

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

Date of Meeting: 17 July 2018

Subject: **INFORMATION REPORT –
Internal Audit and Corporate
Anti-Fraud Year-End Report
2017/18**

Responsible Officer: Dawn Calvert – Director of Finance

Exempt: No

Enclosures: Appendix1 – Internal Audit Year-end
Report 2017/18
Appendix 2 – Assurance from IA Plan
2017/18
Appendix 3 – CAFT Year-end Report
2017/18
Appendix 4 – Fraud Referrals
Appendix 5 – Fraud Risk Register
Summary
Appendix 6 – 2016-19 Strategy
Progress Report

Section 1 – Summary

This report sets out the 2017/18 year end reports for Internal Audit and the Corporate Anti-Fraud and includes the Head of Internal Audit's 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 Corporate Anti-Fraud covering progress against the agreed plans. This is the year-end report for 2017/18.

Internal Audit: Overview of Progress/Output against Revised Plan

- 2.2. Overall the Internal Audit Team has achieved 93% of the 2017/18 revised annual audit plan expected to rise to 99% 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. Twenty seven audit reports, 14 audit briefing notes, 7 self-assessments and 21 follow-ups were also completed during the year containing a total of 204 recommendations of which 96% were agreed (or alternative actions agreed) which has exceeded the 95% target.
- 2.3 Appendix 1 provides a summary of all the work undertaken during the year including the finalisation of work from the 2016/17 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 2017/18 revised plan and the assurance that can be obtained from the plan.

Internal Audit: Summary of Findings

- 2.4 The audit plan is risk based and the vast majority of the reviews undertaken were rated as high risk however 85% of the reviews undertaken were rated as Amber assurance or higher indicating that overall there continues to be a strong internal control environment. This is a decrease of 1% from 2016/17. All follow-ups resulted in an improved assurance rating with 100% attaining an amber, 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 Five red assurance reports were issued during the year an increase of 4 from the previous year however this is mitigated by the drop in red/amber assurance reports issued from 5 in 2016/17 to 3 in 2017/18.
- 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.

Audit Opinion on Overall Control Environment

2.7 This is the overall opinion based on internal audit risk based and reliance work carried out in 2017/18.

The adequacy and effectiveness of organisation's control environment for the 2017/18 financial year has been assessed as "good" based on the following:

- 85% of the assurance reviews undertaken as during 2017/18 were given an amber, an amber/green or a green assurance rating;
- 95% of recommendations made during 2017/18 were agreed for implementation;
- 71% of recommendations followed-up have been implemented, 28% are in progress or are planned at the time of follow-up thus it is expected that in due course 99% will be implemented. All follow-ups resulted in an improved assurance rating with 100% attaining an amber, amber/green or green assurance rating;
- 76% of control reviewed within the Council's core financial systems were either operating fully or substantially, with 24% operating partially;
- 93% of core financial systems controls self-assessed by management were operating;
- 9 suspected financial irregularities were reported to Internal Audit during 2017/18 only two of which was considered significant.
- Fraud Governance has been assessed using the CIPFA Fraud Governance Checklist and has been assessed as a green assurance.

Internal Audit Progress Q1 2018/19 Plan

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

- Completion of work from the previous year's plan

93% of the 2017/18 revised plan has been completed, however for 4 reviews although the field work has been completed the reports have yet to be issued, 5 are in progress and 1 review will be carried forward to 2018/19.

- Core Financial Systems

Key control reviews have been undertaken on the following core financial systems:

Corporate Accounts Payable; and
Corporate Accounts Receivable.

The following self-assessments for core financial systems have been co-ordinated, evidenced collected and analysed:

Housing Benefit;
Council Tax;
Capital Expenditure;
Payroll;
Housing Rents;
Business Rates;
Treasury Management.

This work is now complete.

- Annual Review of Governance

The annual review of governance, an evidenced based self-assessment co-ordinated and evaluated by Internal Audit and the Management Assurance exercise has been completed in quarter 1 enabling the Annual Governance Statement to be drafted in time to meet the new shorter deadline of sign-off by 31st July (this is reported in detail elsewhere on the GARMS Committee agenda).

- 2.9 A fraud investigation into the misuse of a fuel card at the Depot in Quarter 1 led to an Internal Audit review of the system. The fieldwork for this review is complete and a red/amber assurance report will be issued in due course.

CAFT: Overview of Progress/Output against Fraud Plan

- 2.10 Of the 13 objectives in the CAFT Fraud Plan 2017/18, 10 were fully achieved (71%), 3 were partially achieved (21%) and 1 was not achieved (7%). See Appendix 3 and 4 for detail.
- 2.11 In terms of the value of fraud and corruption identified during 2017/18, what can be measured amounts to approximately £3.3 million. Of this amount, 4% (£141,000) was attributed to actual loss, whilst 96% (£3.19 million) was attributed to loss avoidance due to fraud either being prevented or intercepted. The level of fraud identified and dealt with by the team represents a 13:1 return on investment for the team's costs.
- 2.12 In terms of measuring outcomes against the Key Performance Indicators, three were achieved whilst two were not achieved. In relation to the indicators that were not achieved, one was housing tenancy recoveries that fell two short of the target, but given the level of work that Right to Buy investigations demanded (twelve applications intercepted compared to two in 16/17) which arguably poses a greater fraud risk to the authority, the gap is not deemed to be significant.
- 2.13 The other indicator that fell short was in relation to ensuring that referrals were dealt with within an average of 10 working days. The failure to meet the target was due to capacity to deal with work volumes at times.

CAFT Progress Q1 2018/19 Plan

2.14 Delivery of the 2018/19 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 assessing fraud and corruption risks the authority is facing, work has begun on establishing a fraud loss value methodology and the work in relation to the fraud risk register is continuing with discussions with service areas around risk rating and ownership
- In terms of activities to raise awareness of fraud and corruption CAFT and Internal Audit attended the New Member Market Place in May, CAFT delivered a fraud awareness session to Adults Services - Shared Lives Carers Briefing in June and a joint CAFT/Internal Audit awareness session was delivered to the Long Term Care Away Day in June.
- In relation to investigating, issuing sanctions and pursuing fraud losses against individuals
 - Five Council tenancies have been recovered
 - Three Right to Buys (RTB) have been declined as applicants failed money laundering checks
 - A housing application rejected
 - Facilitated recovery of a significant long term care debt owed to the authority
 - A number of blue badge warning letters issued (work carried out by a contractor where the CAFT is undertaking a supporting role in the arrangements)

Development of the Fraud Risk Register

2.15 The initial capture of cross Council fraud risks in each directorate was complete as per the plan. In establishing a Corporate Fraud Risk Register and Directorate Fraud Risk Registers consultation took place with approximately 100 middle managers / team leaders.

2.16 The high level findings can be seen in Appendix 5 where further consultation will now be carried out in 2018/19 with risk owners to agree the risk and further actions required to mitigate the fraud risk further.

2.17 Consultation and agreement will be sought with Corporate Strategy Board as to how the Fraud Risk Registers will complement the existing risk framework once the risks have been agreed.

Corporate Anti-Fraud Strategy 2016-19 update

2.18 The Corporate Anti-Fraud & Corruption Strategy 2016-19 was reviewed in Q4 2017-18. See Appendix 6. Around 50% (6) of the actions

contained within the strategy are being fully achieved, 16.6% (2) partially achieved and 33% (4) not being achieved as yet.

2.19 In terms of those actions not being achieved, once the compliancy issues in the e-learning package are overcome an awareness campaign will be launched to ensure that all new employees and existing employees are exposed to the training. The anti fraud suite of policies will be reviewed during 18/19 and further discussions will take place with HR about the feasibility of all management role profiles to include responsibility for ensuring that fraud and corruption risks are managed effectively.

2.20 In terms of those actions only partially achieved, once the fraud risk register is agreed with CSB and GARMS and reviewed at least annually, this will be fully achieved. Member fraud awareness training is scheduled to be delivered in 18/19 and this will ensure that all strategy actions have been achieved fully.

Further Information

The next report on the performance of Internal Audit and CAFT will be the 2018/19 Mid-year Report to be submitted to GARMS Committee in December 2018.

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: 04/07/18

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud,
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Background Papers: None