

## **Report to Audit Committee**

# **Annual Report to Audit Committee**

**Portfolio Holder:** Audit Committee

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**Ext.** 4783

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### **Reason for Decision**

To provide Members with the Annual Report for 2017/18 presented by the Head of Corporate Governance and report back to the Audit Committee on the matters required by International Auditing Standards, and the UK Public Sector Internal Audit Standards.

### **Executive Summary**

At selected meetings of this Committee the Head of Corporate Governance reports on the Internal Control Environment in place within a number of Directorates, which include details of internal audit work undertaken. It is proposed to continue this process in 2018/19 and to keep this Annual Report as a summary to this Committee.

This report includes an overall opinion of the Council's control environment and has been produced for this meeting to assist the Committee's review of the 2017/18 Annual Governance Statement (AGS) and assist with the future review of the Statement of Final Accounts. The report also sets out the supporting professional framework adopted by the team at Appendix 1.

The 2017/18 AGS is reported elsewhere on this agenda and it identifies eight issues for the Council to mitigate risks during 2017/18. This report highlights the progress made against the issues raised in the 2017/18 AGS and demonstrates continued overall improvement in control and financial administration across the Council during 2017/18.

Appendix 3 to this report, summarises the 2017/18 performance by the Internal Audit and Counter Fraud Team and targets for 2018/19. For 2017/18, the key performance highlights includes the outcome arising from the independent external assessment which concluded that the team operates in accordance with the Public Sector Internal Audit Standards. In addition, performance has generally been in accordance with the agreed targets, including the following highlights:

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- 78 Final Reports issued between 1 April 2017 and 31 March 2018, and delivered 96.25% of the agreed 2017/18 plan (target 95%).
  - Financial systems reviews were completed by the year-end to support the 2017/18 year end assurance process, which is in line with the previous year's performance.
  - The team delivered support for the corporate "Smart" project and provided pre implementation advice and support before the implementation of the General Data Protections Regulations (GDPR) in May 2018, and provided pre implementation assurance for systems migrations.
  - The Corporate Counter Fraud Team achieved (exceeding some) the agreed target and recovered payments to the value of £224,142 in Council Tax Reduction (CTR) and Housing Benefit as a result of 68 positive cases of Council Tax Reduction fraud and error investigations, and 68 sanctions have been issued to Council Tax customers. In addition, the team successfully investigated corporate cases including Blue Badge Fraud, Employee, Free School Meals, School Admissions, Council Tax Discount and Exemption Fraud and Direct Payment Fraud.
  - The Direct Payments Audit Team has carried out 940 audits of Adults' and Children's Direct Payments against a target of 500 and identified recoveries to the value of £1,529,373 in overpayments, inappropriate use and financial contributions.
  - Customer feedback was obtained by CIPFA as part of the Public Sector Internal Audit Standards External Assessment and this identified positive feedback and engagement; the feedback secured via the completed Customer Service Questionnaires (CSQs) prepared by lead managers / "auditees" remain at 4.8 on average (maximum score is 5).

## **Recommendations**

Members are requested to note the Annual Report presented by the Head of Corporate Governance and the continued developments in overall internal control and financial administration across the Council.

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**Annual Report to the Audit Committee**

**1. Background**

- 1.1 Members of this Committee agreed the 2017/18 Audit and Counter Fraud Plan at its meeting in May 2017. Progress against the agreed plan has been reported regularly during the year to the Audit Committee, as part of regular Internal Audit and Counter Fraud Progress Reports.
- 1.2 This report summarises the work carried out in 2017/18 and the Annual Report and Head of Corporate Governance Opinion on the System of Internal Control for the year ended 31 March 2018. The report considers the following types of activity:
- Fundamental Financial Systems (**Section 2**);
  - ICT and Transformation Programmes (**Section 3**);
  - Computer Audits (**Section 4**);
  - Operational and Service based Audits (**Section 5**);
  - Breaches of Contract Procedure Rules (**Section 6**);
  - Reporting to the Audit Committee (**Section 7**);
  - Corporate Counter Fraud (**Section 8**); and
  - Audits of Direct Payments (**Section 9**).
- 1.3 **Appendix 2** sets out the Final Reports agreed with managers in 2017/18 and their respective audit opinions.
- 1.4 In delivering these audits, performance against key performance indicators is discussed in each of the above sections and the proposed targets for 2018/19 are reported in **Appendix 3**.

**2. Fundamental Financial Systems (FFS)**

- 2.1 In 2017/18, Internal Audit continued to professionally collaborate with External Audit, Grant Thornton, to review all material fundamental financial systems, where the annual value of transactions exceeds the annual performance materiality value, which reduced to £9.4m in 2017/18, to reflect the reduced size of the Council's gross budget.
- 2.2 The 2017/18 FFS audit reviews were finalised by the year-end to support the year-end audit planning process. Each FFS audit review evaluated key controls in accordance with best practice and External Audit guidance and reviewed progress against agreed prior year audit recommendations. The system for Housing Rents had a transaction value of £8.8m, which was close to the materiality level of £9.4m, so this system was reviewed in 2017/18 for the first time as part of this audit process.
- 2.3 The detailed outcome of these specific financial audits will be reported to this Committee as part of the agreed reporting cycle for Internal Control Matters for Directorates. **Table 1** overleaf sets out the audit opinions across the Council's main financial systems between 2013/14 and 2017/18.
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**Table 1: Key Financial Systems Final Audit Opinions 2013/14 to 2017/18**

Financial System	Final Audit Opinion				
	2013/14	2014/15	2015/16	2016/17	2017/18
Accounts Payable	Adequate	Adequate	Adequate	Adequate	Adequate
Accounts Receivable	Good	Good	Good	Adequate	Adequate
Bank Reconciliations	Good	Adequate	Good	Good	Good
Cash Income	Inadequate	Adequate	Good	Adequate	Adequate
Council Tax	Adequate	Adequate	Adequate	Adequate	Adequate
Council Tax Reduction (from 2014/15)	N/A	Adequate	Adequate	Adequate	Adequate
Fixed Assets	Adequate	Adequate	Adequate	Adequate	Adequate
Housing Benefits	Good	Adequate	Adequate	Inadequate	Adequate
Housing Rents (from 2017/18)	N/A	N/A	N/A	N/A	Adequate
NDR (Business Rates)	Good	Adequate	Adequate	Adequate	Adequate
Payroll: Schools & Non-Schools	Inadequate	Weak	Weak	Weak	Weak
Personal Budgets and Direct Payments	Weak	Inadequate	Inadequate	Inadequate	Inadequate
Residential Care Payments	Inadequate	Inadequate	Inadequate	Adequate	Adequate
Treasury Management	Good	Good	Good	Good	Good
<b>Audit Opinions</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Good	5	3	4	2	2
Adequate	3	7	6	8	10
Inadequate	3	2	2	2	1
Weak	1	1	1	1	1
N/A	2	1	1	1	0
<b>Total FFS Reviews</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>

2.4 Overall, **Table 1** highlights a relatively stable control environment, with limited change to the agreed audit “opinions” over time. In summary:

- The systems for Treasury Management and Bank Reconciliations continue to be assessed as “good”.
- Adults financial systems based in the Health and Wellbeing Directorate continue to show signs of improvement in 2017/18 and the audit opinion of the system for Residential Care Payments continues to be “adequate” and some improvements have been demonstrated in the system for Personal Budgets and Direct Payments.

2.5 A number of key systems are operated in partnership with the Council’s strategic partner. Controls in the systems for Revenues and the general ledger feeder systems of Accounts Payable and Accounts Receivable have required some development for the last few years. Therefore the implication is that the opportunity to review these systems to enable an improved audit opinion (to “good”) has not been taken. However, the Housing Benefit system improved to adequate. The key issue for managers across the Partnership is the Payroll system, which continues to be “weak”.

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## **Payroll System**

- 2.6 The Final Audit Assessment is that the systems and controls for both the Directorate and Schools payroll and pensions systems continue to be weak. Despite the implementation of the new Agresso system, there has not been a demonstrable improvement since the previous audit in the operational administration of the Directorates payroll, particularly with regard to making payments and submitting information to third parties, whilst the Schools payroll continues to be subject to inadequate record keeping and issues surrounding rates of pay.
- 2.7 The Agresso HR and Payroll system went live on 7 April 2017 and this has resulted in some improved controls within the Directorates payroll process. However, the upgrade also brought with it significant challenges in mitigating risk and the control environment requires further development in a number of areas as discussed in more detail below.
- 2.8 Also, the workflows to develop the Agresso support model includes plans to further develop the payroll system, in accordance with a defined programme of activity. The Deputy Chief Executive Corporate and Commercial Services has also arranged for resources to identify and track the treatment of risks to ensure appropriate mitigations are in place.
- 2.9 The key control issues identified by the FFS audit were as follows:
- Sample testing of new starter transactions identified a number of missing employee files.
  - For leavers and variations a significant volume of documentation was missing for transactions processed during the first six months of the year. During the second half of the year electronic forms in respect of temporary and contractual variations and employees leaving the authority were introduced. These forms have to be submitted to Unity HR and Payroll by line managers and audit testing at the final FFS stage found that this provided an increased level of control.
  - Rates of pay had not been uplifted correctly in respect of the National Minimum Wage (NMW) grades for Schools officers. This has resulted in at least 21 apprentices being underpaid during the year. A contributory factor to this situation arising was that whilst the April 2017 NMW uplift was verbally discussed between People Services and Unity prior to submission of a formal change request, records were not available to evidence the testing by the Unity Systems team of the uplifted data or that an implementation plan and timetable were put in place.
  - There was a lack of resource directed towards identifying and recovering overpayments. As at March 2018, overpayments in excess of £129,000 were yet to be reclaimed from 72 current and former employees.
  - Due to issues with data migration from the previous payroll system to Agresso, shortly after the new system went live line manager approval workflows were removed which restricted the ability to review and authorise employee expenses and overtime claims.
  - Inadequate records had been kept to evidence the timely, accurate and complete processing of the Directorates and Schools payrolls. Issues were noted regarding the lack of clearing of errors and warnings, incomplete reconciliations of BACS payments to the payroll system, late and/or inaccurate payments to third parties, and failure to promptly submit payroll and pensions data to HMRC and Pensions Agencies respectively.
  - There was little evidence of management checks being carried out over the integrity of payroll data in advance of the monthly payroll runs. It has been stated by the (Interim) HR and Payroll Manager (Unity) that a sample checking routine is planned to be implemented across all payroll processing as part of a quality assurance and performance management programme.
  - Several historic audit recommendations remain outstanding in relation to improving service resilience, pensions' auto-enrolment, and maintenance of employee records.
- 2.10 Therefore the standard of financial and operational control within the current systems for payroll and pensions continues to be a risk. Remedial action has been taken by the Council's
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partner, during the latter part of the financial year to improve certain processes and procedures for the Directorates payroll; however, the impact of this is yet to be fully realised. A review of the Schools' payroll is also due for completion in July 2018.

- 2.11 It is understood that this forms part of a wider programme of work, which is being progressed by the partner, supported by the Council's Client, in order to deliver improvements to the HR and Payroll Service. Payroll managers have agreed to provide Internal Audit and the Director of Finance with updates on progress against the delivery of the agreed service transformation plan.

### **Adults' Services Financial Systems**

- 2.12 The Adults Social Care Team directly manages two of the Council's financial systems; the systems for payments for Personal Budgets / Direct Payments and the Residential Care Payment systems.

- 2.13 On 11 January 2018 the "Internal Control Matters in the Health and Wellbeing Directorate" Report was presented to the Audit Committee. This report highlighted that some progress had been made towards implementing the agreed audit recommendations and that the response from managers to the findings of the audits had been positive. In addition, the Director of Adults Services attended the meeting and discussed the key changes to the service and the importance of internal control to achieve their objectives. This programme of change is underway and the Final 2017/18 Audit opinion for Residential Care Payments has remained "adequate". There is also evidence of delivery against an improvement plan for Personal Budgets and Direct Payments but progress is not quite sufficient to improve the overall audit opinion, which remains inadequate. The Director of Finance has established follow up meetings with managers of the service and Internal Audit to monitor progress and agree any support required.

- 2.14 For the system of Personal Budgets and Direct Payments, one of the key issues is the delay to the implementation of three audit actions agreed in 2015/16 and one agreed in 2016/17 in addition to new actions for 2017/18. However, service managers demonstrated that implementation is underway and some of the new actions from 2017/18 were completed during the audit review. In summary, new actions were agreed to resolve the following issues:

- Client invoices following direct payment audits were being cancelled in the system in error. Developments were made in the Mosaic system to prevent this from occurring in future, and this was corrected during the final stage audit review.
- The reports processed as part of the quality assurance for payment cycles produced by the Brokerage and Payments (BAP) team were reviewed to reduce the amount of checks needed to produce the payment run. At the time of the review there were 13 separate reports produced in order to complete the payment runs some of these were to change administrative errors or to correct system inaccuracies in the Mosaic System. It was advised to review these reports and to look at fixing the errors in the system thus reducing the amount of reports produced.
- To improve the quality assurance between support plans and purchase orders, to ensure that all purchasing elements match the support plan to confirm the right amount of care is provided and costs are not missed.

- 2.15 The Residential Care audit review identified evidence that improvements continue to be made. However, one recommendation identified in 2016/17 remains outstanding with regards to annual reviews, and three new recommendations were made during the 2017/18 audit review which are summarised as follows:
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- During the review of payments to Care Homes it was found that a payment to the Home for the Short Stay contract, for one client, had not been made and furthermore the income for 50% of this fee had not been sent to the CCG for recovery. This was due to the renewal of the contract to the home being overlooked after the key case worker had left. The Interim review advised that the report for short stay contracts, that are due to expire for high cost care packages, should be prioritised by Team Managers to reduce the risk of care home payments not being processed in a timely manner. This recommendation was completed during the review.
- There were instances found at the final stage review where the primary support reason (PSR), by which the client is categorised in Mosaic according to their health need, was incorrect. There are occasions where clients' health needs alter throughout their care but workers need to be aware of the importance of categorising their primary need correctly on the Mosaic system. This information is used for statutory returns and for financial reporting through Agresso.
- One client was in receipt of healthcare funding from the Clinical Commissioning Group (CCG). The recharge details were detailed on the case notes but the funding decision documentation was not located in Mosaic which is needed for an accurate audit trail and serves as an agreement between the CCG and the Council.

2.16 In addition, Section 5 sets out the responsive desk top operational and business reviews performed by Internal Audit in order to further support the service around potential risks, processes and internal control matters.

2.17 The Direct Payments Audit Team continues to identify the following financial recoveries across the Directorate, which for Adults Services, is £1.338m against the target of £0.800m, set out in **Table 2** below:

**Table 2: 2017/18 Adults and Children's - Direct Payments Audit Team Results**

2017/18 Performance Indicator/Output Measure	2017/18	
	Target	Actual
<b>Adults Services:</b>		
Number of Direct Payment Audits undertaken	500	814
Recoveries identified including Financial Assessment (£)	£800,000	£1,337,931
<b>Children's Services:</b>		
Number of Direct Payment Audits undertaken	130	126
Recoveries identified including Financial Assessment (£)	£100,000	£191,442
<b>2017/18 Directorate Total:</b>		
<b>Number of Direct Payment Audits undertaken</b>	<b>630</b>	<b>940</b>
<b>Recoveries identified including Financial Assessment (£)</b>	<b>£900,000</b>	<b>£1,529,373</b>

2.18 As at 23 March 2017 when the review is undertaken, Personal Budgets, Direct Payments and Home Care were forecast to be overspent in 2017/18 by £1,606,670 (9%). The Director of Finance has agreed that colleagues in Finance and Internal Audit will collaborate with colleagues in the Directorate to further review processes and controls place in order to identify potential impact on budgets in 2018/19. This supportive review is underway and the outcome of this review and other projects will be reported to this Committee, as part of the Internal Control Environment for this service, at a later Audit Committee meeting. However, there is evidence that implementation progress is positive and is being conducted via a pragmatic and risk based approach. It is also agreed that, on balance, the migration to the Framework-I (FWi) system has led to improvements around the controls and processes around payments, income collection and administration of key documents in the system. The service migrated data from FWi to Mosaic during 2017/18.

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2.19 In addition to the review of the Council's financial systems, the Internal Audit team also carry out risk-based operational/service based reviews and will continue this in 2018/19. Arrangements have been put in place to meet with senior service managers to review priorities and risks, and refine audit programmes; for example, the agreed theme of support to Adults services. The types of audits undertaken are discussed in the sections to follow.

### **3. ICT and Transformation Programmes: Pre Implementation Assurance Reviews**

3.1 In accordance with the Council's Financial Procedure Rules, the Audit and Counter Fraud Team review assurance around the key stages/milestones of the financial systems implementations and report any findings to the Director of Finance. In 2017/18, this comprised the following system migrations:

- the integrated Agresso system was upgraded to Milestone 6 (section 3.2 below); and
- the payments and income cycles were migrated from Framework-I (FWi) to Mosaic (sections 3.3 and 3.4 below).

3.2 The Team also continued to support the service by delivering assurance reviews prior to the migration onto the following new platforms. In 2017/18, this comprised the pre implementation assurance, advice and support prior to the Go Live date of the Agresso migration to Milestone 6 in February 2018. In summary, the work conducted by the Audit and Counter Fraud Team concluded reasonable assurance for this migration.

3.3 The team supported the Health and Wellbeing Directorate in advance of the upgrade of the system from Framework-i (FWi) to the new Adult Social Care system Mosaic. The system is reported to be a "one solution, one platform". Mosaic is intended to provide a fully integrated solution for Adults, Children's and financial case management on a single platform. Mosaic has been designed based on four areas:

- Improving decision making.
- Detailing the client's history.
- Saving time for practitioners.
- Supporting collaboration with families and other agencies.

3.4 As part of this, Internal Audit liaised with the Agresso Finance Team to gain assurance around the interfaces between Mosaic and Agresso Financial System, Adults Payment and Billing Cycle and the Council's Information Governance Team to discuss the assurances they obtained around potential data protections risks. In summary, all files relating to the payment and billing cycle, FWi to Mosaic interface, work as expected with the Agresso financial system, and no issues were identified and highlighted to the Agresso Team's attention which indicates the files will process as intended.

3.5 Members of the team also contributed to the implementation of the General Data Protection Regulations (GDPR), supporting the various workstreams as appropriate before the Regulations came into effect on 25 May 2018. The development of an Assurance Framework is currently being finalised; in order to support colleagues in Information Governance and across the Council.

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## 4. Computer Audits

4.1 The Council's Internal Audit Service has a formal arrangement with Salford City Council to deliver a risk-based computer audit plan. In 2017/18, actions agreed as part of the following IT audits were followed up by the Council's third party technical audit lead:

- ISO 27001 Gap Analysis: The objective of this audit was to provide a high level assessment of the ICT information management system across the partnership. A moderate level of assurance was agreed with managers and the key recommendations were agreed to develop a cost effective and appropriate disaster recovery facility and processes and related service contingency plans, and to review information security policies to ensure that they meet the needs of the business.
- IT Service Management/IT Infrastructure Library (ITIL): The objective of this audit was to review the Service Management system across the Partnership and concluded that a high level of assurance can be provided around the adequacy and operating effectiveness of controls in place at the time of the audit. The key recommendations were to agree the role for ICT Client Service Team and the Unity Service Desk; and where the first point of contact must be dependent on the needs of the customer, this should be clarified. This action is already underway and managers are on target for delivery by the agreed date, and to produce a documented service continuity plan for any unforeseen loss of availability of the "ResolveIT" software.

4.2 Progress is being made against the agreed actions and the IT Audit Plan in 2018/19 will respond to any residual risks.

## 5. Operational/Service Based Audits

5.1 The following sets out the key planned and responsive audits conducted across the business.

### 5.2 Review of the Postal Votes Validation Processes

During 2017/18 the team supported the Mayoral Election on 4 May 2017 and the General Election on 8 June 2017. For both Elections, the Team conducted sample checks of postal votes prior to distribution to residents, and a review of the procedure for postal votes when received.

The conclusion, following the review of the latter activity, was the postal vote review and rejection procedure was carried out in accordance with the agreed process and was conducted by the appropriate and nominated individuals in a safe and secure environment, during both Elections. The rejection criteria appeared to have been applied correctly, and no significant issues were identified in the processes or the rejection decisions taken by the staff involved. There was no evidence, on the basis of those postal votes rejected, that postal votes accepted for the count were not genuine.

### 5.3 Grant Assurance Reviews

The Council have been successful in applying for a number of grants and one of the conditions of these grants is that they are independently reviewed and assurance statement signed by a Senior Officer of the Council. In 2017/18, the team provided 3 Strategic Transport Grant Claims assurance statements to the value of £4.772m and £0.203m for projects attracting European grant (see **Table 4** overleaf). All grants reviews were delivered by the agreed due date and no significant issues were identified.

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**Table 4: 2017/18 Strategic Grant Assurance Reviews**

Ref	Grant Name	Grant Number	Total Grant Value	Sign Off Required	Grant Return Due Date	Completion Date
1	Local Growth Fund	31/2777	£1,307,670	CEO & HOA	14 Jul 2017	8 Jul 2017
2	Highways Capital Maintenance Grant	31/2784	£2,385,200	CEO & HOA	8 Sep 2017	2 Sep 2017
3	Innovo Foster	EU Grant	24,893.07	HOA	30 Jul 2017	20 Jul 2017
3	Food Chains 4EU	EU Grant	£11,298.73	HOA	30 Jul 2017	20 Jul 2017
4	EU Grant - Coalescse	EU Grant	£58,369	HOA	30 Jul 2017	20 Jul 2017
5	Innovo Foster	EU Grant	£31,710.80	HOA	28 Feb 2018	15 Feb 2018
6	Food Chains 4EU	EU Grant	£17,664.00	HOA	28 Feb 2018	15 Feb 2018
7	Coalescse	EU Grant	£57,793	HOA	28 Feb 2018	15 Feb 2018
8	Cycle City Ambition Grant	31/2796	£1,080,000	CEO & HOA	26 Feb 2018	24 Feb 2018
<b>Total 2017/2018</b>			<b>£4,974,599</b>			

#### 5.4 Troubled Families Assurance Review

Within the context of Devolution an agreement was reached with Government for the remainder of Greater Manchester's (GM) allocation of funding for the delivery of the Troubled Families (TF) programme to be developed by the Greater Manchester Combined Authority in the GM Reform Investment fund. This means that, from April 2017, Greater Manchester Authorities have been operating outside the existing financial framework, including the Payment by Results (PbR) model. Under the new arrangements, the approach to managing and auditing the TF programme are guided by the overarching principles set out in the TF Framework document developed by the GMCA, together with the targets and metrics identified in the revised Troubled Families Outcomes Plan (TFOP). Whereas the previous PbR mechanism required a data-focussed approach to audit, the new model focusses primarily on the verification of the quality assurance processes and decision making around case management. An assurance statement was produced on the families successfully closed and confirmed by reference to supporting evidence that the closures complied with the financial framework eligibility criteria and in addition to this an audit review was completed on the adequacy of the system and process. Whilst this audit is subject to quality assurance the draft opinion remains adequate. The Final Audit Report will form part of the 2018/19 final audit report and the proposed opinion is adequate.

#### 5.5 Schools' Audits

In collaboration with Education colleagues, the team conducted two detailed school audits during the year. There was evidence of implementation progress during the audit review, and managers have responded positively to the findings of the audit. One review was rated as adequate with five recommendations of a medium and low priority and the other school opinion was good with only three medium to low priority actions. The improvements required for both schools were in the main around governance arrangements.

#### 5.6 Capital/Regeneration Projects

The team has reviewed the following schemes at key stages and discussed all outcomes with managers:

- *Old Town Hall*: A follow up review was undertaken on the refurbishment on the Old Town Hall. The Audit Team worked with the Project Team to understand progress against the actions agreed in the July 2016 status update and also to understand any emerging risks in the operational phase and the associated mitigating actions. The review identified improvements required in relation to: the recording and monitoring of the asset's income and expenditure; stakeholder management; and understanding the benefits arising from the project.

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- *Capital Grants:* This follow up audit reviewed whether progress had been made to deliver the actions agreed in the July 2016 audit report regarding Business Improvement Grants. The review concluded that controls remain adequate but that progress was still required in order to ensure a segregation of duty within the process for making grant payments, and better transparency over the use of funding awarded especially in relation to grants agreed 'in principle' and funds committed for over 12 months but not spent.
  - *Benefits Realisation:* This audit considered the controls in place surrounding the identification, monitoring and reporting of benefits associated with capital expenditure. The review consisted of discussions with officers from the Strategic Regeneration Office and other departments, along with a review of a selection of project documents, focusing on compliance with elements of the Council's Project Management methodology. The audit opinion is that the systems are inadequate and that whilst the intended benefits of each project are being defined from the outset, there is limited evidence available that the realisation of benefits is being managed, assessed and reported in line with the guidelines in the Project Management handbook or in accordance with leading practice. The key actions for management include developing guidance for developing a benefits management and realisation strategy; appraising the development and delivery of Benefits Realisation Plans via the Gateway Review Process; and enhancing the monitoring of benefits realisation via implementing a new project database and reporting progress to the Capital Investment Programme Board (CIPB).

#### 5.7 Health and Wellbeing Directorate:

A number of desk top operational and business reviews were performed by Internal Audit in order to support the Health and Wellbeing Directorate around potential risks, processes and internal control matters and are detailed as follows:

- Finance Walkthrough Issues

The aim of the review was to work alongside Finance to identify the potential impact on budgets in 2017/18 to support the business to deliver a service in line with the agreed budget. Based on the information provided by Finance the main reasons for the issues highlighted were as a result of case management and Mosaic data administration, training issues, staffing issues and development of Mosaic. Internal Audit identified three of the main control issues, in relation to Open episodes, Annual Reviews, Non-submission of contracts for Residential Homes. All control issues are being worked on by the service and progress is being monitored during the FFS process.

- High Cost Care Packages

The aim of the review was to ensure that high cost care packages have been subject to sufficient control. In the review of the expected controls of high cost care packages four key controls were identified as detailed in the testing summary below.

- Where healthcare needs are identified as primary and not secondary, Continuing Health Care (CHC) funding will be sought by the Council as appropriate, with the correct process for CHC applications followed.
- Where CHC is not applicable other cost reduction methods will be sought and documented.
- Reviews will be undertaken in a timely period, annual reviews of cases will be the baseline review period.
- Evidence of review of client finances has been completed and retained.

- Mosaic End to End Process

The upgrade of Frameworki to Mosaic in May 2017 presented an opportunity to look at the processes in place through Mosaic, how the Adults system is being utilised and to ensure controls are in place and being adhered to specifically in Client Support Services. The Brokerage & Payments Process, Income and Assessments, Continuing Health Care Funding Process and Notice to Close (end of services) was reviewed.

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- Direct Payments Process

The Direct Payments (DP) Audit team conducts audit reviews to verify whether clients with a Direct Payment have spent the agreed funds in accordance with the agreed Support Plan and that client contributions associated to their care have been applied and collected. A review was undertaken of DP Audits from 2016/17, conducted in April/May 2017. Internal Audit focused on the clients where high values of funds had been recovered, to determine what actions had been made throughout the year to reduce the amounts clawed back. A sample of 27 cases, with a total value of £0.300m, from 697 audits with high recovery values during 2016/17, were reviewed in order to identify trends and current processes in place following an Audit.

## **6. Breaches of Contract Procedure Rules**

6.1 The breaches to Contract Procedure Rules as detected by Internal Audit's work during 2017/18 and prior years are as follows:

- three occasions where a contract was not let in accordance with Contract Procedure Rules; and
- one occasion where contract monitoring requires improvement.

6.2 The details of these are included in the Internal Control Matters within Directorates reports, to this Committee, throughout the financial year.

## **7. Reporting to the Audit Committee**

7.1 The Audit Committee receive Audit and Counter Fraud progress reports on a regular basis, which set out team outcomes including progress against the plan. In addition, issues, recommendations and audit opinions arising from the operational and financial audit reviews within Directorates were reported in greater detail to this Audit Committee as follows:

- Corporate and Commercial Services: Matters were reported on 11 May 2017, followed by dedicated Payroll system updates to Members on 17 July 2017 and 7 September 2017.
- Health and Wellbeing Directorate: Matters were reported on 11 January 2018.
- Economy, Skills and Neighbourhoods Directorate: Matters were reported on 19 March 2018.

## **8. Corporate Counter Fraud**

8.1 The Corporate Counter Fraud Team has also performed well and has worked in collaboration with Internal Audit colleagues to achieve these outcomes. In addition, the team has delivered the following specific Corporate Counter Fraud results:

- 68 positive cases of Council Tax Reduction Fraud and Error identified;
  - £0.059m of Council Tax Reduction (CTR) misuse and savings have been uncovered;
  - 8 Civil Penalties, 8 Administration Penalties and 52 Warning Letters have been issued to Council Tax customers reminding them of their duties to report changes in their circumstances;
  - £0.164m of Housing Benefit Fraud and Error Overpayments identified as part of the CTR investigations;
  - 168 allegations of Welfare Fraud reported to the Department for Work and Pensions; and
  - 67 positive cases of non CTR fraud/misuse including Blue Badge Fraud, Employee, Free School Meals, School Applications, Council Tax Discount and Exemption Fraud and Direct Payment Fraud.
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## 9. Audit of Direct Payments (DP)

- 9.1 As per **Section 2.13**, the Direct Payments Audit team verifies that spending of the Direct Payment is in line with the agreed Support Plan and that client contributions to their care have been made. This team has a dual role as a compensating control, tasked with the responsibility to recover over-payments/unrecovered client contributions and also to ensure the client is spending the agreed funds advanced in accordance with the agreed Support Plan.
- 9.2 The Team's detailed results for the year are shown in **Table 5** below.

**Table 5: Adults Direct Payments Audits – 1 April 2017 to 31 March 2018**

Month 2017/18	Audits Completed	Value Requested/Recovered following Audit	Cumulative Total
April	133	£279,535.97	£279,535.97
May	93	£69,246.91	£348,782.88
June	78	£114,691.78	£463,474.66
July	84	£192,936.99	£656,411.65
August	70	£86,646.58	£743,058.23
September	59	£90,956.30	£834,014.53
October	53	£62,182.88	£896,197.41
November	53	£96,049.64	£992,247.05
December	33	£66,510.32	£1,058,757.37
January	90	£160,649.83	£1,219,407.20
February	24	£36,117.99	£1,255,525.19
March	44	£82,405.96	£1,337,931.15
<b>Total 2017/18</b>	<b>814</b>	<b>£1,337,931.15</b>	

- 9.3 Following the audit, in 73% of cases, an invoice was raised to recover an under spend, expenditure not in line with the support plan, or misuse of the Direct Payments.
- 9.4 In summary, by the 31 March 2018 the team has carried out 814 Adults' Direct Payments audits against a target of 500 and identified approximately £1.338m to be recovered in overpayments and inappropriate use. As a result the team delivered results in line with its annual targets; 500 audits and £0.800m in recoveries.
- 9.5 Following a pilot in 2015/16, the Team also supports the business by conducting audits of Children's Direct Payments. The results for the year are shown in **Table 6** overleaf:
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**Table 6: Children's Direct Payments Audits – 1 April 2017 to 31 March 2018**

Month 2017/18	Audits Completed	Value Requested/Recovered following Audit	Cumulative Total
April	16	£28,268.28	£28,268.28
May	1	£955.05	£29,223.33
June	3	£2,326.14	£31,549.47
July	2	£0.00	£31,549.47
August	5	£212.34	£31,761.81
September	2	£2,453.22	£34,215.03
October	10	£15,691.00	£49,906.03
November	7	£35,096.09	£85,002.12
December	8	£12,476.15	£97,478.27
January	20	£39,794.63	£137,272.90
February	27	£31,496.34	£168,769.24
March	25	£22,673.19	£191,442.43
<b>Total 2017/18</b>	<b>126</b>	<b>£191,442.43</b>	

9.6 Following the audit, in 66% of cases, an invoice was raised to recover an under spend, expenditure not in line with the support plan, or misuse of the Direct Payment.

9.7 In summary, by the 31 March 2018 the team has carried out 126 audits and identified approximately £0.191m to be recovered in overpayments and inappropriate use. As a result the team delivered results in line with its annual targets; 130 audits and £0.100m in recoveries.

## 10. Audit Opinion

10.1 The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and these Standards replace the 2006 Code of Practice. Therefore, from 2013/14, the Head of Internal Audit has provided an annual report in accordance with the PSIAS to support the production of the Annual Governance Statement.

10.2 The overall opinion of the Head of Corporate Governance for 2017/18 and its professional basis is set out at **Appendix 1**.

## 11. Options/Alternatives

11.1 The Audit Committee can either chose to accept and note the Annual Report or not do so. There are no other alternatives.

## 12. Preferred Option

12.1 The preferred option is that the Audit Committee accepts and notes the Annual Report.

## 13. Consultation

13.1 N/A.

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14. **Financial Implications**

14.1 N/A.

15. **Legal Services Comments**

15.1 N/A.

16. **Cooperative Agenda**

16.1 N/A.

17. **Human Resources Comments**

17.1 N/A.

18. **Risk Assessments**

18.1 The production of an Annual Report by Audit will enable this Committee to demonstrate it is raising any concerns with the Council in a structured manner.

19. **IT Implications**

19.1 N/A.

20. **Property Implications**

20.1 N/A.

21. **Procurement Implications**

21.1 N/A.

22. **Environmental and Health & Safety Implications**

22.1 N/A.

23. **Equity, Community Cohesion and Crime Implication**

23.1 N/A

24. **Equality Impact Assessment Completed**

24.1 No

25. **Forward Plan Reference**

25.1 N/A.

26. **Key Decision**

26.1 No.

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## 27. **Background Papers**

27.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act

File Ref: Background papers are included as Appendices  
Officer Name: Jane Whyatt  
Contact No: 4773

## 28. **Appendices**

28.1 The following Appendices are available to support this Report:

- **Appendix 1:** Annual Report and Head of Corporate Governance Opinion on the System of Internal Control for the year ended 31 March 2018.
  - **Appendix 2:** Audit and Counter Fraud: 2017/18 Final Reports.
  - **Appendix 3:** Audit and Counter Fraud Team: Key Performance Indicators 2017/18 and 2018/19 Targets.
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# Audit and Counter Fraud Team

**Annual Report and Head of Corporate Governance  
Opinion on the System of Internal Control for the year  
ended 31 March 2018**

**28 June 2018**

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## Annual Report and Head of Corporate Governance Opinion on the System of Internal Control for the year ended 31 March 2018

### Background

The Internal Audit and Counter Fraud Plan for 2017/18 was developed based on an assessment of risks contained in the Corporate and the Directorate Risk Registers. The work aims to provide assurance to the Executive Directors on systems and controls in place that assist the Directorates in meeting their objectives. The work allows the Head of Internal Audit (which is fulfilled by the **Head of Corporate Governance** at Oldham Council) to form an overall opinion on the Governance and Risk Management arrangements in the Council and the effectiveness of the Council's internal control systems. The opinion is then used to support the Council's Annual Governance Statement.

Reports issued and the work conducted during 2017/18 carry an overall assurance opinion that has formed the basis of the Head of Internal Audit Opinion at the end of the financial year. The opinion also takes into account consultancy work undertaken during the year; high priority findings from such reviews contribute to the overall opinion that is reported. Reports carrying an overall 'Limited' or 'Minimal' assurance opinion are reported to the Audit Committee as part of the internal audit progress report, along with any high priority recommendations that are outstanding.

This report sets out the framework used to complete the annual opinion and is supported by the key audit findings in the main body of this report.

### 2013 Public Sector Internal Audit Standards (Revised 2017)

The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and these Standards replace the 2006 Code of Practice. Therefore, from 2013/14, the Head of Corporate Governance has provided an annual report in accordance with the PSIAS to support the production of the Annual Governance Statement.

The Standards note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The role of the Head of Internal Audit (Head of Corporate Governance in Oldham), in accordance with the PSIAS, is to provide an annual opinion, based upon (and limited to) the work performed, on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes (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 Council's Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described in this report.

The CIPFA Statement on the role of the Head of Internal Audit (HIA) in Local Government issued during 2010 noted that the Head of Internal Audit in a local authority plays a critical role in delivering its strategic objectives by:

- championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
- providing an objective and evidence based opinion on all aspects of governance, risk management and internal control.

### Roles and Responsibilities

The Council is accountable collectively for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

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The Annual Governance Statement (AGS) is an annual statement by the Council setting out:

- how the responsibilities of the Council are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- the purpose of the governance arrangements as evidenced by a description of the risk management and review processes; and
- the conduct and results of the review of the effectiveness of the system of internal control, including any disclosures of significant control failures, together with assurances that actions are or will be taken where appropriate to address issues arising.

The Council's framework of assurance should bring together all of the evidence required to support the Annual Governance Statement. The opinion does not imply that Internal Audit and Counter Fraud have reviewed all risks and assurances relating to the Council. The purpose of the opinion is to contribute to the assurances available to the Council which underpin the Council's own assessment of the effectiveness of the organisation's governance arrangements and system of internal control.

My opinion is one component that the Council takes into account in compiling its Annual Governance Statement. The definition of a significant issue is contained within guidance on the Annual Governance Statement.

### Head of Internal Audit Opinion

At Oldham Council, the role of Head of Internal Audit is performed by the Head of Corporate Governance.

My overall opinion is that reasonable assurance can be given that there are generally robust risk management and governance arrangements and sound systems of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently. However, managers have agreed actions to improve controls in key areas which are set out in the main report.

### Basis of the Opinion

The basis for forming my opinion is as follows:

- an assessment of the design and operation of the Code of Corporate Governance and underpinning processes;
- an assessment of the risk management arrangements and the framework of assurance; and
- an assessment of the range of individual opinions arising from risk based audit assignments, contained within the internal audit risk based plan that have been reported throughout the year.

This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. The opinion considers the findings of the audits conducted in the year, which are recorded in **Appendix 2** and the key outcomes are summarised in the main report.

### CIPFA/SOLACE Code of Corporate Governance

The Council has established corporate governance arrangements which are consistent with the seven principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) Framework, "Delivering Good Governance in Local Government".

It has adopted a Local Code of Corporate Governance which is publicised on the Council website. The Council's 2017/18 Annual Governance Statement (AGS) is reported as part of this Audit Committee agenda and it sets out how the Authority has complied with the Code and also meets

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with regulation 4(2) of the Accounts and Audit Regulations 2015. The Authority meets the requirements of Regulation 6 (1) b of the Accounts and Audit (England and Wales) Regulations 2015 in relation to the publication of a statement on internal control. It is subject to detailed review by the Audit Committee when they consider the final Statement of Account for approval.

In respect of the previous issues identified, whereby the Council was not able to demonstrate it had implemented procedures on effective Corporate Governance; then I am happy that the Council has now implemented the updated CIPFA/SOLACE Framework introduced in June 2007 (and refreshed in 2016/2017) and has adopted a Local Code of Corporate Governance, which is subject to regular updating.

The Audit Committee has now been in operation for a number of years and is now embedded as a key control within the Council. It has supported improvements within Internal Audit Processes, Corporate Governance and Risk Management and in particular on the reporting of this work. The outcome of Internal Audit work is reported regularly to the Audit Committee during the year and, by virtue of this Annual Report, received an opinion on the overall internal control environment of the Council.

Elsewhere on this Agenda is the Annual Governance Statement (AGS), which identifies eight issues for the Council to mitigate risks during 2017/18. This report has highlighted the progress made against the issues raised in the 2017/18 AGS, which again demonstrates overall improvement in the Council. Based on my experience of the Council, I believe it has continued to improve its financial administration during 2017/18.

## Strategic Projects

The Head of Corporate Governance and his management team have provided appropriate governance, audit and finance support for the acquisition of a third party. This acquisition was completed on 2 July 2018 and the support includes the following:

- liaison with legal colleagues to ensure appropriate company governance is agreed for the new company;
- collaborating with Finance colleagues to review the end to end finance processes and controls at the time of acquisition; and
- contributing to the project risks and mitigations.

In 2018/19, the team will continue to professionally collaborate with a range of colleagues to review planned business processes and controls, and will review assurance around planned changes to systems and processes.

## Financial Management

In 2017/18, financial management and administration for the Council continued to develop and a number of systems were relatively stable, namely:

- The Finance Department structure continues to align senior Finance support to Council managers in accordance with the revised structure of the Council. The Director of Finance continues to review team resources retention in response to changes in the team.
  - In support of improved financial management, monthly revenue and capital outturn statements are produced for service managers along with a full suite of financial statements for the Executive Management Team. Monthly liaison meetings are held with External Audit for assurance planning purposes.
  - The Agresso system was integrated with HR and Payroll on 10 April 2017. This integrated system was successfully updated to Milestone 6 in February 2018 to support continued development.
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Agreed priorities for the Council's financial management in 2018/19 are reported in the 2017/18 AGS. Progress will be reviewed and reported to this Committee on a regular basis.

## **Fundamental Financial Systems (FFS)**

The 2017/18 AGS highlights that the Council's financial management arrangements are consistent with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The 2017/18 Internal Audit and Counter Fraud Plan included reviews of the Council's fundamental financial systems and the outcomes are reported in detail in the main part of this report (Section 5 of this report).

As reported in earlier in this report, controls across the Council's key financial systems remain relatively stable and there are plans in place to implement further improvements to those areas of the business where management attention is required. Management effort is required to improve the systems for Payroll and Pensions.

In line with prior years the year-end final accounts process for 2017/18 has been delivered in accordance with an earlier completion date and in line with Accounts and Audit Regulations 2015, which significantly bring forward the timetable for the closure of accounts. In addition, all working papers supporting all financial statements have been subject to a structured, detailed and independent quality assurance process to ensure compliance with external audit guidelines. The Internal Audit team have contributed to this review.

In line with prior years the Team has achieved the following outcomes:

- Successful professional collaboration with the Council's External Auditors, Grant Thornton, to ensure the completion of the review of the FFS in accordance with external audit control objectives, professional standards and local risks.
- Delivered interim and final FFS audit reviews by 31 March 2018 to support of the earlier close-down of the accounts and to support External Audit Planning.

## **Capital Programme**

The Team has conducted a follow up review of the governance and risk management arrangements for the Old Town Hall regeneration scheme. This was a stage review and the Audit Team worked with the Project Team and suggested areas of improvement to the governance structure of the project at key stages before the facility was opened to the public. The review identified progress and agreed some improvements required in relation to the recording and monitoring of the asset's income and expenditure; stakeholder management; and understanding the benefits arising from the project.

In addition the Team carried out a follow up review of Capital Grants to review whether progress that has been made to deliver the actions, targets and milestones established by the November 2013 report to Cabinet "Investing in a Vibrant Town Centre - A Framework for Business Support and Premises Improvement", and compliance with the July 2014 delivery report, which set out the delivery arrangements of this Capital Grants Scheme (business improvement grants). The audit opinion is that systems and controls operated in respect the management of the Capital Grant Initiative are adequate. The review concluded that controls remain adequate but that progress was still required in order to ensure a segregation of duty within the process for making grant payments, and better transparency over the use of funding awarded especially in relation to grants agreed 'in principle' and funds committed for over 12 months but not spent.

In the Benefits Realisation audit, the team considered the controls in place surrounding the identification, monitoring and reporting of benefits associated with capital expenditure. The review consisted of discussions with officers from the Strategic Regeneration Office and other departments, along with a review of a selection of Project documents, focusing on compliance with elements of

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the Council's Project Management methodology. The audit opinion is that the systems are inadequate and that whilst the intended benefits of each project are being defined from the outset, there is limited evidence available that the realisation of benefits is being managed, assessed and reported in line with the guidelines in the Project Management handbook or in accordance with leading practice. The key actions for management include developing guidance for developing a benefits management and realisation strategy; appraising the development and delivery of Benefits Realisation Plans via the Gateway Review Process; and enhancing the monitoring of benefits realisation via implementing a new project database and reporting progress to CIPB.

The Head of Corporate Governance attends regular meetings with senior colleagues around the Regeneration Programme and this will continue in 2018/19. In addition the Internal Audit and Counter Fraud Plan for 2018/19 incorporates reviews of key capital schemes.

## **ICT and Information Governance**

The Council's Internal Audit Service has a formal arrangement with Salford City Council to deliver a risk-based computer audit plan. In 2017/18, the a range of IT audits were finalised by the Council's third party technical audit lead. The actions agreed from both audits will be followed up as part of the 2017/18 Technical IT Audit Plan. The audits conducted are reported in section 4.

The Head of Corporate Governance attends the quarterly Information Governance Group, which will continue to meet in 2017/18. In addition the 2018/19 ICT Audit Plan will include follow up reviews of these audits and monitors emerging risks in this area.

## **Risk Management**

The Strategic Risk Register is populated with risks to the achievement of the Council's corporate objectives and all risks are categorised and allocated to a responsible Executive Director, and is supported by Directorate Risk Registers.

During 2017/18 the Council developed a Risk Monitor report which is reported to EMT on a regular basis. It identifies all the future key dates relating to the emerging challenges from Council operations and enables EMT to consider if the risk is being managed in advance. It is compiled after discussions with key officers such as the Director of Legal Services.

The need to consider the risks facing the organisation from its interest in third parties was considered a high priority during 2017/18. Regular reports were presented to EMT highlighting these risks.

Reviews of current and emerging risks are presented to the Audit Committee as part of the regular update of the issues identified in the 2016/17 Annual Governance Statement and have been incorporated into the 2017/18 Statement.

## **Effectiveness of Internal Audit**

The 2013 PSIAS requires the Internal Audit service to be externally assessed by an independent professional body. Following approval by the Audit Committee on 8 September 2016, the Chartered Institute of Finance and Accountancy (CIPFA) was appointed to conduct this review. This review was undertaken on 4 and 5 September 2017.

In summary, the review concluded that the service "Generally Conforms" to the standards. In addition, the review reported that Internal Audit is a "well respected service, which follows best practice". The Final Report was presented to the Audit Committee on 11 January 2018.

The report contained the following four recommendations, which were fully agreed by the Head of Corporate Governance.

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- Replace the section entitled “Role and Purpose of Internal Audit” in the Audit Charter with the “Mission of Internal Audit”.
  - Incorporate a statement to the Audit Charter to confirm whether the Service has sufficient resources to deliver an effective internal audit service to the Council.
  - Review the 2018/19 Audit Plan to incorporate audits of the risk management and Annual Governance Statement processes.
  - Expand the Head of Governance’s annual opinion to include the risk management and governance arrangements.

The changes to the Audit Charter were incorporated into the 2018/19 Audit Charter, which was approved by the Audit Committee on 19 March 2018. The 2018/19 Audit Charter includes a review of the process to prepare the Annual Governance Statement and the 2017/18 Annual Audit Opinion comments on the three elements of the opinion, set out in this document.

In addition, the review also identified some suggestions for change for the service to consider. These suggestions have also been agreed by the Head of Corporate Governance and they will also be implemented in 2018/19. The suggestions, and their *respective progress updates*, are:

- Evaluate the specialist computerised audit management systems that are available and obtain the one that best meets the current and future needs of the Service. *Update: This is underway at the time of writing this annual opinion, in accordance with the Council’s Financial and Contract Procedure Rules.*
- Expand the Audit Plan Report to set out how the overall internal audit service and specific types of audits will be delivered. *Update: This has been incorporated into the 2018/19 detailed plan report.*

Later on the agenda the Head of Corporate Governance has reported a review of the effectiveness of Internal Audit in 2017/18.

## Internal Audit and Counter Fraud Team Developments

During 2017/18, the Oldham Internal Audit Service continued to implement improvements in order to ensure that its work complied with the best practice as set out in the PSIAS. A report detailed elsewhere on the Agenda provides added assurance to the Audit Committee that this service is complying with best practice.

Professional developments during 2017/18 will continue in 2018/19, and will include:

- Joint working with the Unity Partnership and Council senior managers to ensure that the agreed revised controls within the Payroll and Pension systems are implemented as agreed.
  - Professional collaboration with colleagues in Adults’ Social Care and Children’s Social Care.
  - Supporting colleagues before systems are implemented and/or upgraded to ensure that the requirement for key controls is fully understood.
  - Collaboration across the Audit and Counter Fraud teams which has contributed to:
    - successful joint corporate investigations;
    - creation of an updated package of risk-based and wide-ranging training and awareness for delivery to colleagues across the Council to highlight the relationship between sound internal control to the prevention of fraud and error; and
    - improved knowledge and aided succession planning across the Team.
  - Extension of project management disciplines to audit reporting and tracking of actions identified during internal audit reviews to improve service delivery, timeliness, follow-up and management updates.
  - Review of business requirements in order to conduct an options appraisal for the Audit Management System to ensure value for money and compliance with professional best practice.
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In addition, as Head of Corporate Governance, I consulted with key officers and External Audit to determine the issues for inclusion in the Annual Governance Statement. I also reviewed a number of independent sources of assurance in preparing this document. As a consequence reliance has been placed on the work done by the Internal Audit and Counter Fraud Service, Grant Thornton, Ofsted and the Commission for Social Care Inspection.

Where there was a change in systems within the Council during 2017/18, and the implementation did not go well, this was reported to the Audit Committee.

### 2017/18 Audit and Counter Fraud Performance

The Audit and Counter Fraud Manager continues to streamline planning and reporting across the wider team. In addition, to the good outcome of the external independent assessment by the Chartered Institute of Finance and Accountancy (CIPFA), key performance indicators and achievements are shown in **Appendix 3** which confirms that the quality of the team's deliverables continues to improve, as set out below:

- 78 Final Audit reports have been agreed and issued to recipients (target 85); additional support was provided to corporate projects.
- The team has delivered 96.25% of the 2017/18 Audit and Counter Fraud Plan. against a target of 95%.
- 2017/18 FFS reviews were again completed in accordance with a strict timelines to support the year end assurance process.
- Customer feedback for 2017/18 achieved an average score of 4.8, on a scale of 1-5.
- Time taken to issue reports is on average 18 days, which is slightly shy of the "stretch" ahead of the target of 15 days. This has continued to reduce over the last four years and it reflects the application of "lean" process reviews to generate continuous improvement. Reporting processes will be further reviewed as part of the implementation of the Audit Management System in 2018/19.

In addition, the Internal Audit Team achieved the following:

- Significant joint working with the Counter Fraud team to capture process and control improvements required to improve internal control and minimise fraud.
- Improved audit report clearance by on-going risk assessment and improved stakeholder engagement; further efficiencies will be achieved in this area in 2018/19.
- Contributed positively to the Finance developmental initiatives and departmental "lean" reviews.

### 2018/19 Audit and Counter Fraud Performance Targets

In 2018/19, Internal Audit will continue to work with the Council's external auditors and senior managers to further develop its quality by delivering the following improvements:

- Review the current Audit Management System to procure a cost effective alternative.
  - Further develop its pre implementation programme assurance framework in conjunction with IT Audit colleagues.
  - Regular review of organisational risks and priorities with the Finance Director and senior managers within Directorates.
  - Deliver the key outcomes identified in the accredited "lean" review to further improve efficiency.
  - Implement further improvements in the process to capture customer service feedback.
  - Develop further the current team governance training proposition to develop joint working arrangements with the Counter Fraud team to improve internal control and minimise fraud.
  - Deliver further Internal Audit and Counter Fraud training to other teams across the Council.
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The Team continues to improve its communication with, and feedback to, service managers across the Council. The Audit Plan for 2018/19 involved consultation with managers and the process to consult with Directorate Management Teams to review directorate risks and plans will be developed and reviewed during the year to ensure that risks and service priorities are reflected.

Therefore the team has met or exceeded its key targets in 2017/18 and plans are in place to continue to achieve a high performance. The performance targets for 2018/19 are shown in **Appendix 3**.

In addition, in 2018/19 the Team will commence recording performance against the newly agreed Corporate Performance Indicator which is:

**% of audits outcomes which are less than adequate < 15%.**

This information will be recorded quarterly on the Corvu system.

### Quality Assurance and Improvement Programme

Internal Audit's Quality Assurance and Improvement Program (QAIP) is designed to provide reasonable assurance to the various stakeholders of the Internal Audit activity that Internal Audit:

- Performs its work in accordance with its 2017/18 Annual Internal Audit Charter, which is consistent with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (*Standards*), Definition of Internal Auditing and Code of Ethics.
- Operates in an effective and efficient manner.
- Is perceived by stakeholders as adding value and improving Internal Audit's operations.

For 2018/19, the Internal Audit and Counter Fraud Service will continue to set challenging targets for all of its key measures.

### Audit Management System

Oldham Council's Internal Audit Service has built its QAIP into the APACE automated working papers package. Staff access is monitored and reviewed and are allocated the following access rights:

- Auditors (these staff can only prepare but not authorise working papers).
- Audit and Counter Fraud Manager, Assistant Managers (x2) and Senior Auditors (these team members can prepare and authorise).

Manager access rights are allocated to four roles (five members of staff) in the Team:

- Audit and Counter Fraud Manager
- Assistant Manager – Internal Audit
- Senior Auditors (x 3)

Whilst the system cannot prevent these staff authorising their working papers, the following conventions have been agreed:

- Audit and Counter Fraud Manager will authorise all working papers produced by the Assistant Manager – Internal Audit and Senior Auditors unless the matter is urgent.
  - Audit and Counter Fraud Manager can authorise his/her own work and this happens on Corporate Projects and Special Assignments.
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Following the PSIAS External Inspection in September 2017, work will commence in 2018/19 to conduct a cost-benefit analysis of the alternative options to the APACE package to ensure that the system meets the Council's business and IT requirements.

## **File Review**

Detailed File Review for audits specified in the approved Plan and Special Assignments are undertaken by either the Audit and Counter Fraud Manager or the Assistant to that post.

Staff will prepare the relevant audit working paper and, when satisfied with the quality, mark the file for review. This will be reviewed by the authorised staff who will ask for clarification of any points by raising a review point. Once the authorised staff are satisfied that the review point has been answered they will mark the working paper as reviewed.

For audits with an overall opinion of "good / adequate" or "inadequate" the audit report can be issued without reference to the Head of Corporate Governance. All audits classed as "weak" are reviewed by the Head of Corporate Governance prior to being sent out in draft.

A File Review Checklist is included at the front of each Audit File.

## **Outcome of Audit File Review**

Overall five files were reviewed. These comprised two FFS files, two operational audits and one operational/business based audit review file. Overall the standard of work was found to be satisfactory and there was evidence that the quality of work continues to improve.

A report was discussed with the Assistant Manager – Internal Audit on the findings. The main areas for development are around the time taken to agree the audit reports with the service managers.

Therefore in 2018/19, the following actions will be taken to address these issues:

- Conduct a cost and benefit analysis of the main options to replace the current Audit Management System and collaborate with the Council's ICT colleagues to implement the fully evaluated new system. This project is underway and market engagement has commenced and will incorporate the documented business requirements and the suggestions by the CIPFA PSIAS external assessment. The Audit Manual will be updated where required, once the system is implemented.
  - Review the reporting of follow up progress to agreed audit recommendations including regular summary status reporting to the Council's Audit Committee.
  - Continued collaboration across the Team to deliver training and awareness across the Council, building on the successes of the training sessions in previous years.
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**Internal Audit and Counter Fraud: 2017/18 Final Reports**

Report Ref	Directorate	Audit Review/CF Report	Report/Briefing Note	Final Report Date	Month	Quarter	Opinion
201718.1	External Client	Title Withheld	Report	13/04/2017	Apr	Q1	Withheld
201718.2	Corporate & Commercial	By Election 8th June 2017: Postal Votes Verification: Royton North	Report	14/06/2017	Jun	Q1	Advisory
201718.3	Corporate & Commercial	Parliamentary Election 8th June 2017: Postal Votes Verification: Oldham East & Saddleworth Constituency	Report	14/06/2017	Jun	Q1	Advisory
201718.4	Corporate & Commercial	Parliamentary Election 8th June 2017: Postal Votes Verification: Oldham West & Royton Constituency	Report	14/06/2017	Jun	Q1	Advisory
201718.5	Health & Wellbeing	Adults Budget - Monitoring Direct Payments	Briefing Note	23/06/2017	Jun	Q1	Advisory
201718.6	Health & Wellbeing	Adults Budget Monitoring Exercise – Finance Walkthrough	Briefing Note	27/06/2017	Jun	Q1	Advisory
201718.7	External Client	Title withheld	Report	30/06/2017	Jun	Q1	Withheld
201718.8	Health & Wellbeing	Mosaic Assurance Statement	Assurance Statement	03/07/2017	Jul	Q2	Advisory
201718.9	Corporate & Commercial	Control and Risk Self assessment around cash income	Advisory	03/07/2017	Jul	Q2	Advisory
201718.10	Corporate & Commercial	A1 Chaps Note	Advisory	04/07/2017	Jul	Q2	Advisory
201718.11	Corporate & Commercial	Local Fund Growth Grant	Assurance Statement	12/07/2017	Jul	Q2	Reasonable Assurance
201718.12	Health & Wellbeing	Direct Payment Review	Briefing Note	17/07/2017	Jul	Q2	Advisory
201718.13	Corporate & Commercial	Risk Based Verification	Report	21/07/2017	Jul	Q2	Adequate
201718.14	Corporate & Commercial	A1 Access Review: Interim	Briefing Note	01/08/2017	Jul	Q2	Advisory
201718.15	Health & Wellbeing	High Cost Care Package (Adults)	Briefing Note	09/08/2017	Aug	Q2	Advisory
201718.16	Corporate & Commercial	HMRC	Briefing Note	23/08/2017	Aug	Q2	Advisory
201718.17	Corporate & Commercial	EU Grant FoodChains 4 EU	Assurance Statement	24/08/2017	Aug	Q2	Reasonable Assurance
201718.18	Corporate & Commercial	EU Grant COALESCCE	Assurance Statement	24/08/2017	Aug	Q2	Reasonable Assurance
201718.19	Corporate & Commercial	Innova Foster	Assurance Statement	24/08/2017	Aug	Q2	Reasonable Assurance
201718.20	Economy Skills and Neighbourhoods	Carbon Reduction Commitment	Report	29/08/2017	Aug	Q2	Adequate
201718.21	Economy Skills and Neighbourhoods	Oldham Community Power - Energy Company	Report	06/09/2017	Sept	Q2	Adequate
201718.22	External Client	Title withheld	Report	06/09/2017	Sept	Q2	Withheld
201718.23	Economy Skills and Neighbourhoods	First Choice Homes (FCHO)- Housing Allocation Process: (Adults)	Report	06/09/2017	Sept	Q3	Advisory
201718.24	Economy Skills and Neighbourhoods	School A	Report	28/09/2017	Sept	Q3	Good
201718.25	Economy Skills and Neighbourhoods	School B	Report	28/09/2017	Sept	Q3	Adequate
201718.26	Economy Skills and Neighbourhoods	Sale of Land	Briefing Note	03/10/2017	Oct	Q3	Advisory
201718.27	Corporate & Commercial	Payroll A1 Post-Implementation Review	Report	20/12/2017	Dec	Q3	Inadequate

Report Ref	Directorate	Audit Review/CF Report	Report/Briefing Note	Final Report Date	Month	Quarter	Opinion
201718.28	Corporate & Commercial	Accounts Payable	Report	20/12/2017	Dec	Q3	Adequate
201718.29	Corporate & Commercial	Accounts Receivable	Report	20/12/2017	Dec	Q3	Adequate
201718.30	Corporate & Commercial	Bank Reconciliations	Report	20/12/2017	Dec	Q3	Good
201718.31	Corporate & Commercial	Cash Income	Report	20/12/2017	Dec	Q3	Adequate
201718.32	Corporate & Commercial	Personal Budget	Report	20/12/2017	Dec	Q3	Inadequate
201718.32	Corporate & Commercial	Council Tax	Report	20/12/2017	Dec	Q3	Adequate
201718.34	Corporate & Commercial	NDR	Report	20/12/2017	Dec	Q3	Adequate
201718.35	Corporate & Commercial	Council Tax Reduction	Report	20/12/2017	Dec	Q3	Good
201718.36	Corporate & Commercial	Fixed Asset	Report	20/12/2017	Dec	Q3	Adequate
201718.37	Corporate & Commercial	Housing Benefits	Report	20/12/2017	Dec	Q3	Adequate
201718.38	Corporate & Commercial	RBV Follow Up	Report	20/12/2017	Dec	Q3	Adequate
201718.39	Corporate & Commercial	Residential Home	Report	20/12/2017	Dec	Q3	Adequate
201718.40	Corporate & Commercial	Treasury Management	Report	20/12/2017	Dec	Q3	Good
201718.41	Corporate & Commercial	Housing Rents	Report	20/12/2017	Dec	Q3	Adequate
201718.42	Corporate & Commercial	Payroll	Report	21/12/2017	Dec	Q3	Weak
201718.43	Corporate & Commercial	Payroll Schools	Report	21/12/2017	Dec	Q3	Weak
201718.44	Corporate & Commercial	Schools Payroll Migration Lesson Learned	Report	21/12/2017	Dec	Q3	Weak
201718.45	External Client	Title Withheld	Report	08/01/2018	Jan	Q3	Withheld
201718.46	External Client	Title Withheld	Report	08/01/2018	Jan	Q4	Withheld
201718.47	Health & Wellbeing	Mosaic End to End Review	Briefing Note	24/01/2018	Jan	Q4	Advisory
201718.48	Health & Wellbeing	Risk Schedule Section 75	Report	31/01/2018	Jan	Q4	Advisory
201718.49	Corporate & Commercial	General Data Protection Regulations - Assurance Framework	Report	31/01/2018	Jan	Q4	Advisory
201718.50	Economy Skills and Neighbourhoods	Old Town Hall follow up	Report	16/02/2018	Feb	Q4	Advisory
201718.51	Economy Skills and Neighbourhoods	Business Improvement Grants – Follow Up Review	Report	16/02/2018	Feb	Q4	Advisory
201718.52	External Client	Title Withheld	Report	19/02/2018	Feb	Q4	Withheld
201718.53	Corporate & Commercial	Smart Governance Framework - Reshaping UPL	Report	21/02/2018	Feb	Q4	Advisory
201718.54	Corporate & Commercial	ISO 27001 Gap Analysis	Report	23/02/2018	Feb	Q1	Advisory
201718.55	Corporate & Commercial	ITIL Review	Report	23/02/2018	Feb	Q2	Advisory
201718.56	External Client	Title Withheld	Report	26/02/2018	Feb	Q4	Withheld
201718.57	Economy Skills and Neighbourhoods	EU Grant FoodChains 4 EU	Assurance Statement	28/02/2018	Feb	Q4	Reasonable Assurance
201718.58	Economy Skills and Neighbourhoods	EU Grant COALESCCE	Assurance Statement	28/02/2018	Feb	Q4	Reasonable Assurance
201718.59	Economy Skills and Neighbourhoods	Innova Foster	Assurance Statement	28/02/2018	Feb	Q4	Reasonable Assurance
201718.60	Corporate & Commercial	RBV Follow Up	Report	20/03/2018	Mar	Q4	Adequate

Report Ref	Directorate	Audit Review/CF Report	Report/Briefing Note	Final Report Date	Month	Quarter	Opinion
201718.61	Health & Wellbeing	Adults Joint Working Protocol	Briefing Note	29/03/2018	Mar	Q4	Advisory
201718.62	Corporate & Commercial	Accounts Payable	Report	29/03/2018	Mar	Q4	Adequate
201718.63	Corporate & Commercial	Accounts Receivable	Report	29/03/2018	Mar	Q4	Adequate
201718.64	Corporate & Commercial	Bank Reconciliations	Report	29/03/2018	Mar	Q4	Good
201718.65	Corporate & Commercial	Cash Income	Report	29/03/2018	Mar	Q4	Adequate
201718.66	Health & Wellbeing	Personal Budgets	Report	29/03/2018	Mar	Q4	Inadequate
201718.67	Corporate & Commercial	Council Tax	Report	29/03/2018	Mar	Q4	Adequate
201718.68	Corporate & Commercial	NDR	Report	29/03/2018	Mar	Q4	Adequate
201718.69	Corporate & Commercial	Council Tax Reduction	Report	29/03/2018	Mar	Q4	Adequate
201718.70	Corporate & Commercial	Fixed Asset	Report	29/03/2018	Mar	Q4	Good
201718.71	Corporate & Commercial	Housing Benefits	Report	29/03/2018	Mar	Q4	Adequate
201718.72	Corporate & Commercial	Payroll	Report	29/03/2018	Mar	Q4	Weak
201718.73	Corporate & Commercial	Payroll School	Report	29/03/2018	Mar	Q4	Weak
201718.74	Corporate & Commercial	Schools Payroll Migration Lesson Learned	Report	29/03/2018	Mar	Q4	Weak
201718.75	Health & Wellbeing	Residential Home	Report	29/03/2018	Mar	Q4	Adequate
201718.76	Corporate & Commercial	Treasury Management	Report	29/03/2018	Mar	Q4	Good
201718.77	Corporate & Commercial	Housing Rents	Report	29/03/2018	Mar	Q4	Adequate
201718.78	Economy Skills and Neighbourhoods	Troubled Families Grant	Assurance Statement	27/03/2018	Mar	Q4	Reasonable Assurance

#### 2017/18: Summary of Final Reports by Audit Opinion

Audit Opinion	2017/18
Good / High Assurance **	7
Adequate/Moderate **/Reasonable Assurance/Green Status	32
Inadequate/Amber Status	3
Weak	6
Pre Implementation/Advisory	24
External Clients	6
<b>2017/18 Total Reports</b>	<b>78</b>

#### \*\*ICT Audits Completed by Salford IT Audit Services, who have 4 levels of assurance

Priority	Assurance Level Description
Critical	Control weakness that could have a significant impact on the key system, function, or process objectives, and also the Council's objectives.
High	Control weakness that could have a serious impact on the key system, function, or process objectives.
Medium	Control weakness that could have an impact on the key system, function, or process objectives.
Efficiency	These are not significant control weaknesses, but are areas highlighted during the audit where the efficiency and effectiveness of systems and processes could be improved.

## Internal Audit and Counter Fraud Team KPIs 2017/18

Performance Indicator/Output Measure	2017/18		2018/19
	Target	Actual	Target
<b>Counter Fraud and Personal Budgets Audit Outcomes:</b>			
Corporate Cases - Positive Results	50	67	50
Fraud and Error Overpayments identified as part of Corporate Cases (£) (new target 2018/19)	N/A	N/A	£25,000
CTR cases amended as a result of an investigation	50	68	100
HB Fraud and Error Overpayments identified as part of a CTR investigation (£)	£180,000	£164,245.54	£250,000
CTR Fraud and Error Overpayments identified (£)	£50,000	£59,896.20	£50,000
Number of cases referred to SFIS	150	168	150
Number of DP audits undertaken (Children)	130	126	100
Funds requested during Children's PB Audits including Financial Assessment (£)	£100,000	£191,442.43	£100,000
Number of DP audits undertaken (Adults)	500	814	500
Funds requested during Adults' PB Audits including Financial Assessment (£)	£800,000	£1,337,931.15	£750,000
<b>Total Financial Outcomes from Counter Fraud /Personal Budget Audit Teams</b>	<b>N/A</b>	<b>£1,753,515.32</b>	<b>£1,500,000</b>
<b>Audit and Counter Fraud Team KPIs:</b>			
% Audit and Counter Fraud Plan Completed	96%	96.25%	96%
Customer Service Feedback (2017/18 supplement with PSIAS stakeholder feedback)	4.8	4.8	4.8
Days to Complete Audits and Counter Fraud Reviews	15 days	18 days	15 days
No of Final Audit and Counter Fraud Reports	85	78	85