School Development Plan and OFSTED Report;</li> <li>• School Fund; and</li> <li>• Infrastructure, Disaster Recovery, Data Protection.</li> </ul> <p>However, control weaknesses were identified in five of the nine areas reviewed resulting in eight priority 2 findings and two priority 3 findings. The priority 2 findings were reported in the following areas: budget process; income and expenditure records; provisions of school meals;</p>

	and inventory records. No priority 1 findings were raised.
<b>Manor Junior School</b>	No recommendations were raised in the following areas: <ul style="list-style-type: none"> <li>• SDP and OFSTED inspections;</li> <li>• School Fund;</li> <li>• Provision of School Meals;</li> <li>• Infrastructure, Disaster Recovery, Data Protection.</li> </ul> However, control weaknesses were identified in five out of the nine areas reviewed resulting in seven priority 2 findings and five priority 3 findings. The priority 2 findings were reported in the following areas: posting staffing costs; income and expenditure records; and inventory records. No priority 1 findings were raised.

## 7. Internal audit performance

Purpose	Target	Performance & RAG Status	What it measures
<b>Output Indicators (Efficiency)</b>			
% of Audit Plan completed (Audits at draft report stage)	>25% by 30/9/17	16% - RED	Delivery measure
	>50% by 31/12/17	30% - RED	
	>80% by 31/3/18	95% - GREEN	
	100% by 31/5/18	100% - GREEN	
Meet standards of Public Sector Internal Audit Standards	Substantial assurance or above from annual review	Confirmed * - GREEN	Compliant with professional standards
<b>Outcome Indicators (Effectiveness - Adding value)</b>			
High Risk Recommendations not addressed within timescales	<5%	7% - AMBER	Delivery measure
Overall Client Satisfaction	> 85% satisfied or very satisfied over rolling 12-month period	94% - GREEN	Customer satisfaction

\* Internal audit was substantively provided by Mazars LLP in 2017/18. Mazars have provided confirmation from a review carried out during October and November 2016 of conforming to the requirements of the Public Sector Internal Audit Standards and the Local Government Application Note.

### Quality and improvement programme

Internal audit quality has been maintained through adequate supervision and review processes in the year.

Quality and consistency has been improved through use of revised Terms of Reference and report templates and a Head of Internal Audit focus on quality improvement.

The improvements in the year against the percentage of the audit plan completed indicator from red to green demonstrate the in-year improvements and turn around in performance.

Plans are in place to further strengthen quality in 2018/19.

## 8. Appendices

### **1: Limitations inherent to the internal auditor's work**

We have undertaken internal audit subject to the following limitations:

- **Internal control:** Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overruling controls and the occurrence of unforeseeable circumstances.
- **Future periods:** Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the following risks:
  - The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes.
  - The degree of compliance with policies and procedures may deteriorate.

### **Responsibilities of management and internal auditors**

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

### **Opinion**

My opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.



## 2: Opinion types

The table below sets out the types of opinion that I have considered, along with an indication of the types of findings that may determine the opinion given. I apply my judgement when determining the appropriate opinion, so the guide given below is indicative rather than definitive.

Opinion	Indication of when this type of opinion may be given
<b>Satisfactory</b>	<ul style="list-style-type: none"> <li>• A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and</li> <li>• None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Generally satisfactory with some improvements required</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <b>not significant in aggregate</b> to the system of internal control; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <b>isolated</b> to specific systems or processes; and</li> <li>• None of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<b>Major improvement required</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <b>significant in aggregate but discrete parts</b> of the system of internal control remain unaffected; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <b>significant in aggregate but discrete parts</b> of the system of internal control remain unaffected; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <b>not pervasive</b> to the system of internal control; and</li> <li>• A <b>minority</b> of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
<b>Unsatisfactory</b>	<ul style="list-style-type: none"> <li>• High risk rated weaknesses identified in individual assignments that <b>in aggregate are pervasive</b> to the system of internal control; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <b>pervasive</b> to the system of internal control; and/or</li> <li>• <b>More than a minority</b> of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Disclaimer opinion</b>	<ul style="list-style-type: none"> <li>• An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:               <ul style="list-style-type: none"> <li>- Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or</li> <li>- We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.</li> </ul> </li> </ul>

### 3: Definition of risk categories and assurance levels

Risk rating	
<p><b>Critical</b></p> <p>●●</p>	<p>Immediate and significant action required. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale &amp; service performance (e.g. mass strike actions); or</li> <li>• Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or</li> <li>• Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members &amp; Senior Directors are required to intervene; or</li> <li>• Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.</li> </ul>
<p><b>High</b></p> <p>●</p>	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale &amp; performance of staff; or</li> <li>• Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or</li> <li>• Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or</li> <li>• High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.</li> </ul>
<p><b>Medium</b></p> <p>●</p>	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale &amp; performance of staff; or</li> <li>• Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or</li> <li>• Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or</li> <li>• Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.</li> </ul>
<p><b>Low</b></p> <p>●</p>	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or</li> <li>• Minor impact on the reputation of the organisation; or</li> <li>• Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or</li> <li>• Handled within normal day to day routines; or</li> <li>• Minimal financial loss, minimal effect on project budget/cost.</li> </ul>
Level of assurance	
<p><b>Substantial</b></p> <p>●</p>	<p>There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.</p>
<p><b>Reasonable</b></p> <p>●</p>	<p>An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.</p>
<p><b>Limited</b></p> <p>●</p>	<p>There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.</p>

<b>No</b> ●	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
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## Appendix 2: Corporate Counter Fraud Annual Report 2017/18

### Contents:

1. Introduction
2. Fraud referrals including whistleblowing
3. Outcomes
4. Regulation of Investigatory Powers Act
5. Housing investigations

### 1. Introduction

The update on corporate fraud activity for 2017/18 is set out below. To ensure efficient use of resources, whilst all cases are logged by the Counter Fraud Team, cases will be assessed and the most appropriate method of investigation determined – either undertaken by the Counter Fraud Team, other agencies/sections or by management.

### 2. Fraud referrals including whistleblowing

	Q1	Q2	Q3	Q4	2017/18
B/f outstanding cases at the beginning of the period	9	5	6	6	9
Referrals received in the period	74	75	60	92	301
Of which:					
- Cases accepted for CFT investigation	3	4	6	5	18
- No further action after initial review / already known	40	2	28	18	88
- Referred to others	31	69	26	69	195
Cases closed in the period	7	3	6	8	24
<b>C/f ongoing CFT cases at the end of the period:</b>	5	6	6	3	3

The referrals received relate to the number of cases that are sent through to the Fraud email inbox or where contact is made direct with members of the team. A large proportion of contacts need to be re-directed as they relate to contacts from individuals who are not sure who else to contact or mistakenly thinking our section should be dealing with their query. Efforts are still ongoing to make improvements to the online reporting of fraud related issues to signpost people correctly to the right areas.

The referrals to others include such things as requests in relation to CCTV, FOI, DPA as well as referrals to Housing Benefits, CTAX & DWP, Complaints, Parking Enforcement, Housing services, Noise nuisance, Housing Associations, Planning, Private Sector Licencing, Police and Trading Standards.

### 3. Outcomes

	Q1	Q2	Q3	Q4	2017/18
Recommended for disciplinary process	0	0	0	0	0
Referred for management action	2	1	3	5	11
No fraud / No further action	5	2	3	3	13

#### 4. Regulation of Investigatory Powers Act

The Regulation of Investigatory Powers Act (RIPA) regulates surveillance powers, thus ensuring robust and transparent frameworks are in place to ensure its use only in justified circumstances. It is cited as best practice that Members maintain an oversight of RIPA usage.

The Assurance and Counter Fraud Group led a council wide refresher training of RIPA between December 2016 and May 2017. This brought services in line with current best practice as well as provide assurance to the issues raised in the Office of the Surveillance Commissioner inspection carried out in December 2016.

The current statistics are set out below following review of the central register, held by the Corporate Investigation Manager (RIPA Monitoring Officer). As per previous guidelines, RIPA authority is restricted only to cases of suspected serious crime or offences involving sale of tobacco and alcohol to underage children and will require approval by a Magistrate.

(a) Directed Surveillance

The number of directed surveillance authorisations granted during 2017/18 and the number in force at 31<sup>st</sup> Mar 2018:

Nil granted in 2017/18.

Nil in force as at 31<sup>st</sup> Mar 2018.

(b) Communications Information Requests

The number of authorisations for conduct to acquire communications data (e.g. mobile phone data):

2017/18: NIL

#### 5. Housing Investigations

Members are provided specific details on the outcomes from the work on Housing Investigations. For 2017/18, positive outcomes have been identified as set out below.

<b>Caseload</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>2017/18</b>
Open cases brought forward from previous period	24	29	20	21	24
New cases added	80	60	72	44	256
Cases completed	75	69	71	49	264
Open cases carried forward	29	20	21	16	16

<b>Ongoing cases – legal action</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Notices seeking possession served	0	1	1	3
Civil action (recovery of property) only	5	2	2	2
Criminal action (prosecution of tenant) only	1	0	0	0
Combined civil and criminal action	1	0	0	0

<b>Outcomes of closed cases</b>	<b>2016/17</b>	<b>2017/18</b>
Convictions	4	1

Properties recovered	29	12
Successions prevented	6	3
Savings (former tenant arrears repaid, single person Council Tax discounts removed, RTB, decant saved)	£20,000	£202,262
Other potential fraud prevented / passed to appropriate agencies, including MCIL applications cancelled	115	160
Referral to others	187	169