

Audit and Corporate Governance Committee



Report of Audit Manager

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To: Audit and Corporate Governance Committee

DATE: 29 September 2014

Internal audit activity report quarter two 2014/15

Recommendation

That members note the content of the report.

Purpose of report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action has been or will be taken where necessary.

Background

2. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the councils' objectives. It assists the councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.
3. After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

4. Assurance ratings given by internal audit indicate the following:

Full Assurance: There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.

Satisfactory Assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

Limited Assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

Nil Assurance: Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

5. Each recommendation is given one of the following risk ratings:

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

Internal Audit Activity

6. Since the last audit and corporate governance committee meeting, the following audits have been completed:

Planned Audits

Full Assurance: 4

Satisfactory Assurance: 0

Limited Assurance: 1

Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
Fees and Charges 1314	Full	2	0	0	0	0	2	2
Contract Monitoring 1415	Full	3	0	0	0	0	3	3
Car Parks 1415	Full	0	0	0	0	0	0	0
Corporate Governance 1415	Full	0	0	0	0	0	0	0
Anti-Fraud and Corruption 1415	Limited	6	1	1	3	3	2	2

Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
Stock Control 1314	Satisfactory	6	5	0	1	0
Inter-council Recharges 1314	Satisfactory	5	4	0	1	0
Disaster Recovery 1314	Satisfactory	7	3	0	3	1

7. **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee.
8. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
9. A copy of each report has been sent to the appropriate head of service, the relevant strategic director, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the council intranet and committee members are alerted by e-mail when reports are published.
10. Internal audit continues to carry out a six month follow up on all non-financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

Outstanding Recommendations

11. At the last committee meeting, a new spreadsheet was introduced which summarised the number of outstanding recommendations within each service area. The audit manager has reviewed the process which is required to produce the statistics, and it is significantly labour-intensive with live information not being available to heads of service and services managers to assist them in managing risks and implementing their outstanding recommendations. The audit manager has met with IT services to discuss a more suitable approach to collating and making this information available to heads of service and service managers. A solution has been agreed and the format will be trialled in October, with heads of service and service managers becoming actively involved in the process from November. A revised spreadsheet supported by the new approach will be presented at the next committee meeting.

Financial Implications

12. There are no financial implications attached to this report.

Legal Implications

13. None.

Risks

14. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE
AUDIT MANAGER

ANTI-FRAUD AND CORRUPTION ARRANGEMENTS 2014/2015

1. INTRODUCTION

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to anti-fraud and corruption arrangements. The audit has been undertaken in accordance with the 2014/2015 audit plan agreed with the audit and corporate governance committee of South Oxfordshire District Council (SODC). The audit has a priority score of 18. The audit approach is provided in the audit framework in Appendix 1.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- To ensure an adequate, up-to-date and approved anti-fraud and corruption policy and response plan, money laundering policy and whistleblowing policy is in place.
 - To ensure that supporting guidelines and procedures are in place for the policies, which include reference to the process to follow for disclosures from within the council and from outside the council.
 - To ensure that the roles and responsibilities of all the relevant parties within the policies are clarified in an effective manner i.e. the whistleblower, human resources, internal audit, section 151 officer, and monitoring officer.
 - To ensure there is an effective network for promoting the policies across the council.
 - To ensure that adequate training processes and awareness mechanisms are in place.

2. BACKGROUND

- 2.1 The council has a duty to protect the public funds under its control against fraud and corruption both from within the council and from external sources. Fraud is defined as the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain. Corruption is defined as the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person.
- 2.2 Following the publication of the Nolan Report in 1997, the Local Government Act 2000, and several well publicised cases concerning fraud and corruption within local government, the council recognises the need for a policy to prevent wrongdoings. An anti-fraud and corruption policy has been drafted as part of the council's commitment to protect public funds.
- 2.3 The monitoring officer (head of legal and democratic services) has overall responsibility for the maintenance and operation of the anti-fraud and corruption policies and liaises as necessary with the chief executive, the section 151 officer (head of finance) and the internal audit manager.

- 2.4 An annual audit commission fraud survey was undertaken for the year 2013/14 and it was identified that there were housing benefits and council tax fraud cases that amounted to £313,354.40 for South Oxfordshire District Council.

3. PREVIOUS AUDIT REPORTS

- 3.1 Anti-fraud and corruption arrangements were last subject to an internal audit review in 2009 and 11 recommendations were raised. All recommendations were agreed. A limited assurance opinion was issued. A follow-up audit was also performed by internal audit in April 2010.
- 3.2 Following the 2010 follow-up audit, eight had been fully implemented, one was partly implemented and two have not been implemented. It should be noted that two recommendations from April 2010 follow-up audit have been revised and incorporated into this report and the other recommendation has been restated with the findings made in the current audit review (Rec 5 and 6).

4. 2014/2015 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Six recommendations have been raised in this review. One high risk, three medium risks and two low risks.

5. MAIN FINDINGS

5.1 Updated anti-fraud and corruption policies

- 5.1.1 Internal audit established that there are anti-fraud and corruption policies in place. These include anti-fraud and corruption, anti-bribery, whistleblowing and money laundering. It was also noted that a formal review process is in place with exception of the money laundering policy. Internal audit also identified that the money laundering procedures have not been updated since November 2011, and an officer has not been allocated responsibility for keeping the procedures up to date. Three recommendations have been made as a result of our work in this area. (Rec 1, 2 and 3)

5.2 Anti-fraud and corruption policies guidance notes

- 5.2.1 Internal audit established that there are supporting guidelines and procedures in place for the anti-fraud and corruption policy and the whistleblowing policy. The policies were reviewed and it was identified that there is no clear process of how to make external or internal disclosures to the council. The money laundering policy was also reviewed and it was identified that although the policy is in place, there are no supporting guidelines/response plans in place. Details of the policy owner and next review date are documented in the supporting guidelines.

5.2.2 There are currently three service areas within the council that are likely to undertake investigations. These include the human resources department, legal and democratic department and internal audit team. Internal audit discussed respective investigatory approaches with the human resources manager and the head of legal and democratic services, and it was concluded that there is not a standard approach to compiling investigation files, working papers and evidence. One recommendation has been made as a result of our work in this area (Rec 4) and a previous recommendation from the 2008/09 audit has been restated in this section (Rec 6).

5.3 **Roles and Responsibilities**

5.3.1 Internal audit established that all officers with direct accountability of the anti-fraud and corruption policies are aware of their roles and responsibilities which include reviewing and maintaining them. The roles of the relevant parties are clearly stated in an effective manner in all the anti-fraud and corruption policies. No recommendations have been made as a result of our work in this area.

5.4 **Promotion of Policies across the council**

5.4.1 It was identified that whilst senior management are aware of the practices and procedures in place for anti-fraud and corruption, there is insufficient evidence to show that this is being promoted to all employees. Further review of the policies identified that the councillors require signposts in their induction packs cross referencing them to the council's corporate guidelines i.e. anti-fraud and corruption policies. Internal audit also identified that the whistleblowing policy located on the council's intranet website was out of date. One recommendation has been made as a result of our work in this area. (Rec 5)

5.5 **Training and awareness mechanisms**

5.5.1 It was identified that there is insufficient evidence to show that the anti-fraud and corruption policies are referred to in the induction programmes for employees and councillors. A survey was conducted using 15 randomly selected staff members employed under the shared services arrangements (who remained anonymous throughout the process). Results of the survey identified that a significant number of employees had not received sufficient training or awareness of the council's anti-fraud and corruption arrangements. Results of the survey are documented in Rec 5. Through a review of the corporate training programme for 2014/2015, it was noted that a training module is not in place for fraud and corruption policies for both employees and councillors. One recommendation has been made as a result of our work in this area (Rec 5).

6. CATEGORISATION OF RECOMMENDATIONS

6.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High risk	Fundamental control weakness for senior management action	Rec 5
Medium risk	Other control weakness for local management action	Recs 2, 4 and 6
Low risk	Recommended best practice to improve overall control	Recs 1 and 3

OBSERVATIONS AND RECOMMENDATIONS

POLICIES AND RESPONSE PLAN

1. Anti-Fraud and Corruption Response Plan (Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A comprehensive anti-fraud and corruption response plan should be in place to prevent/deter inappropriate conduct, guide officers on how to report a concern and state how the council will deal with any fraud and corruption reports.</p> <p><u>Findings</u> Internal audit reviewed the anti-fraud and corruption response plan and noted that it does not clearly state:</p> <ul style="list-style-type: none"> • Guidance about recovering assets; • Clear distinctions between internal and external disclosures. <p><u>Risk</u> Staff, general public and councillors are unaware of all the necessary information for the anti-fraud and corruption response plan leading to reputational damage and potential financial losses to the council.</p>	<p>The anti-fraud and corruption response plan must be updated to clearly reflect all information required regarding:</p> <ul style="list-style-type: none"> • Guidance about recovering assets; • Clear distinctions between internal and external disclosures. 	<p>Head of legal and democratic services</p>
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Management response: Head of legal and democratic services</p>		<p>31 March 2015</p>

2. Money Laundering Policy – Review (Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A comprehensive up to date policy should be in place to prevent/deter money laundering, and to state how the council will deal with any instances of money laundering being identified.</p> <p><u>Findings</u></p>	<p>S151 officer to ensure that annual reviews are undertaken on a regular basis and other reviews around specific instances such as the issuing of new legislation and updates to the money laundering policy take place as</p>	<p>Head of finance</p>

<p>Internal audit identified that the current money laundering policy was last reviewed and updated in November 2011 and there is no evidence of the policy being reviewed on a regular basis. It was also noted that there has been a change in government legislation in October 2012 relating to money laundering that had not been updated in the current council policy.</p> <p><u>Risk</u> No regular reviews or monitoring of fraud policies bringing about incorrect or out of date information, leading to potential fraud and financial loss in the council.</p>	<p>appropriate.</p>	
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed A full review was delayed due to the internal audit manager's period of maternity leave. This work is scheduled to be completed in the current financial year.</p> <p>Management response: Head of finance</p>		<p>31 March 2015</p>

3. Whistleblowing Policy

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Up to date procedures are in place and available to all staff members covering all whistleblowing processes.</p> <p><u>Findings</u> The whistleblowing policy on the council's intranet website is currently not up to date.</p> <p><u>Risk</u> Staff unaware of the current whistleblowing procedure leading to non-reporting, reputational damage and potential financial losses to the council.</p>	<p>The most recently reviewed whistleblowing policy should be uploaded on the council intranet website to ensure that all officers have up to date information of the policy and required procedures.</p>	<p>Head of legal and democratic services</p>
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed Management response: Head of legal and democratic services</p>		<p>31 October 2014</p>

ANTI-FRAUD AND CORRUPTION POLICIES GUIDANCE NOTES

4. Money Laundering Response Plan

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Should money laundering be suspected or identified, the council should have clear guidelines on how it</p>	<p>A comprehensive money laundering response plan needs to be implemented by the S151 officer and</p>	<p>Head of finance</p>

<p>should/will be dealt with.</p> <p><u>Findings</u> There are no response plans/guidance notes in place to support the money laundering policy.</p> <p><u>Risk</u> Officers and council members unaware of how to respond to a suspected money laundering incident, potentially leading to reputational damage, delays to an investigation being completed and potential financial losses to the council.</p>	<p>published to all staff and council members.</p>	
<p>Management Response</p>	<p>Implementation Date</p>	
<p>Recommendation is Agreed A full review was delayed due to the internal audit manager's period of maternity leave. This work is scheduled to be completed in the current financial year.</p> <p>Management response: Head of finance</p>	<p>31 March 2015</p>	

PROMOTION OF POLICIES ACROSS THE COUNCIL

5. Awareness of anti-fraud and corruption arrangements and training modules.

(High Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> The anti-fraud and corruption culture of the council should be set at the top and promoted throughout the whole organisation to ensure it is embedded within the council.</p> <p>All members and staff should be aware of their responsibilities in accordance with the anti-fraud and corruption arrangements.</p> <p><u>Findings - awareness</u> Internal audit identified that the arrangements to ensure that there is adequate awareness of anti-fraud and corruption by officers is insufficient.</p> <p>There is no actual control in place to ensure that there is sufficient visibility of the policies (i.e. posters/leaflets/bulletins) across the council buildings.</p> <p>A survey was conducted by internal audit using a random selection of 15 anonymous members of staff in various council departments. The following results were identified in the survey:</p> <ul style="list-style-type: none"> 13 out of 15 participants who undertook the survey have not 	<p>a) The council needs to ensure that there is sufficient visibility (i.e. posters/leaflets/bulletins) across all council buildings informing staff of the anti-fraud and corruption culture throughout the workplace.</p> <p>b) An anti-fraud and corruption/money laundering training session should be developed and made available to councillors/officers, with appropriate officers identified for mandatory training.</p> <p>c) Officers and councillor's induction packs to be developed to include all fraud policies including mandatory training required and the requirement of refresher courses to be undertaken (preferable online courses).</p>	<p>Head of legal and democratic service, Head of finance, HR manager, Head of corporate strategy.</p>

<p>received any training on anti-fraud arrangements in the last five years.</p> <ul style="list-style-type: none"> • Two out of the 15 participants of the survey were not sure what anti-fraud and corruption is or how it links in with their job roles. • Eight out of 15 participants of the survey appeared to have limited or no knowledge of the Anti-Fraud and Corruption Policies and Arrangements (including other related policies). <p><u>Findings 2008/09 - training</u> There is currently no anti-fraud and corruption training module available to members and officers, and Internal Audit could not find any evidence that any member or officer had received anti-fraud and corruption training.</p> <p><u>Findings 2014/15 - training</u> a) The induction pack for council members was also reviewed and it was noted that there is currently no mention of the Anti-Fraud Policies or of any mandatory training required.</p> <p>b) The internal auditor had an opportunity to attend the staff induction training held on the 23rd June 2014. It was noted that there was no mention or reference of anti-fraud and corruption policies/procedures/practices to new staff members.</p> <p><u>Risk</u> Potential unidentified and unreported fraudulent activities taking place leading to the objectives of the strategy not being achieved and potential financial loss to the council.</p> <p>If members and staff are not aware of their responsibilities in relation to anti-fraud and corruption and do not execute them effectively, there is a risk that they do not fulfil their obligations appropriately and the objectives of the strategy will not be achieved.</p>		
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed a) We will source template materials and adopt them for the councils needs, working with the HR and communications team. Management response: Head of legal and democratic services</p> <p>b) Regular money laundering training is given to the cashiers who handle all cash paid in at the council offices. A review will be</p>		<p>30 November 2014</p> <p>31 March 2015</p>

<p>carried out this financial year to identify other staff who may require training and training will be provided. Management response: Head of finance</p>	
<p>I don't believe a specific training session is required, but what we have done as a result of your recommendation is to add a section to the existing Freedom of Information and Data Protection Training on anti-fraud and corruption. This is a compulsory course, attended every three years. Management response: HR manager</p>	10 September 2014
<p>Training will be made mandatory. We would train councillors after each election. It is undecided whether the training will be on-line. Management response: Head of corporate strategy.</p>	30 June 2015
<p>c) The induction pack includes a section on anti-fraud and corruption as of 30 June 2014. We have also now added a note to the managers' checklist for new starters to draw attention to the anti-fraud and corruption policy. Management response: HR manager</p>	30 June 2015
<p>All fraud policies will be included within the councillor development programme. Management response: Head of corporate strategy.</p>	30 June 2015

PREVIOUS RECOMMENDATIONS RESTATED

6. Standard investigations files

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Investigation documentation should be handled appropriately to ensure that its integrity is upheld.</p> <p><u>Findings</u> Internal audit noted that there is an inconsistent approach to documenting investigations between internal audit, democratic services and human resources. There is also no guidance in place for the management of investigation documentation.</p> <p><u>Risk</u> If the integrity of investigation documentation is not upheld, there is a risk that any allegation of fraud and corruption can not be substantiated within a court of law.</p>	<p>A standard approach for compiling investigation files and collating and documenting evidence should be implemented.</p>	<p>Head of legal and democratic service, Head of finance, HR manager</p>
Management Response		Implementation Date
<p>Recommendation is Agreed A review of the different approaches will be carried out in order to develop a single approach that follows best practice.</p> <p>Management response: Head of legal and democratic service, Head of finance, HR manager</p>		<p>31 March 2015</p>