Item No. 10.	Classification: Open	Date: 16 May 2016	Meeting Name: Audit, governance and standards committee
Report title:		Annual report to the audit, governance and standards committee on the work of internal audit and anti-fraud for the year 2015-16, progress report on the work of the internal audit and anti-fraud teams for the period 1 February 2016 to 30 June 2016	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee note the annual report on the work of internal audit and anti-fraud for the year 2015-16.

2. That the audit, governance and standards committee note the progress report on the work of the internal audit and anti-fraud teams for the period 1 February 2016 to 30 June 2016.

3. That the audit, governance and standards committee approve the updated internal audit charter (Appendix A).

4. That the audit, governance and standards committee note the proactive anti-fraud plan for 2016 (Appendix B).

BACKGROUND INFORMATION

5. The annual report summarises the work of internal audit and anti-fraud for the financial year 2015-16 and includes the head of anti-fraud and audit's opinion regarding the adequacy and effectiveness of Southwark's arrangements for governance, risk management and control for the year.

6. The progress reports summarise the work undertaken by the anti-fraud and internal audit teams to date relating to on-going anti-fraud initiatives and investigations and the results of internal audit work where final reports have been issued.

Member Questions

7. None arising from the previous meeting of 22 February 2016.

Internal audit

8. This section sets out the findings from recent audit work as part of our usual progress report and includes an updated internal audit charter.

9. The internal audit charter explains the purpose, authority and responsibility of the council's internal audit service. Attached is the internal audit charter that has been updated to bring it in line with the recent updates to the UK Public Sector Internal Audit Standards (PSIAS) made in March 2016. See Appendix A.

Internal audit and anti-fraud – annual report

Introduction

10. This section of the report summarises the work of internal audit for the financial year 2015-16.

11. The council's internal audit contractor, RSM Risk Assurance Services LLP (RSM, formerly Baker Tilly), has undertaken all audit work for the year.

12. The Public Sector Internal Audit Standards (PSIAS) require that the head of internal audit provides an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. As such, this report also presents the annual opinion in respect of the adequacy and effectiveness of the organisation's system of internal control. The opinions provided within the report are based upon work completed by RSM.

13. In giving this opinion it should be noted that assurance can never be absolute. The most that an internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

Provision of non internal audit work

13. During 2015-16 RSM has provided a number of non internal audit services which are not considered to have caused any conflicts of interests:

- Provision of risk management support to the council's corporate risk management team

- Provision of contract related support to the housing department

- Advisory review to the chief executive on the council's non-residential property portfolio, reported to the oversight and scrutiny committee

- Provision of staff, support and advice under contract to the anti-fraud team

- A secondment of a member of staff to the no recourse to public funds team.

14. Measures are in place to ensure internal audit work remains independent.

Review of the effectiveness of internal audit

15. The internal audit service operates in line with the PSIAS, which was confirmed in the Quality Assurance and Improvement Programme (QAIP) review carried out in December 2014, which found the internal audit service to fully conform to the PSIAS requirements with only minor findings to help enhance the service. An action plan was developed and implemented by the head of anti-fraud and audit and RSM to further enhance the service. The service is also measured against a number of key performance indicators which are reported at section 34 of this report.

16. An updated internal audit charter is attached for approval. There were only minor changes to reflect an update to the PSIAS earlier this year. These have been highlighted for your ease of reference (see Appendix B).

The mission, purpose and role of internal audit

17. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

18. Good controls, risk management and fraud prevention are the responsibility of management. Internal audit is a statutory function, which provides assurance and at times advisory work to the council. The work of internal audit can complement and support management control.

19. The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is just one of the sources of assurance available to the council and audit, governance and standards committee.

Internal audit opinion

20. The head of anti-fraud and internal audit is of the view that sufficient internal audit work has been undertaken during 2015-16 to enable him to draw a reasonable conclusion on adequacy and effectiveness of the council's risk, control and governance arrangements for the year.

21. For the year ended 31 March 2016, based on the work undertaken, the head of anti-fraud and internal audit's opinion regarding the adequacy and effectiveness of the council's arrangements for governance, risk management and control is as follows:

Overall Opinion	**Amber/Green** Overall the council's systems for governance, risk management and control are considered to be largely adequate and effective, with areas for improvement.
Governance	Within the council this is adequate and effective. This opinion is informed by the work carried out during the year and by our existing knowledge of the council's governance arrangements and attendance at audit, governance and standards committee.
Risk Management	The risk management framework is well established within the council, and the corporate risk management team continue to provide risk workshops to departments and review and offer advice upon the departmental and corporate risk registers. The risk management framework continues to evolve and is subject to regular review by officers and enhancements made as necessary. Management's response to follows ups continues to be good on the whole and recommendations are generally being implemented within agreed timescales.
Control	Overall the council has sound systems of control in place and 94 per cent of audit opinions issued during the year were positive. Our reviews have, however, identified room for improvement in the adequacy of the control framework and compliance with and application of existing controls. Management have accepted recommendations in these areas and are working to rectify issues where they have been identified. We would draw the committee's attention to the following two key themes identified through the work of internal audit:

	• Our thematic review of contract management and individual audits has highlighted again that the monitoring of contractors and services across the council is variable and there is opportunity to obtain better value for money through the monitoring of delivery and appropriate procurement and supplier relationship management, particularly where more than one team or department are using a supplier. • Our thematic review of access to services and individual audits has identified the need for a principles based framework and risk based approach to the verification of initial eligibility for the council's services to ensure that they are only provided to people who need them; we found variable approaches and a lack of documentation in some cases to. support the decisions made by management. Other themes identified for consideration were: • Our IT related audits have identified control weaknesses in the framework of control that could leave the council vulnerable to data loss or unauthorised access to its systems. • Our audits of the review and approval of invoices prior to payment identified an absence of effective verification checks in some cases or lack of clarity of responsibility. • Audits that included a review of fees and charges and income collection identified a need to improve controls to ensure that all income due to the council was being collected. Running across a number of audits was also the issue of non-retention of documentation to support decisions made; in such cases internal audit cannot provide assurance over the compliance with policy and procedures, and the council may not be able to provide evidenced support for its decisions in the event of query or challenge.

Summary of risk management, governance and control within the council

22. Risk management, governance and control activities are intrinsically linked; overall arrangements are considered to be adequate. Of the 32 assurance reports issued during the year, 30 (94 per cent) received a positive assurance opinion; five opinions were green, 13 were amber green and 12 were amber red. Of the 31 schools audited during the year, 29 (94 per cent) were provided with a positive assurance opinion. A total of four assurance reports were rated as red, two of which related to school audits.

23. Recommendations have been agreed with management and action is on-going to address control issues in red reports, details of which will have been contained in our progress reports throughout the year. The key points arising in the red reports, which have previously been reported to the committee or form part of the progress report, are summarised below:

Special guardianship orders

24. As reported in more detail in the progress report below, one of the main weaknesses was the lack of either prescriptive procedural documentation accepted and used by all three teams involved in the process, or a structured and supported communication system between teams. Recommendations were raised around the need for a complete review of caseload and procedures and controls with cross teams along with the need to obtain and keep on file documentation to support SGO claims. Management took immediate action to address some of the issues raised in the report.

Queens Road safes

25. As reported in the February 2016 progress report, the safes at Queens Road were found to be inadequately controlled, undermining the effective control over clients' property and monies. The key issues identified were inconsistent and incomplete recording of items received and taken out of the safes, and a lack of routine reconciliation and checking to confirm the completeness and accuracy of items held and to identify in a timely basis whether items might have gone missing. Whilst logs were maintained for each safe, entries often lack the required information and in some cases forms were being used that did not provide a sufficient audit trail. Our follow up confirmed that good progress was made in the implementation of recommendations.

Schools

26. The issues raised in the two schools where a red opinion was provided related to weaknesses in the control over the schools' budgets and general finances. Common issues identified related to: a lack of separation of duties for payroll and purchasing; lack of routine payroll and bank reconciliations; purchase orders not being raised or appropriate quotations obtained to demonstrate value for money; and control over the use of the schools' credit cards. In one instance the school had become overdrawn.

Follow up and implementation

27. Senior management has been responsive to audit recommendations and have shown a positive attitude to addressing control issues. Recommendation implementation rates remain good, and we continue to work with management to enhance this key responsibility.

Basis for opinion

28. The head of anti-fraud and internal audit has based his opinion upon the following areas of work and the assurance levels achieved which have been completed during 2015-16. This is based upon the regular progress reports already presented to the committee, along with the progress report for work completed since the last committee meeting.

Audit area	Red	Amber / Red	Amber / Green	Green	Totals
Corporate audits	0	1	0	0	1
Departmental audits	2	7	8	4	21
IT audits	0	1	1	0	2

Key financial systems	0	2	3	1	6
Thematic reviews	0	1	1	0	2
Totals – Council	**2**	**12**	**13**	**5**	**32**
Schools	**2**	**3**	**24**	**2**	**31**

29. The majority of reports received a positive assurance level, although recommendations have been made to further enhance control, risk management and governance, where appropriate. Management have accepted the overwhelming majority of recommendations made during the year (99 per cent) and action plans are in place for their implementation. The progress made in the implementation of the recommendations will be monitored through the internal audit follow-up process and will be reported to each audit, governance and standards committee meeting.

Cancellations and additions

30. The following table highlights changes to the plan during the year.

Audit area	Additions	Cancellations	Comments
Corporate audits	-	-	-
Departmental audits	Queens road safes Special guardianship orders	Commercial waste management Funding panels No recourse to public funds Public health	Review following a theft Review following a fraud allegation Management request Management request Management request Management request
IT audits	-	IT network security	Management request
Key financial systems	-	-	-
Thematic reviews	-	-	-
Schools	Camelot school		Governor request following changes in management

31. In line with the internal audit charter there have been no significant additional advisory projects that required committee approval however, during the year we have worked with management to provide advice on control issues in the following areas: repairs and maintenance and iWorld systems; learning disability services invoice approvals; and the troubled families service. Any findings from advisory work are considered and in the event of significant issues they would be reported via the annual opinion.

Scope of the internal audit opinion

32. In arriving at the opinion, the head of anti-fraud and internal audit has taken into account:

- The results of all internal audits undertaken by RSM for the year to 31 March 2016

- The results of follow-up action taken in respect of audits from previous years

- Whether "high" or "medium" recommendations have been accepted by management and, if not, the consequent risks

- The effects of any material changes in the organisation's objectives or activities

- Matters arising from previous reports or other assurance providers to the audit, governance and standards committee and/or corporate management team.

Follow-up of recommendations

33. All recommendations are followed up on a regular basis. During 2015-16, 185 recommendations were followed up. We found that 91% (168) of the recommendations had been fully implemented and 9% (17) were found to be outstanding. This shows continuing improvement compared to the implementation rate of 74% in 2013-14 and 79% in 2014-15. During 2015-16, 56% of high rated recommendations had not been implemented by the due date and one remained outstanding at the end of the year; this has since been implemented.

Key performance indicators

34. The following table identifies performance against key performance indicators during the 2015-16 year.

KPI	Target	Actual performance
% of audits from the plan completed to draft report stage	**100%**	**100%**
% of returned audit satisfaction survey forms achieving an overall score of 'adequate' or above	**75%**	**94%**
% of high rated recommendations implemented by agreed implementation date	**85%**	**56%**

35. The RSM internal audit team is working with the head of anti-fraud and internal audit to try and increase implementation rates on high rated recommendations. Many of these do not meet the agreed implementation dates, but are subsequently addressed. Internal audit will continue to provide challenge to suggested dates to ensure that they are realistic. Any high rated recommendations that remain outstanding have been reported to the committee as part of our regular progress reports.

36. In addition to the core key performance indicators reported to the committee as part of our regular progress reports, we also have an annual performance indicator.

KPI	Target	Actual performance
Annual Chief Officer and Audit & Governance satisfaction surveys achieving an overall average score of 85% or above	85%	77%

37. The target was increased from 80 to 85% for 2016 as part of our continuous improvement aims. The number of responses was slightly lower this year; if any members do have feedback on our work we are obviously happy to receive it at any point.

Anti-fraud

Introduction

38. This section of the report provides an annual review of the anti-fraud work conducted between 1 April 2015 and 31 March 2016.

39. The anti-fraud team work is split in to two categories:

- Reactive work, which is broadly investigations in response to reports of fraud

- Proactive work, which includes initiatives to prevent and identify fraud, and includes using technology and data matching to identify fraud risks

40. The two anti-fraud teams are:

- Anti-fraud services, which investigates all cases involving the council's employees, agents, contractors, anyone else conducting business for or with the council, and members of the public. There are multiple types of fraud this could include, some of which are theft, council tax fraud, significant financial fraud, procurement fraud, grant fraud, national non-domestic rates fraud or evasion, false documents, identities and applications, and immigration offences

- The special investigation team, which investigates housing tenancy fraud in respect of the housing stock owned and managed by the council and other social housing where legislation directs that a local authority has specific responsibility. This includes cases of unlawful subletting, non-occupation, succession, assignment, mutual exchange, and right to buy.

Reactive anti-fraud work

41. The number of referrals received through the council's website, fraud email, fraud hotline and by letter for the fraud teams between 1 April 2015 and 31 March 2016 has been 1,197.

42. The number of cases that have resulted in a successful sanction for each of the two anti-fraud teams from 1 April 2015 to 31 March 2016 was as follows:

Anti-Fraud Team	Number of Sanctions 2015-16	Number of Sanctions 2014-15
Anti-fraud services	18	85#
Special investigations team	68*	70
Total	**86**	**155#**

Sanctions for period 1 April 2015 to 31 March 2016

* Housing Management has recovered an additional 122 properties, and the special investigations team have undertaken an additional 35 preventative actions and a further 7 properties recovered on behalf of registered providers.

 # As previously reported to committee, it should be noted that since 1 April 2015, the Department for Work and Pensions have taken responsibility for the investigation of housing benefit fraud which will account for the variance of the sanctions for anti-fraud services compared to the previous year. The figures of 85 included 58 housing benefit sanctions. The comparable number for 2014-15 would be 17 sanctions and 87 in total.

Proceeds of Crime Act

43. The Proceeds of Crime Act 2002 (POCA) provides for the confiscation or civil recovery of the proceeds from crime and contains the principal money laundering legislation in the UK. This work acts as an important deterrent to show that crime against the council does not pay.

44. Within 2015-16, successful work in this area for those we have prosecuted has seen £117,154 in judgments awarded to the council from those who benefited from their criminal conduct. Payments received in 2015/16 were £47,520. We continue to pursue judgments and recoveries in this area to promote the message that fraud against Southwark Council does not pay.

Proactive anti-fraud work

Operation Bronze

45. Trudy Ali-Balogun, 55, a former council homeless caseworker from September 2003 to April 2005, was found guilty of misconduct in a public office at the Inner London Crown Court in May 2016 and sentenced to five years imprisonment.

46. Four homeless applicants, also on trial, were found guilty of obtaining services by deception. Biayo Awotiwon and Adeyemi Olalekan Oyedele were sentenced to five months in prison. Whilst Kudiartu Falana and Joseph Akin Olaiya received suspended sentences for five months and six months, respectively.

47. All four had made fraudulent applications which lead to three of them being granted a secure tenancy in Southwark having made fraudulent applications to the council for homeless housing, all assisted by Trudy Ali-Balogun.

48. As previously reported to committee, in 2014, Ibrahim Bundu was sentenced to four years for abusing his position of trust as a homelessness worker. He was then ordered to pay back his gain of £100,000 to the council following a Proceeds of Crime investigation led by the council's fraud team.

49. Mr Bundu had made minimal effort to repay the confiscation amount, paying only £1,600 towards the order and refusing to relinquish a property to cover the debt. A default sentence of two years was therefore handed to Mr Bundu, in addition to the four years he was already serving.

50. The council is seeking an enforcement receiver to force the sale of the property that Mr. Bundu owns, which the council has had under restraint.

51. Through Operation Bronze, and working closely with legal services and the special investigations team, a majority of the properties have been recovered and work continues to recover the last few.

52. Anti-fraud services have also been working closely with housing allocations and together have bought about significant change, through additional reviews and enhanced systems, controls and processes, which includes the use of identity document scanners and credit checks.

National Fraud Initiative (NFI)

53. The 2014-15 NFI cycle matches were released in February 2015 and the council received 25,079 matches, of which 4,543 were deemed of good quality.

54. 7,324 matches relate to housing benefits, which is now investigated by the DWP.

55. The council adopted a risk based approach and identified 43 cases classed as fraud and 133 cases classed as an error. The NFI has identified £228,388 in notional and recoverable outcomes.

56. The data for the next 2016-17 NFI cycle will be collected in October 2016 for release in early 2017.

Sub-letting prevention

57. 2014-15 saw the successful implementation of iLatch, a tool designed to help prevent tenancy fraud. To date there has been 144 positive matches and 13 unique referrals leading to ongoing investigations.

Transparency

58. In February 2015, the Local Government Transparency Code was revised and published. This now includes a requirement to publish the following information about counter fraud work annually:

- The number of occasions the powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used

- The total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud

- The total number (absolute and full time equivalent) of professionally accredited counter fraud specialists

- The total amount spent by the authority on the investigation and prosecution of fraud, and

- The total number of fraud cases investigated.

59. The table below shows the information required between 1 April 2015 and 31 March 2016.

	2015-16	2014-15
Number of occasions used Prevention of Social Housing Fraud powers	38	40
Number of FTE Investigators/Prosecutors	13	23
Number of FTE accredited counter fraud officers	12	20
Total spend	£617,915	£873,000
Total number of cases investigated	**491**	**1,751**

Transparency information for period 1 April 2015 to 31 March 2016

 # As set out earlier, a number of the anti-fraud team were transferred to the DWP, which represents the reason for the change to these figures between 2014-15 and this year.

Progress report on the work of internal audit and anti-fraud for the period 1 February 2015 to 30 June 2015

Internal audit progress

60. The following section sets out the internal audit assurance for the reports finalised in the period 1 February 2016 to 30 June 2016. The definitions of the assurance levels that have been awarded depending on the audit findings, associated risk and consequently the number of high, medium and low recommendations are as follows:

Assurance level	Opinion
Red	Taking account of the issues identified, the council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed. (This is a negative opinion)
Amber / Red	Taking account of the issues identified, whilst the council can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed. (This is a positive opinion)
Amber / Green	Taking account of the issues identified, the council can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably

Assurance level	Opinion
	designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising. (This is a positive opinion)
Green	Taking account of the issues identified, the council can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. (This is a positive opinion)

61. The priorities of the recommendations made are:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that affect our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Summary

62. The following table sets out the areas of work where reports have been finalised and the assurance levels achieved for the period:

Audit area	Red	Amber / Red	Amber / Green	Green	Totals
Corporate audits	0	1	0	0	1
Departmental audits	1	3	4	3	11
IT audits	0	1	1	0	2
Key financial systems	0	1	1	1	3
Thematic reviews	0	1	1	0	2
Totals	1	7	7	4	19

63. The progress made in the implementation of the recommendations is monitored through the internal audit follow-up process and will be reported to the audit, governance and standards committee.

Individual reports completed from 1 February 2016 to 30 June 2016

Corporate audits

Payments to individuals outside of PAYE

64. A self-employment process is in place, through which vendors can be assessed on whether the council should treat them as employed (and paid via the payroll system) or as self-employed (and paid as a creditor via the accounts payable system). However, the audit highlighted that those individuals used by the council prior to the introduction of this self-employment process have never been subject to such a check. One high recommendation was made to address this issue. In addition, managers are not routinely complying with the status check procedures before commissioning work through this route, in particular with the requirement to seek agreement from the human resources team that the proposed status of the individual assessed is correct. In all cases where human resources approval was not evidenced, the individual had been set up as a vendor on the accounts payable system. One medium recommendation has been made to address this issue. The issues identified could leave the council at risk of financial penalties for non-compliance with HMRC guidelines on the assessment of the employment status of consultants. Low recommendations have been made to further strengthen the existing control framework. Management has agreed actions to address all of the recommendations made by the end of October 2016.

Report issued:	Recommendations:			Assurance level:
9 June 2016	High: 1	Medium: 1	Low: 4	Amber/Red

Departmental audits

Payments to foster carers and adopters

65. The control framework was found overall to be sound from registration and approval by an independent reviewer, progression through the various levels of foster carer and processing and approval of payments. However, key controls and checks were not being consistently applied, evidence to support the continued registration of foster carers, the completion of necessary training, and consequently payment of the correct fees, was not available in all cases. Four medium recommendations were made to address the continuing appropriateness of enhanced payments being made and to introduce controls to ensure that payments are supported by appropriate and up to date evidence, including attendance on training courses, household income and incremental annual charges, and to mitigate the risk of duplicate payments being made to foster carers. Five low recommendations were made to address minor non-compliance and administrative issues. Management agreed to implement all of the recommendations by the end of April 2016.

Report issued:	Recommendations:			Assurance level:
10 March 2016	High: 0	Medium: 4	Low: 5	Amber/Green

Home to school transport

66. The service had procured the taxi and bus contracts in accordance with the council's contract standing orders; a detailed specification was used as part of the invitation to tender and adequate controls were evident for the opening and evaluation of the tenders submitted. The service has adequate controls in place for monitoring the performance of providers to identify areas of non-compliance and

ensuring any necessary remedial actions are undertaken. No recommendations resulted from our work.

Report issued:	Recommendations:			Assurance level:
6 May 2016	High: 0	Medium: 0	Low: 0	Green

Safeguarding - adults

67. A clear control framework is in place to support the safeguarding decisions made by the council with regards to adults. However, the evidence to support decisions made was not available in a number of cases reviewed, including the extent to which required timeframes for the progression of the cases had been met. Two medium recommendations were made to address these issues. Management agreed to implement all of the recommendations by the end of July 2016.

Report issued:	Recommendations:			Assurance level:
10 March 2016	High: 0	Medium: 2	Low: 2	Amber/Green

Safeguarding (administration) – children

68. The roles and responsibilities for progressing safeguarding referrals and undertaking assessments, including level of risk, were clearly defined and found to be operating in practice. Meetings and key events were scheduled appropriately to underpin timely decision-making. However, there was a lack of evidence to support the trail of all key decisions, and to show that continued and appropriate support was provided. There was also an issue with staff not recording the actual date of actions and therefore the system automatically entered a system date which had no relation to the actual dates. Completeness of documentation needs to be managed as a priority, which will then provide detail as to whether cases are being dealt with or not progressed as required by statute, and the reasons for those delays. Management have agreed to implement all recommendations by the end of September 2016.

Report issued:	Recommendations:			Assurance level:
23 June 2016	High: 0	Medium: 3	Low: 2	Amber/Green

Special guardianship orders

69. Special guardianship orders (SGOs) are dealt with by three separate teams. One of the main weaknesses identified was the lack of either prescriptive procedural documentation accepted and used by all teams or a structured and supported communication system between teams. Supporting documentation for the existing caseload was found to be variable, and in some instances absent, which may reflect the split of duties. Recommendations were raised around the need for a complete review of caseload and procedures and controls with cross teams along with the need to obtain and keep on file documentation to support SGO claims. It is acknowledged that management took prompt action to address some of the issues subsequently raised in the report and agreed to implement all of the recommendations by the end of June 2016.

Report issued:	Recommendations:			Assurance level:
4 April 2016	High: 2	Medium: 4	Low: 0	Red

Section 106 agreements

70. The council has in place a control framework that supports the establishment and approval of section 106 agreements and appropriate monitoring in place with

regards to financial obligations that developers have with the council. However, there is a lack of monitoring in respect of the non-financial obligations; hence the amber / red assurance opinion. A high recommendation was raised around the need for a monitoring mechanism to be installed to ensure non-financial S106 obligations are fulfilled during and after completion of each project. Two medium recommendations were raised around the need for an annual, appropriately ratified review of procedural documents, as well as for the need to have a consultation with legal to ensure clarity in the wording of the S106 contracts. Management agreed to implement all of the recommendations by the end of October 2016.

Report issued:	Recommendations:			Assurance level:
18 April 2016	High: 1	Medium: 2	Low: 0	Amber/Red

Major regeneration projects

71. Overall, we were able to confirm that key elements of the programme and project management were being routinely applied across the council' regeneration schemes. A recurring issue identified across all projects was that project risk registers were not designed and maintained adequately. Other issues identified were specific to the individual projects reviewed. Six medium recommendations were raised in relation to: a lack of formal action plans to address delays in amber and red rated schools, plan B for schools did not contain sufficient details, there was a lack of evidence to demonstrate feasibility studies have been carried out, action plans to be developed for community meeting suggestions, and two issues pertaining project risk registers being inconsistent and incomplete. Seven low recommendations were raised with regards to administrative issues, of which three relating to project risk logs being updated. We also carried out a second follow up of the recommendations made in last year's regeneration major projects review; we found that all seven recommendations have now been implemented. Management agreed to implement all of the new recommendations by the end of July 2016.

Report issued:	Recommendations:			Assurance level:
16 May 2016	High: 0	Medium: 6	Low: 7	Amber/Green

Pension administration

72. The controls in respect of the council's administration of local government pensions were found to be reasonably well designed and applied. However areas of weakness have been identified from sample testing undertaken and from discussions with relevant management, which could impact upon the accuracy of the pensions data held the council. Five medium recommendations were raised in respect of an absence of controls or control weaknesses in the following areas: lack of agreement in place with admitted and scheduled bodies for providing up to date member records and accuracy of contribution rates applied; the need for additional reconciliations in respect of pension data and updates to record, including voluntary contributions and in ensuring the accuracy of annual benefit calculations. Seven low recommendations were made to further improve the design of existing controls and address minor lapses in compliance with existing controls. In light of the control framework issues relating to additional voluntary contributions and annual benefits statements identified in this audit, further substantive testing has been incorporated into the audit of pensions administration due to be undertaken as part of the 2016-17 internal audit plan, as well as follow up of the recommendations made. Management agreed to implement all of the recommendations by the end of September 2016.

Report issued:	Recommendations:			Assurance level:
29 June 2016	High: 0	Medium: 5	Low: 6	Amber/Red

Enforcement

73. A sound control framework is in place with regards to the enforcement service, which was found to be operating as intended in practice. One medium recommendation was raised in respect of a lack of clear evidence of income reconciliation for the electronic data management system used by the enforcement teams and one low recommendation relating to the regular review and updating of the enforcement policy. Management agreed to implement all of the recommendations by the end of September 2016.

Report issued:	Recommendations:			Assurance level:
8 April 2016	High: 0	Medium: 1	Low: 1	Green

Income management – libraries

74. In the main adequate controls were in place and being complied with at Canada Water. The majority of the recommendations related to Kingswood House where the audit identified several risks in the income collection processes and procedures adopted over time, and the control framework. One high recommendation was raised in relation to Kingswood house, which addressed the lack of income collection from long term tenants for over eight months (amounting to £25k), in conjunction with the lack of knowledge to generate invoices for sums owed. One medium recommendation was raised in respect of expired tenancy agreements. Five low recommendations were raised around minor non-compliance and control issues. Management agreed to implement all of the recommendations by the end of June 2016.

Report issued:	Recommendations:			Assurance level:
13 June 2016	High: 1	Medium: 1	Low: 5	Amber/Red

Major works (including housing investment programme)

75. Overall we found a strong framework of control in place to monitor the delivery of the major works programme and housing investment, including adequate governance and oversight, procurement with regards to contractors delivering the programme on behalf of the council and performance monitoring. We raised two low recommendations to strengthen the budgetary monitoring and performance reporting arrangements relating to a lack of explanation and challenge of adverse variances in capital cost forecasts. Management agreed to implement both recommendations by the end of July 2016.

Report issued:	Recommendations:			Assurance level:
15 March 2016	High: 0	Medium: 0	Low: 2	Green

IT audits

Change control

76. A formal change management framework is operated which in the main was found to be well-designed and operating as intended. However, current arrangements require further improvement to ensure the confidentiality, availability and integrity of the council's IT systems. We raised three recommendations relating to: explicit consideration of the potential impact of the change on the council's compliance with legal and regulatory requirements; routine updating of operational system documentation and manuals as part of the change management process; and the preparation of regular reports on the status of requests for change, to facilitate the

prompt identification of any delays in implementation by the council's IT management. Management have agreed to implement all of the recommendations by the end of September 2016.

Report issued:	Recommendations:			Assurance level:
23 June 2016	High: 0	Medium: 3	Low: 1	Amber/Green

Mobile communications contract

77. Whilst a range of key controls have been designed to manage mobile communication, a number of improvements are required to the management and reuse of phone contracts and the maintenance of a complete and up to date inventory of the council's mobile device assets. We have raised one high recommendation due to the lack of consistent processes for recovering devices from staff leavers. We raised four medium recommendations relating to: the absence of a central mobile devices asset register and periodic checks that mobile assets are being appropriately managed and controlled; the lack of central pooling of devices or SIM cards/contracts for re-use; the absence of available documented guidelines to Council staff on the processes for mobile communication requests and clarity of roles and responsibilities on who is allowed to approve the issuing of new devices or which members of staff/job roles are eligible to request a mobile phone. Management have agreed to implement all of the recommendations by the end of January 2017.

Report issued:	Recommendations:			Assurance level:
23 June 2016	High: 1	Medium: 4	Low: 0	Amber/Red

Key financial systems

Treasury management

78. Overall, controls in place were found to be suitably designed and consistently applied. A medium recommendation has been made in relation to the timeliness of treasury management reconciliations. The low recommendation related to a minor administrative issue. Management have agreed to implement all of the recommendations by the end of September 2016.

Report issued:	Recommendations:			Assurance level:
16 March 2016	High: 0	Medium: 1	Low: 1	Green

Payroll

79. Whilst in the main the control framework in place is adequate, we found non-compliance with those controls in a number of areas. Eight medium recommendations were raised with regards to: starter and leaver data being input on the relevant systems; management informing HR of leavers promptly in order to manage the risk of overpayments; evidencing receipt of documentation to change employee bank account details; monthly review of changes in salary payments to payroll team members; communicating to line managers how to monitor staff overtime; completion of redundancy applications and retention of approval documentation plus approval of the redundancy calculators prior to use; SAP access levels and system functionality; and approval of season ticket loans. Our audit highlighted that overpayments to leavers have been made as a result of payroll, however the reporting mechanisms in place enable the timely recovery of overpayments. We also raised four low recommendations concerning minor compliance and administrative issues. Management agreed to implement all of the recommendations by the end of October 2016.

Report issued:	Recommendations:			Assurance level:
20 June 2016	High: 0	Medium: 7	Low: 4	Amber/Red

Creditor payments and CareFirst payments

80. Our audit identified that whilst in the main there is an adequate control framework, there are areas where improvements are required in the application of controls in the system, to ensure that the council is protected from the risk of error, omission or fraud. This particularly applies to the processing of payments via Carefirst, and it is recommended that the issues raised in this report are considered in the implementation of the new mosaic system. In respect of creditors, three medium recommendations were raised in respect of purchasing groups not reflecting departmental schemes of management; non-compliance with council financial procedures and protocol in respect of vendor creation and payments; and the lack of evidence to support confirmation that invoices and care plan values have been reconciled prior to payment. Two low recommendations were raised for minor lapses in compliance with existing controls. In respect of Carefirst, two medium recommendations have been raised with regards to the reconciliations undertaken between SAP and feeder systems, one medium recommendation was raised in respect of the authentication checks being undertaken for new vendors. One low recommendation has been raised to address the lack of approval of current variance thresholds in respect of costs of care packages within the carefirst system. Management agreed to implement all of the recommendations by the end of August 2016.

Report issued:	Recommendations:			Assurance level:
15 June 2016	High: 0	Medium: 6	Low: 3	Amber/Green

Thematic reviews

Access to services

81. This was a thematic review looking at practices across the council in regards to the verification of information relating to applicants prior to the granting of access to the council's services. The aim of the audit was to consider how the council ensures that services are provided only to those individuals that should receive them. The audit specifically considered the following services: free swim and gym, parking permits, blue badges and freedom passes, library cards, planning applications, personal alcohol licences, marriage registrations, and right to buy. In addition, this report draws upon our wider knowledge and the results of audit work on verification performed as part of our other audits within the 2015-16 plan: payments to foster carers and adopters; special guardianship orders; no recourse to public funds; housing benefits and council tax refunds; and housing allocations. Areas of good practice were identified across a number of services reviewed as part of this audit and in planned audits undertaken during 2015-16. However officers are not adequately considering the type of verification checks that manage the risks specific to their service or the implications associated with the documentation provided. There is scope for the council to put in place a framework to assist officers in identifying the sources of evidence that are appropriate for verification checks and what should or can be retained on the council's systems and files under law and for how long. The verification checks and associated documentation requirements to confirm eligibility will necessarily differ across services provided by the council; therefore we have recommended a risk-based approach centred on principles to assist officers in determining the most appropriate checks to put in place for their particular service. The recommendations and suggestions made in this report are directed at improving the control framework across the council. The council's

corporate governance panel has taken an overview role in respect of the issues identified in the report, and internal audit is working alongside management to support the introduction of a framework.

Report issued:	Recommendations:			Assurance level:
22 June 2016	High: 0	Medium: 5	Low: 0	Amber/Green

Contract management

82. This was a thematic review looking at current practices across the council in regards to contract management, and the extent to which officers were complying with contract standing orders (CSOs). Whilst we found some areas of good practice and routine compliance across the council, we also found inconsistent approaches and areas of inadequate control in the managing and monitoring of contracts after award and the review of the council's relationship and levels of expenditure with suppliers. In particular, routine checks were not being undertaken by lead contract officers on cumulative spend by individual contract or suppliers used by more than one department. We found that required six-monthly and annual reporting to the departmental contract review boards (or equivalent forum) and the corporate contract review board by lead contract officers was not always taking place. The CSOs set out key principles and activities required around procurement; however, the council does not have a risk-based best practice contract management approach in place, or accompanying guidance and training programme to underpin that approach and equip officers in undertaking effective contract management. The council's corporate governance panel has taken an overview role in respect of the issues identified in the report; the findings are to be presented to the directors' forum to help determine how compliance can be improved. The introduction of the new e-procurement system should also assist in addressing some of the areas of non-compliance.

Report issued:	Recommendations:			Assurance level:
22 June 2016	High: 2	Medium: 4	Low: 3	Amber/Red

Follow up work

Summary

83. Since our last report to committee we have followed up 55 recommendations. Of these: 45 (82%) have been addressed and 10 (18%) were in progress.

84. Where recommendations have not been implemented at the time of the initial follow-up review revised implementation dates are agreed with management and a further follow up review is scheduled. Since the last committee meeting we have not formally reported on any audits where there are high recommendations due that have not been implemented within three months of the agreed deadline.

85. We will continue to report all instances where high level recommendations have not been implemented by their due dates. If the implementation date is exceed by more than three months, this will be reported to the committee.

Key performance indicators

86. The following table identifies the key performance indicators which are used to monitor the contractor and the service's performance:

	Annual target	Quarter 4 target	Quarter 4 performance
% of audits from the plan completed to draft report stage	100%	100%	100%

87. Internal audit completed the plan by 31 March 2016:

Area	Original audit plan	Added	Cancelled
Corporate audits	2	0	0
Departmental audits	29	2	4
Key financial systems	6	0	0
IT audits	4	0	1
Thematic reviews	2	0	0
Schools	30	1	0
Totals	73	3	5

88. As reported to the committee in the last report, three audits have been added to the plan this year: special guardianship orders, Queen's Road safes and Camelot school. The timing of four audits have been deferred at management's request to 2016-17: funding panels, no recourse to public funds, waste management contract, public health and IT network security, for the reasons set out in paragraph 30.

	Target performance	Actual performance
% of returned audit satisfaction survey forms achieving an overall score of 'adequate' or above. A minimum of 15% returns is required	75%	94%
% of recommendations in draft report accepted by audit sponsor / owner	90%	98%
% of high rated recommendations implemented by agreed implementation date	85%	56%

89. The level of response to satisfaction surveys has improved during 2015-16, due to incorporation of feedback at draft reporting stage and more active follow up where responses are not received. Implementation of high recommendations is below target at 56%; as reported at the meeting in February 2016, this represents four recommendations that were not implemented by the due date. These have since been implemented.

Reactive anti-fraud work

90. The number of referrals received through the Southwark website, fraud email, fraud hotline and by letter for the fraud teams between 1 April 2016 and 31 May 2016 has

been 144. The table below shows the number of cases that have resulted in a successful sanction for each of the anti-fraud teams from 1 April 2016 to 31 May 2016.

Anti-Fraud Team	Number of Sanctions 2016-17	Number of Sanctions 2015-16
Anti-fraud services	2	3
Special investigations team	5*	11
Total	**7**	**12**

Sanctions for period 1 April 2016 to 31 May 2016

* In addition, housing management has recovered an additional 15 properties.

Proceeds of Crime Act

91. The senior investigator in anti-fraud services received a highly commended award at the 2016 Keith Hughes award for excellence in financial investigation. This was is recognition of her works in respect of Operation Bronze, in developing a methodology for identifying the financial gain as well as the sanctions achieved.

92. The Keith Hughes Award is for all financial investigators in the UK. The award is sponsored by Altia Solutions with a judging panel made up of senior law enforcement professionals. This is thought to be the first time that a local authority officer has been shortlisted, therefore representing a significant achievement to be highly commended.

93. The award was set up in memory of Detective Constable Keith Hughes, a financial investigator with the former National Crime Squad who died from cancer in July 2003. It promotes the values Keith's work and life inspired, through recognising the achievements of those who have made an outstanding contribution within UK financial investigation and law enforcement.

94. These prestigious awards are now in their 12th year and the award was presented at the gala dinner at the NPCC (National Police Chief's Council) SOCEX'16 conference in May 2016.

Proactive anti-fraud work

95. Attached is the proactive fraud plan for 2016 to note, which is developed in line with the anti-fraud strategy. (See Appendix B)

POLICY IMPLICATIONS

96. This report is not considered to have direct policy implications.

COMMUNITY IMPACT STATEMENT

97. This report is not considered to have direct impact on local people and communities.

RESOURCE IMPLICATIONS

98. This report is not considered to have direct impact on resource implications.

CONSULTATION

99. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

100. None required

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None.		

APPENDICES

No.	Title
Appendix A	Draft internal audit charter July 2016
Appendix B	Draft pro-active fraud plan 2016

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance
Report Author	Mike Pinder, Head of Anti-Fraud and Internal Audit
Version	Final
Dated	1 July 2016
Key Decision?	No
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title	Comments Sought	Comments included
Strategic Director of Finance and Governance	N/A	N/A
Director of Law and Democracy	N/A	N/A
Cabinet Member	**No**	**No**
Date final report sent to Constitutional Team		1 July 2016