

**REPORT FOR: GOVERNANCE, AUDIT
AND RISK
MANAGEMENT AND
STANDARDS
COMMITTEE**

Date of Meeting: 18 July 2017

Subject: **INFORMATION REPORT –
Internal Audit and CAFT Year-
End Reports 2016/17**

Responsible Officer: Tom Whiting – Corporate Director of
Resources & Commercial

Exempt: No

Enclosures: Appendix1 – Internal Audit Year-end
Report 2016/17
Appendix 2 – Assurance from IA Plan
2016/17
Appendix 3 – CAFT Year-end Report
2016/17
Appendix 4 – Fraud Referrals

Section 1 – Summary

This report sets out the 2016/17 year end reports for Internal Audit and the Corporate Anti- fraud Team and includes the Head of Internal Audit's draft overall audit opinion on the control environment.

FOR INFORMATION

Section 2 – Report

Background

- 2.1. Annually the GARMS Committee considers a mid and full year report from Internal Audit and the Corporate Anti-fraud Team covering progress against the agreed plans. This is the year-end report for 2016/17.

Internal Audit: Overview of Progress/Output against Revised Plan

- 2.2. Overall the Internal Audit Team has achieved 92% of the 2016/17 revised annual audit plan expected to rise to 98% once outstanding reports are issued. This included 100% achievement of the core financial systems reviews relied upon by the council's External Auditors for their risk assessment of the authority. Thirty-four audit reports, 3 audit briefing notes, 6 self-assessments and 12 follow-ups were also completed during the year containing a total of 249 recommendations of which 98% were agreed (or alternative actions agreed) for implementation which exceeds the 95% performance target.
- 2.3 Appendix 1 provides a summary of all the work undertaken during the year including the finalisation of work from the 2015/16 plan. It shows the audit coverage of each review, the assurance rating of each review, details of follow-up work and detailed results of the team's performance indicators showing that all 4 were met or exceeded.
- 2.4 Appendix 2 provides an overview of the actual work undertaken against the 2016/17 revised plan and the assurance that can be obtained from the plan.

Internal Audit: Summary of Findings

- 2.4 Bearing in mind that the audit plan is risk based and that the vast majority of the reviews undertaken were rated as high risk the low number of red assurance reports issued in the year indicate that overall there is a strong internal control environment. All follow-ups resulted in an improved assurance rating with 81% attaining an amber/green or green assurance rating demonstrating that the organisation remains responsive to Internal Audit recommendations and that Internal Audit is adding value by helping management to improve the control environment.
- 2.5 Two red assurance reports were issued during the year, 1 relating to the 2015/16 plan, Mandate Fraud which was re-assessed as green assurance at follow-up and 1 relating to the 2016/17 plan that was a result of an investigation at a school which has yet to be followed up. Four red/amber assurance reports were also issued during the year relating to the 2016/17 plan, Personal Budgets – Pay Pal Reconciliations (which has been re-assessed at follow-up as an amber assurance),

Help2Let, NRPF and Housing Benefit Fraud Risk. Whilst these three reports are still in draft initial management response to these has been positive.

- 2.6 Of the other work undertaken during the year the Core Financial Systems and the schools continue to demonstrate that sound controls are in place.

Draft Audit Opinion on Overall Control Environment

- 2.7 This is the draft overall opinion based on internal audit risk based and reliance work carried out in 2016/17.

The adequacy and effectiveness of organisation's control environment for the 2016/17 financial year has been assessed as "good" based on the following:

- 86% of the traffic lighted systems reviewed during 2016/17 were given an amber, an amber/green or a green assurance rating;
- 98% of recommendations made during 2016/17 were agreed for implementation;
- 73% of recommendations followed-up have been implemented, 25% are in progress or are planned at the time of follow-up thus it is expected that in due course 98% will be implemented. All follow-ups resulted in an improved assurance rating with 81% attaining an amber/green or green assurance rating;
- 7 suspected financial irregularities were reported to Internal Audit during 2016/17 only one of which was considered significant.

- 2.8 The final opinion will include the results of the core financial systems work for 2016/17 undertaken in Q1 of 2017/18 and an updated assessment of Fraud governance against the CIPFA Fraud Governance Checklist and will be reported to GARM at the next meeting.

Internal Audit Progress Q1 2017/18 Plan

- 2.9 There are three key work-streams for Internal Audit in Q1 of each year:

- Completion of work from the previous year's plan

92% of the 2016/17 revised plan has been completed to draft report stage however for 3 reviews although the field work has been completed the reports have yet to be issued.

- Core Financial Systems

This work is progressing well and nears completion.

- Annual Review of Governance

A lot of work has been undertaken to bring the review process in line with the new CIPFA Framework and the annual review is progressing (this is reported in detail elsewhere on the GARMS Committee agenda).

- 2.10 An investigation into money stolen from the Arts Centre undertaken in Quarter 1 led to an red assurance report being issued (currently in draft) and to agreement with management that further work will be undertaken on controls in place at the Arts Centre in Q2.

CAFT 2016-17 Year End Fraud Plan Report (Appendix 3 and 4)

- 2.11 Of the 13 objectives in the revised CAFT Fraud Plan for 2016-17, 12 (92%) objectives have been achieved and 1 (8%) partially achieved.
- 2.12 In terms of a value of fraud and corruption identified during 2016-17, what can be measured amounts to £1.13 million. Of this £1.06 million (94%) identified was loss avoidance due to fraud either being prevented or intercepted. The remaining £74,000 (6%) identified was actual loss incurred by the authority being recovered and income generated through penalties/costs. This represents a 4:1 return on investment for the teams running costs. See Fig 1 and 2 for breakdown (Appendix 3).
- 2.13 The work streams identified as a priority following the team's self-assessment against the CIPFA Code of Practice for Managing the Risk of Fraud & Corruption, progressed positively during 2016-17:
- In terms of acknowledging the risk of fraud and corruption and the harm that this can cause, the review of the Corporate Anti-Fraud & Corruption Strategy was achieved and the strategy was approved by Council on the 23rd February 2017 and adopted into the Constitution.
 - In relation to preventing, detecting and deterring fraud and corruption, there have been many positive outcomes of raising awareness across the organisation and in the community so that employees and residents know what and how to report fraud to the authority.
 - In terms of pursuing fraud and corruption when identified, once again there have been some really positive cases where individuals committing fraud are stopped and punitive action taken to recover any losses.

CAFT 2017-18 Q1 Fraud Plan Progress Update

- 2.14 Progress against the 2017-18 Fraud Plan is progressing well with a number of positive outcomes already achieved in relation to acknowledging, preventing and pursuing fraud and corruption.
- In terms of acknowledging and preventing fraud and corruption, a number of fraud risk workshops have taken place to identify and assess fraud risks in the Resources Directorate and these will continue

during Q2 so that there is a good coverage of all services. Once this is complete, the workshops will take place within the Communities and People Directorates.

- In terms of pursuing fraud and corruption, three (3) Council properties have been recovered, two (2) Right to Buy applications rejected, one (1) disabled facility grant application rejected, one (1) No Recourse to Public Funds (NRPF) application terminated, National Fraud Initiative savings amounting to £150,000 achieved on removing individuals from the housing waiting list and a number of other grant applications have been rejected.

Further Information

The next report on the performance of Internal Audit and CAFT will be the 2017/18 Mid-year Reports to be submitted to GARMS Committee in December 2017.

Financial Implications

There are no financial implications to this report.

Equalities implications

None

Corporate Priorities

The Internal Audit and Corporate Anti-Fraud Service contribute to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert....



Chief Financial Officer

Date: 05/07/17

Section 4 - Contact Details and Background Papers

Contact: Susan Dixon, Head of Internal Audit & Corporate Anti-Fraud,
Tel: 0208 424 1420
Justin Phillips, Corporate Anti-Fraud Service Manager
Tel: 02084168671

Background Papers: None