

Review of Financial Management Relating to CPO Fraud

Findings and lessons learned

18 September 2018

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18 September 2018

Dear Kevin

Review of the financial management of regeneration projects

We have pleasure in enclosing our report (the 'Report') containing the findings of our engagement to provide support in relation to a fraud investigation ('the Project') on behalf Barnet Council ('the Council').

Scope of work and limitations

The scope of this project was agreed in Grant Thornton UK LLP's contract with the Council dated 22 January 2018 ('the Terms of Engagement') and the variation letter dated 19 February 2018. This Report is a short summary of our findings to date. Our review of the affairs of the Council and its partner organisations does not constitute an audit in accordance with Auditing Standards and no verification work has been carried out by us; consequently we do not express an opinion on the figures included in the report. At your behest it has been shared with Capita representatives of Re and CSG Finance and is updated to reflect our consideration of their detailed comments.

Limitation of liability

We draw the Council's attention to the limitation of liability clauses in paragraphs under section 18 in the Terms of Engagement.

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We agree that the Council may disclose our Report to its professional advisers directly involved in the Project, and also to officers and members of the Council solely in relation to the Project, or as required by law or regulation, court or supervisory, regulatory, governmental or judicial authority without our prior written consent but in each case strictly on the basis that prior to disclosure you inform us that (i) disclosure by them is not permitted without our prior written consent, and (ii) we accept no duty of care nor assume responsibility to any to any person other than the Council.

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Confidentiality

This work is confidential. No information relating in any way to our work, is to be disclosed to any third party (other than those the Council has confirmed are assisting it in connection with this investigation) without the Council's prior written consent.

General

The Report is issued on the understanding that the management of the Council have drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our Report up to the date of signature of this report. Events and circumstances occurring after the date of our report will, in due course, render our report out of date and, accordingly, we will not accept a duty of care nor assume a responsibility for decisions and actions which are based upon such an out of date report. Additionally, we have no responsibility to update this report for events and circumstances occurring after this date.

Notwithstanding the scope of this engagement, responsibility for management decisions will remain solely with the Council and not Grant Thornton UK LLP. The Council's management team should perform a credible review of the recommendations in order to determine which to implement following our advice.

We understand this advice is being sought for the purpose of enabling the Council to receive legal advice in respect of the fraud investigation and the actions the Council should take as a result.

We would like to thank the Council's officers and those of the other key partners for making themselves available during the course of the project.



Guy Clifton

Head of Local Government Advisory
For Grant Thornton UK LLP



Paul Dossett

Head of Local Government
For Grant Thornton UK LLP

1. Key Findings

Glossary of key terms

To help the reader of this report we set out below a glossary of the key technical terms used in the report.

BACS	Bankers Automated Clearing Service – automated payment service used for the majority of Council transactions.
Bankline	The electronic application through which CHAPS and BACS payments are made.
CHAPS	Clearing House Automated Payment System - automated payment service used to make same day payments at short notice.
CIL	Community Infrastructure Levy – a planning charge paid to the local authority by developers.
Control Account	A ledger account used to record balances of a number of subsidiary accounts, that may contain debit or credit entries that net off.
Cost Centre	A section of the Council's financial ledger (Integra) which to which costs may be allocated for accounting purposes.
CPO	Compulsory Purchase Order – Legal function allowing local authorities to obtain land or property without the consent of the owner.
CSG	Customer Support Group – The organisation that provides back office services, including financial management (CSG Finance) to the Council under contract with Capita (formerly the New Support Customer Organisation (NSCSO)).
GROB	Growth and Regeneration Operations Board – Council Governance body that oversees the progress and cost of development schemes
Integra	The IT system run by Capita that houses the Council's financial ledger system.
Journal	A record of financial transactions recorded on a financial ledger, including the movement of cost or revenue from one cost centre to another.
PDA	Principal Development Agreement – The overarching legal agreement between the Council and a development partner (i.e. a developer), that underpins a regeneration scheme.
POB	Partnership Operations Board – Council Governance body that oversees performance against contract terms for both Re and CSG.
PTA	Private Treaty Agreement – A means of buying a privately owned property whereby the Council negotiates terms with the owner via an agent, as an alternative to compulsory purchase.
Re	Regional Enterprise Limited – The arms length organisation that delivers the Council's development and regulatory services, a joint venture between Capita and the Council under the Development and Regulatory Services (DRS) contract.
Section 106 (S106)	Section 106 of the Town and Country Planning Act 1990 governing payments to the Council from the Developer to help mitigate the impact of any proposed development.

Introduction

Background to the review

Grant Thornton UK LLP have been commissioned by the London Borough of Barnet (the Council) to provide support in its response to the discovery of a fraud. The fraud is related to transactions associated with Compulsory Purchase Orders (CPOs) in the context of the Council's Regeneration programmes.

The transactions were initiated by the perpetrator ("the Individual") within the Council's joint venture with Capita, Regional Enterprise Limited (Re) and processed by Capita as an independent provider of Council's finance function via the Customer Support Group Finance (CSG Finance). Therefore, our review covers the processes and controls in relation to CPO transactions across these organisations.

The Council has requested that in this report we anonymise any references to locations and people that may be identifiable.

The purpose of this report – identifying lessons learned

We have undertaken a detailed review to fully understand and document the circumstances under which the fraud was possible and identify lessons learned for the Council. This includes an understanding of the roles and responsibilities of key stakeholders and any weaknesses associated with the governance and financial control environment. The review also provides a forensic accounting review of transactions related to the fraud and a contractual review of the Regional Enterprise (Re) Limited JV contract and the CSG contract with Capita, specifically in regard to the provision of financial services. Our key recommendations are set out in **Appendix A**.

How we approached the work

Our work was based on meetings with a broad range of stakeholders across the Council, Re and CSG Finance and the review of key documents provided by these organisations. We would like to thank the staff of these organisations for their co-operation and support in helping us complete our work.

Findings of the Council's External Auditors

Our understanding is that the Council's External Auditors have set a materiality of £15m for their audit of the Council's accounts in 2017/18 and we would note that the scale of the fraud is considerably less than this figure. We note that in 2017/18 the audit findings report has commented on deficiencies in the Council's high level oversight of controls and draws attention to Internal Audit findings arising during the year. We would also note that External Audit commented on the Council's overall arrangements for achieving value for money in their reports, including consideration of risks around contract management, in both 2016/17 and 2017/18. However, these matters were not reported as a basis for qualifying their conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in either year.

Overview of findings

We have developed an understanding of how the fraud was able to take place:

- The Individual committed a fraud to the value of approximately £2m by fraudulently directing CPO payments to his personal bank accounts.
- This was ultimately identified as a result of the Individual's bank querying an unusual transaction and not through the control processes of the Council, Re and CSG Finance.
- The Individual was a longstanding and trusted former employee of the Council and CSG before taking up a position within Re, who had intimate knowledge of the financial processes and used this to perpetrate and conceal the fraud.

Introduction (cont'd)

Overview of findings (cont'd)

Our review of the controls put in place over these payments by Re and CSG Finance and the oversight provided by the Council indicate that these were inadequate for the following key reasons:

- Lack of control over delegated financial authority in the areas reviewed within Re, managed by CSG and overseen by the Council gave the Individual access to cost centres on the ledger for illegitimate purposes.
- Lack of effective review controls in Re and CSG resulted in the Individual being able to request 62 inappropriate payments to personal bank accounts.
- Lack of effective review of journal amendments by CSG requested by the individual enabled fraudulent costs to be concealed on the ledger.
- The overall financial control environment around the Regeneration Service within Re, supported by CSG, was not sufficiently robust to ensure that financial control weaknesses were actively identified and mitigated as part of business as usual.
- In our view, in addition to inadequate controls put in place by Re and CSG, there was also insufficient oversight by the Council to ensure that financial controls and budget management were sufficiently robust. We note that the Council was aware of deficiencies in the governance arrangements for overseeing Re and CSG. The Council had initiated work to address this, however this was not completed in time to influence detection or prevention of the fraud, which was already underway.

We have made a large number of recommendations to improve the financial control environment and put in place arrangements to reduce the likelihood of similar failings in the future. These are set out in the following pages of this report. Additional detailed information on the findings of this report is provided in a separate document, **Annex 1**, to this report.

High level view of organisational relationships

Regeneration Services are provided to the Council through Regional Enterprise Limited (Re). The Council's financial function is provided by Capita, through the Customer and Support Group (CSG). Both contracts are managed on an 'outputs' basis whereby the Council monitors performance including against a set of Key Performance Indicators (KPIs).

There are therefore two separate contracts that are relevant to this report:

Contract 1: The London Borough of Barnet and Capita (BDRS) Limited relating to the provision of Development and Regulatory Services (DRS) signed 5th August 2013. The contract is delivered by the property and infrastructure business of Capita under a joint venture: Re (Regional Enterprise) Limited, majority owned and controlled by Capita. This was expected to be worth £154m to Re over 10 years from the 1st October 2013. The fraud originated from an employee of Capita working within Re Limited.

Contract 2: New Support and Customer Services (NSCSO) Partnering Agreement between the London Borough of Barnet and Capita Business Services Limited. "CSG" Under this contract Capita delivers a range of services including corporate programmes, customer services, estates, finance, human resources and payroll, information systems, procurement, revenues and benefits. The contract was expected to be worth £320m over 10 years commencing September 1st 2013.

Both contracts are managed through the Partnership Operations Board (PoB), reporting to the Council's Performance and Contract Management Committee. Oversight of regeneration projects and associated managed budgets is provided by the Growth and Regeneration Operations Board (GROB) reporting to the Council's Assets Regeneration and Growth Committee (ARG). High level oversight is provided by the Council's Strategic Commissioning Group (SCG) and the Re Board of Directors.

Scope and approach

Our approach to the controls review

Due to the need to deliver our work as a matter of urgency and in order to alert the Council to potential issues linked to the fraud, we structured our work in the following way:

Phase 1 – Initial Review

The purpose of Phase 1 was to undertake initial fact finding via a review of documents, systems and an initial round of meetings with key stakeholders. This enabled us to focus our lines of enquiry for Phase 2 and develop an initial action plan to help the Council respond promptly to risks. The fieldwork commenced in January 2018 and comprised:

- Developing our understanding of the role of the Individual responsible for the fraud, access to systems and supervision.
- Initial review of the financial controls relating to the banking process.
- Confirming and expanding on the Council's understanding of the fraud and why it was not detected through internal controls.
- A high level review of relevant transactions since 1 April 2015 and developing a scope and plan for the intended detailed forensic review under Phase 2 of the work.

Following completion of our Phase 1 work, there were a number of actions for the Council, CSG Finance and Re to follow up and respond to. The draft report and action plan for Phase 1 was provided to the Council on 8 February 2018.

We then agreed to continue our work and carry out a “deep dive” into some of the risks we identified in Phase 1.

The Phase 2 work was structured into three workstreams and commenced in February 2018, and the draft findings were provided to the Council on 18 April 2018. Capita acknowledged receipt of the Initial draft of the Phase 1 action plan on 25 April and responded on 11 May 2018.

Phase 2a Workstream A - Forensic Fraud and Accounting Analysis

In this Workstream, we completed a detailed examination into the accounting transactions which the Individual used to carry out and conceal the fraud. The key lines of enquiry for the work were:

- How the fraud of approximately £2m was accounted for in financial years 2016/17 and 2017/18, and
- In which cost centres fraud sits

Phase 2a Workstream B – Financial Controls Analysis

In this Workstream, we built on the initial findings of Phase 1 and further developed our assessment of the financial controls which were in place, or which should have been in place, to prevent the fraud, with a focus on the Cost Centre 1 and Cost Centre 2 regeneration projects. The key lines of enquiry for the work were:

- The adequacy of financial controls – including financial authority and access to systems, transactions related to regeneration projects, journals, budgetary controls and the financial control environment.
- Sources of assurance over financial controls – specifically a review of the Internal Audit work on an audit on Treasury Management, which included some aspects of financial controls on CHAPS.
- The Council's response to the fraud.

Phase 2b – Contract Review

In this Phase, we reviewed the Council's contracts with Capita and Re for the provision of CSG Finance services and Development and Regulatory services, respectively, and identified key obligations relating to the services and circumstances around the fraud.

Key findings – Financial Controls Analysis (Regeneration/ CPO)

Overview

We identified a wide range of issues with controls over the financial management of CPO and related processes that enabled the fraud to take place.

In order to help break down the control issues explored in this section, we have developed 5 broad themes, which we are referring to as control ‘Pillars’ 1 to 5 (see Table 1).

In our view, if any one of these control Pillars was functioning effectively at any point during the period in question (July 2016 to December 2017) it should not have been possible for the individual to perpetrate the fraud for such an extended period of time. Effective controls in these areas are likely to have mitigated the risk through prevention of the means and opportunity, or through detection or deterrence.

For further detail on the findings of the review under each of these pillars, please refer to [Annex 1](#) of this report.

Summary findings are included overleaf.

Table 1 – the 5 control pillars

Control pillar	Our view of financial control weaknesses over regeneration projects
Pillar I Financial authority and control over access to systems (Annex 1 – page 20)	A lack of clarity over the lines of financial authority and a lack of control over system access created the opportunity to access cost centres for inappropriate use.
Pillar II Control over the processing of transactions (Annex 1 – page 24)	A lack of robust review and challenge in the authorisation of payments and a lack of reconciliation to amounts due back from developers allowed fraudulent payments to be made.
Pillar III Control over journals within the Integra ledger (Annex 1 – page 29)	A lack of robust challenge and review in the authorisation of journals that enabled fraudulent transactions to be disguised.
Pillar IV Budgetary control and financial reporting (Annex 1 – page 30)	A lack of robust challenge from CSG Finance business partners and a lack of scrutiny at transactional level resulted in a lost opportunity to identify and question unusual payments.
Pillar V The financial control environment for regeneration projects (Annex 1 – page 35)	Insufficient review and professional scepticism by managers in CSG Finance and Re, contributed to significant financial control weaknesses in relation to regeneration projects. Many of these weaknesses persisted over a long period of time and should have been identified and mitigated as part of routine management activity. There was also insufficient oversight by the Council.

Key findings – Financial Controls Analysis (cont'd)

Summary of findings – Our view

- **Pillar 1** The Individual was granted approval for budget holder status on the Integra system over a number of cost centres, including the control account for the CPO of Cost Centre 1. On the balance of the evidence provided by Re and CSG, this access appears not to have been appropriate to their role and the approval process did not demonstrate sufficient rigour. This also meant that the Cost Centre 1 CPO budget was not overseen by the Regeneration Manager responsible for the project, and who would have been in a better position to challenge unusual and unexpected transactions.
- **Pillar 1** A detailed scheme of financial authorisation was not in place to formalise the flow of authority to request payments from Council bank accounts and against which authorisation rights on the Integra system could be tracked and authenticated. There was therefore a lack of clarity over roles and delegated authority which the Individual was able to exploit. CSG have contractual responsibilities to maintain the Scheme and execute financial regulations, but there are co-dependencies with Re and the Council.
- **Pillar 2** There was no process by which senior management in Re checked the validity of the payment and supporting documentation attached to the payment request, or authorised the payment request set in train by the Individual as budget holder. This enabled the Individual to raise fictitious CPO payment requests, within their authorisation limit of £173k, and submit these directly to the CSG Finance Treasury Management team for approval along with limited and/or false supporting documentation.
- **Pillar 2** On receipt of the request, the Treasury Management team, did not check with enough rigour, that the proposed payment was supported by sufficient appropriate supporting documentation to demonstrate it was a genuine transaction expected as part of the regeneration scheme. The only check was that the bank details on the Treasury Management Urgent Payment Request form agreed with those entered onto Bankline.
- **Pillar 2** The Treasury Management Team did not independently verify the named suppliers to confirm the bank details were correct before processing the payment. This is a fundamental control that would be expected to be in place and is likely to have detected and prevented the fraud at an early stage.
- **Pillar 2** We note that Capita have asserted in their response to recommendation 12 that invoicing to developers on the affected codes has been checked, and that no inappropriate amounts have been billed.
- **Pillar 3** The Individual was able to instruct the CSG Finance team to process Re journal transactions that enabled the accumulated fraudulent costs to be moved from one cost centre to another. There was insufficient challenge of the purpose and the supporting documentation, from business partners or other finance staff and this enabled the Individual to conceal the cumulative value of the fraud through the 2016/17 accounts closure process.
- **Pillar 4** The setting and monitoring of CPO budgets was not sufficiently robust to effectively challenge unusual or unexpected transactions passing through regeneration cost centres. In particular, the reconciliation of control accounts through which CPO payments and developer income was netted off, was ineffective, as finance business partners had not carried out a robust level of challenge and review of the transactions involved. Therefore, these transactions were not detected by business partners or the budget holders responsible for the destination cost centres.
- **Pillar 5** We found other contributory factors relating to the control environment around regeneration. This included weaknesses in documented procedures for CPO related processes, the supervision of budget holders, the lack of professional scepticism by managers. There was also a lack of sufficient oversight on the part of the Council and weaknesses in the assurance provided by internal audit over CHAPS Payments.

Key findings – Forensic Fraud and Accounting Analysis

Overview

Our work has been on the following two agreed key areas of focus:

- Where does the £2 million of fraudulent payments currently reside in the Council's books and records?
- A detailed review of the Cost Centre 2 control account for evidence of a lack of contract compliance relating to the Council's contracts with Re and/or CSG Finance.

We note that CSG Finance worked closely with Grant Thornton to understand the transactions related to the fraud. CSG has also undertaken work in response to recommendations which we have made. We have reviewed the work undertaken by CSG and sought further information in order to confirm our understanding of the work undertaken by CSG and to address further lines of enquiry.

The Council has requested that in this report we anonymise any references to locations or addresses that may be identifiable.

Regeneration Managers and CSG finance colleagues refer to Cost Centre 1 and Cost Centre 2 as "control accounts". We have been informed that control accounts associated with Cost Centre 1 and Cost Centre 2 should be used simply to account for the:

- cost of purchasing properties to develop schemes, and
- recovery of these costs from developers

Over the lifetime of the scheme, the balance on these control accounts should add to nil as costs are mitigated by income received.

Summary of findings

As shown in Table 2 below, fraudulent payments were made and accounted for in both 2016/17 (Year 1) and 2017/18 (Year 2). In doing so, this resulted in debit entries being recorded in four cost centres.

CSG anticipated that the cost centres initially used to account for the fraudulent payments would have nil balances at a financial year end. So, in order to avoid detection, it was necessary for the Individual to either/both:

- Misuse bookkeeping errors or incomplete bookkeeping within the four cost centres where fraudulent payments were originally recorded. That is because the errors or incomplete bookkeeping resulted in anomalous (but not fraudulent) credit balances which could then be offset against fraudulent debit balances; and/or
- Make accounting adjustments to credit the fraudulent debit balances.

Our work has shown that the Individual used both of these means of hiding the fraud during Year 1.

By doing so, this meant that the balances on the cost centres initially used to account for the fraudulent payments reduced to nil by the end of the 2016/17 financial year.

The fraud was discovered part way through 2017/18 and prior to the start of the year end accounting process. As such, the Individual did not have the opportunity to conceal fraudulent debit balances which arose during Year 2.

The way in which the fraud was accounted for in Year 1 was, therefore, much more complicated in Year 1 than it was in Year 2.

Key findings – Forensic Fraud and Accounting Analysis

Summary of findings (Cont'd)

Causing fraudulent payments to be made from Council bank accounts created debit balances on cost centres 1, 3, 4 and 5 which needed to be hidden from sight within the Integra Ledger at year end.

Our work and that of CSG has shown that, among other things, receipts for properties acquired under CPO were sometimes posted to the incorrect cost centre creating erroneous credit balances which could be used to mask the fraud.

Our work and that of CSG has also shown that some of the fraudulent debit balances were transferred to the Council's balance sheet at the end of Year 1, prior to the discovery of the fraud. Transfers (known as journals) such as this were not processed by the Individual.

Instead, they were processed by his colleagues. These journals were actioned because of a lack of challenge by people who seem to have taken the Individual's instructions without appropriate challenge.

The accumulated balances from the fraudulent payments during Year 2 remained on the cost centre to which they were originally posted, with minimal adjustment up to the point when the fraud was identified.

We understand that the cost of the fraudulent payments (£2,063,972) was reimbursed by Re, underwritten by Capita.

Further detail is provided in Annex 1 to this report (Section 6) and a recommendation is recorded in Appendix B.

Table 2 – Originating cost centres that fraudulent transactions were posted to

Cost Centre	1		2		3		4		5		Total	
	£	No	£	No	£	No	£	No	£	No	£	No
Year 1	660,522	40	-	-	-	-	-	-	160,500	6	821,022	46
Year 2	880,350	12	-	-	237,850	3	124,750	1	-	-	1,242,950	16
Total	1,540,872	52	-	-	237,850	3	124,750	1	160,500	6	2,063,972	62

Key Findings - Contract Review

Overview

As part of our work we have reviewed what contractual obligations were in place within the DRS and CSG agreements, if and how they were followed and any potential breaches arising from our understanding of the fraud.

Summary of findings

In light of the evidence that has come to light in the context of our investigation into the fraud, we have reviewed the contractual obligations arising under the DRS and CSG contracts (including contractual clauses, Output Specifications and Key Performance Indicators) that have or may have been breached by the relevant Service Providers (Re in respect of the DRS Contract and Capita in respect of the CSG Contract).

We made a single recommendation as follows:

Our review of the DRS and CSG Contracts has identified a number of breaches that have or may have occurred that the Council will need to consider. Our recommendation is that the Council takes appropriate contractual action.

We set out overleaf the most significant breaches that have or may have taken place which we consider enabled the fraud to take place. Please note that this is not an exhaustive list.

Further detail is provided in Annex 2 to this report.

Summary of findings by key contractual obligation

Our key findings are summarised against the following contractual clauses, service obligations and key performance indicators:

DRS Contract:

- Clause 5.2.1 Contract Standards: Good industry practice compromised by lack of supervision; Council not warned of gaps in the scheme of delegation or performance gaps against Capita's method statements; and concerns regarding the training and knowledge of Capita personnel.
- 9.2 Authority Monitoring Clause 9.2.3 fraudulent, erroneous or misleading reporting: The fraud led to erroneous and misleading reports.
- REGEN015 Budgetary Control: Costs accrued out of phase.
- REGEN016 Recovery of Authority's historic costs within 12 weeks: Accrued CPO / PTA spend not tracked against developer repayment.
- REGEN017 Maintaining effective financial records: Unmatched receipts appropriated to conceal fraud and fraudulent costs capitalised.
- REGEN018 File monthly returns for each regeneration: Lack of detail with respect to land acquisitions or developer receipts.
- REGEN002 and REGEN003: Securing and Implementing a CPO: Record keeping concerns undermining confidence in CPO procedures.
- REGEN089: Active monthly regeneration budget management: Lack of detail with respect to land acquisitions or developer receipts.
- REGENKPI02 – Budgetary and Financial Controls: Insufficient control / evidence of recovery of developer receipts against target (85% in 2 months)
- Policy KPI: Adherence to information security policy for system access.

CSG Contract:

- 25.2 Authority Monitoring Clause 25.2.3 fraudulent, erroneous or-misleading reporting: The fraud led to erroneous and misleading reports.
- FIN001 Financial Administration and Stewardship: Inconsistent administration of accountancy procedures and financial regulations; lack of maintenance of the Finance Scheme of Delegation (and scheme of financial authority for non-council employees).
- FIN005: Budget Monitoring: Control deficiencies in tracking and controlling project, capital and revenue expenditure against budget.
- FIN006: Strategic Projects: Concerns regarding the level of scrutiny, understanding and financial leadership from CSG.
- FIN007: Corporate Reporting: Cost of fraud not detected in 2016/17 accounts
- FIN009: Treasury Management: Lack of control regarding CHAPS payments processing checks on documents and signatures.
- FIN004: Financial Statements, Costing, Modelling and Options Appraisal: Concerns regarding the level of scrutiny provided by CSG.
- FIN016: Systems Accounting: Fixed asset register to be maintained all year.
- FIN019: Payments (Accounts Payable): CSG business partner training questioned.
- PS001: Compulsory Purchase Order: System and reporting concerns.
- PS013, PS019 and PS020 Acquisitions and Disposals: Property valuation concerns.

The Council's response to the fraud

The Council and Re were alerted to the fraud by CSG Finance following contact from the Individual's Bank on 18th December 2017 to query an unusual transaction. The Council's CAFT team were alerted and immediately commenced a criminal investigation. The Individual responsible was suspended from duties by their employer, Capita, within 24 hours of notification.

In our view the Council, CSG and Re acted promptly to mitigate the risk that had been identified and took appropriate action to understand and remedy the issues that had been raised as a result of the fraud.

Initial actions on the part of the Council

While the investigation progressed, the Council's Interim Director of Finance (Section 151 Officer) acted immediately to set in train the following remedial measures, with the full support of CSG and Re:

- The background to the fraud was established.
- The CSG Finance Treasury Team were alerted to the fact that the fraud had been perpetrated using the CHAPS payment process and that the process was subject to urgent review.
- New treasury management procedures and controls over the CHAPS process were designed and implemented on 21 December 2017, and a further version by 25 January 2018.
- Recent internal audit testing on Treasury Management, which included some aspects of financial controls on CHAPS payments that had not detected the control weaknesses, was reviewed and the Council's Internal Audit, was requested to re-test the sample.

- Grant Thornton UK LLP were appointed in January 2018 to conduct an independent review, focusing on understanding the lessons to be learned from the fraud, including recommendation to improve controls more broadly.
- Bankline payment approvers on the system were changed by 5th March.
- Initial changes to decrease Integra approval levels were implemented on 6th March.

Retesting of Internal Audit work on Treasury Management, which included some aspects of financial controls on CHAPS payments

Following the identification of the fraud in December 2017, the internal audit testing of emergency CHAPS payments was re-performed in more detail and a number of deficiencies were found re the sufficiency of evidence supporting the payments and approval limits of the requestors.

Updated treasury payment procedures for CHAPS

We note that in response to the initial discovery of the fraud a new Treasury Management Procedure Note, dated 25 January 2018, was drafted and was subsequently agreed.

In our recommendations following Phase 1 of this review, we identified specific cases where this procedure could be strengthened further. We reviewed the updated draft procedure and are satisfied that this should help prevent and/or detect potential fraud/error on CHAPS payments, providing that it is applied robustly. We understand that the updated procedure has now been implemented.

The Council's response to the fraud (cont'd)

Phase 1 review and action plan

Grant Thornton UK LLP formally reported initial findings from this review to the Council on 28 February 2018. A meeting was held between the Council, Capita and Grant Thornton UK LLP on 15 March 2018 at which the recommendations were clarified and actions agreed. A list of recommendations for Phase 1 had been issued by the Council to Capita on 7 March and formal responses were provided by Capita on 22 March 2018. The Council's Audit Committee were notified in January 2018 and again in April 2018.

Phase 2 review and action plan

Further recommendations were issued to Capita on 25 April 2018 following the draft findings from further detailed work undertaken by Grant Thornton UK LLP in April 2018. A further meeting was held between the Council, Capita and Grant Thornton UK LLP on 26th April 2018 at which progress against the Phase 1 findings was discussed and additional actions were agreed arising from Phase 2. Capita provided a further response on 11 May 2018.

A further meeting was held on 7 June 2018 to monitor progress against both Phase 1 and Phase 2 actions. Further regular meetings have taken place in June to finalise the actions and responses. Note that at this stage Capita and Re did not have any access to the report, with the exception of the action plan.

A draft of this report was provided to Capita on 25 June 2018. Detailed findings were provided to Capita on in August 2018.

Contractual notices issued to Capita by the Council

The Council have issued formal remedy and other notices to Capita in regard to remedial action required, with reference to the contractual obligations under the contracts held with Re and CSG. Successful action of the recommendations from this report will provide the key measure of success in regard to the effectiveness and adequacy of remedial action taken by Capita pursuant to the remedy notices.

Ongoing monitoring arrangements

Grant Thornton UK LLP are in discussion with the Council to extend their period of engagement, in order to help monitor the delivery of agreed actions undertaken by Capita. Weekly meetings are taking place with the Council, alongside more formal monthly project Board meetings that involve the Council, Capita and Grant Thornton UK LLP.

In our view, successful delivery of the action plan within the agreed timeframe will facilitate the development of a robust financial control environment for Regeneration Services.

Recommendations and next steps

Financial Controls Analysis

We have made a number of recommendations to improve the financial control environment and for further areas of investigation. These are set out in the action plan in **Appendix A**. The following recommendations are deemed to be high priority due to the level of risk they carry:

- (GT1) Develop a Scheme of Financial Authorisation for Re and review of financial roles and responsibilities.
- (GT2) The list of budget holder authorisers to be updated on the Integra ledger system.
- (GT4) Improve controls over access and authorisation rights on Integra and Bankline to ensure that any changes made are appropriate to role
- (GT10) Develop a master schedule of CPO payments in progress to enable cross checking against payments requested.
- (GT11) Develop a clear process for reclaiming CPO and related costs from developers and matching to payments received.
- (GT12) Confirm that fraudulent costs have not been invoiced to developers.
- (GT15) Review the adequacy of controls over BACS E-form payments where the purchase order system is not used.
- (GT17) Develop a process note for journal processing that emphasises the importance of adequate explanation and documentation.
- (GT21) Capital Budgets to be recorded on the Integra ledger system to improve the accessibility of information to budget holders.
- (GT27) Prepare documented financial procedure notes for CPO related transactions, provide training to staff and test compliance.

Progress since the last draft of this report

We are pleased to report that the Action Plan has been agreed between the Council and Capita. New procedures have been drafted and are currently being validated for all identified CPO related financial processes. Other actions are also underway, that should address all of the recommendations raised in this report in due course.

We have also concluded our Forensic investigation and updated our findings.

Important caveat

Our findings are based on interpretation of the information provided by Capita and meetings we have had with CSG and Re staff. A draft of this report has been shared with Capita and feedback on the findings and comments on factual accuracy have been provided by them which we have considered. In Capita's view this does not constitute full validation and agreement of the findings. Actions to address the recommendations set out in the action plan have been agreed with Capita and are in the process of being implemented.

Appendices

Appendix A – Key to Action Plan

Priority	Definition
High Immediate.	Action should be taken at the earliest opportunity
Medium.	For consideration or for implementation within 2-3 months

Status	Definition
Complete.	The recommendation has been fully actioned.
Verified and awaiting the results of compliance testing.	The underlying process has been verified as fit for purpose, and is awaiting the results of compliance testing that will ensure that the new controls or process are fully embedded.
Submitted, awaiting verification and compliance testing	The underlying process has been submitted in draft and is currently being verified to ensure it is fit for purpose.
Not yet due.	The action is in the process of being delivered, but is not yet due according the agreed timetable.
Outstanding.	The action is due according to the original agreed timetable, but has not yet been delivered or has been delayed due to ongoing discussion between the parties to agree a revised action.

Appendix A – Action Plan

Pillar I: Financial authority and control over access to systems

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
1	<p>Scheme of Financial Authorisation We recommend that the Scheme of Financial Authorisation for Growth and Development is updated to reflect current role descriptions and specifically to include Regeneration Team members currently omitted. Current definitions of financial roles and responsibilities across the organisations should be revisited, to make sure they remain fit for purpose and provide for robust governance.</p>	High Immediate	Re to provide proposal on delegations/authorisations for agreement by S151 officer/ LBB. CSG to update financial delegations (see recommendations 2 and 3).	Re	29/06/2018	Verified and awaiting the results of compliance testing.
2	<p>Integra system authorisers We recommend that the listed budget holder authorisers on the Integra system be reviewed and controls put in place to ensure the list is kept up to date.</p>	High Immediate	Review and validate listed budget holders and budget managers on Integra, making changes where required based on updated Schemes of financial delegation/authorisation (see recommendation 3). Put in place controls to ensure the lists of financial authorisers and Integra are kept up-to-date.	CSG	29/06/2018	Verified and awaiting the results of compliance testing.
3	<p>Specific levels for authorisers on Integra It is not clear that budget holders with authority to request payments held on the Integra General Ledger system, have been set authorisation limits for the value of transactions that are fully consistent with their role. This could lead to individuals being able to authorise payment for inappropriately large sums. We recommend that the list of individual authorisation levels for the value of transactions, be reviewed for appropriateness.</p>	Medium	Review authorisation levels and provide proposed Financial Scheme of Delegation/ Financial Authorisation Schemes to the S151 officer, working closely with LBB and strategic partners. Ensure this is implemented on Integra (links to recommendation 2).	CSG	30/06/2018	Verified and awaiting the results of compliance testing

Appendix A – Action Plan (cont'd)

Pillar I: Financial authority and control over access to systems

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
4	<p>Managing access and authorisation rights on IT systems</p> <p>IT system controls have been set up on Integra and supporting systems such as Bankline, that determine the level of access that individual users can have to financial systems and the ability to authorise transactions. These permissions have also historically been used for manual processes, such as a CHAPs payment request, to determine if the individual is the budget holder. The effectiveness of these controls is dependent on systems being kept up to date for starters/ leavers and transfers. A failure in this control could lead to inappropriate individuals having control of budgets and authorisation to request or authorise journals and payments.</p> <p>We noted a potential weakness in controls to ensure that any changes made to access rights and authorisation levels for IT systems, are appropriate to the individuals role, e.g. following a change in role or for starters and leavers. We recommend that additional controls be introduced to mitigate this risk.</p>	High Immediate	CSG to develop and implement additional control measures to ensure access rights and authorisation levels on Integra are correct for all staff, include for starters, leavers and movers.	CSG	30/06/2018	Verified and awaiting the results of compliance testing

Appendix A – Action Plan (cont'd)

Pillar II: Control over the processing of transactions

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
5	<p>Compliance with new Treasury Payment Procedure We recommend that the new Treasury Payment Procedure be tested for compliance after a suitable period.</p>	Medium	LBB Internal Audit to test revised process in September 2018.	CSG (LBB testing if Re have implemented).	29/09/2018	Verified and awaiting the results of compliance testing
6	<p>Direct requests for payment from legal advisors We note that the process for the Cost Centre 2 regeneration project indicates that the instruction to make the CHAPS payment should come directly from the solicitors to the CSG Treasury Team. In some cases these requests appear to have been forwarded by the Regeneration Manager. We recommend that this separation of duties be considered for all CPO transactions.</p>	Medium	Re to document proposed process for CHAPs instructions (including documents to be sent) and agree with CSG and LBB.	Re	29/06/2018	Verified and awaiting the results of compliance testing
7	<p>Adequate evidence for transactions We recommend the development of a guidance note or checklist for Re managers, to help them ensure that the required evidence is included with a CHAPS payment request.</p>	Medium	Re to produce guidance note. Links to Recommendation 27a.	Re	29/06/2018	Verified and awaiting the results of compliance testing
8	<p>Supervisory checks within Re We recommend that appropriate supervisory checks be put in place by Re for all projects, prior to the issue of requests for payment by CHAPs being issued to the CSG Treasury Team.</p>	Medium	Re to document management oversight within Re for all projects prior to CHAPs being issued.	Re	29/06/2018	Verified and awaiting the results of compliance testing

Appendix A – Action Plan (cont'd)

Pillar II: Control over the processing of transactions

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
9	<p>Dual signatories for Authorisation Under the new Treasury Payment Procedure the approved authorisers have been reviewed and defined, however we note that the new requirement for a dual signature for all Payments includes provision that 'best endeavour' will be made to make sure that there is one signatory from each of Barnet Council and CSG. In our view, this creates uncertainty which could undermine the control and it may be better to base this requirement on specific authorisation levels for all payments.</p>	Medium	'Best endeavours' to be removed from Treasury Payment Procedure which will be amended to require one signatory from each of Barnet Council and CSG	CSG	29/06/2018	Complete
10	<p>Master schedule of CPO payments in progress Re should provide evidence that a master schedule of CPOs is in place for all regeneration projects, which should be used for cross checking payments made.</p>	High Immediate	Re to provide monthly schedule of CPO transactions to CSG Finance, along with formal supporting documentation (such as final valuation report) and ensure this process is documented.	Re	15/06/2018	Verified and awaiting the results of compliance testing
11	<p>Process for reclaiming cost of CPO We recommend that Re are asked to provide explanation of the process for reclaiming the cost of CPO payments from developers and matching these to payments made.</p>	High Immediate	as per recommendation	Re	29/06/2018	Verified and awaiting the results of compliance testing

Appendix A – Action Plan (cont'd)

Pillar II: Control over the processing of transactions

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
12	<p>Fraudulent transactions and invoices to Developers</p> <p>There is a risk that invoices raised to developers from Cost Centre 2 and Cost Centre 1 include costs that are associated with the fraudulent transactions identified. We recommend a detailed investigation of these cost centres to ascertain if inappropriate amounts have been invoiced and potentially reimbursed by developers.</p>	High Immediate	CSG to reconcile the fraudulent transactions against developer invoices. Significant risk, but small chance.	CSG	18/05/2018	Complete
13	<p>Accounting for Private Treaty Acquisitions (PTA) and Compulsory Purchase Orders (CPO)</p> <p>a) The accounting implications of PTA/CPO transactions managed through regeneration related control accounts should be reviewed to ensure that transactions associated with PTA/CPO purchases are appropriately accounted for in the Council's financial statements, particularly in regard to capital accounting and the balance sheet.</p> <p>b) In addition, we recommend the CSG Finance team reconciles the Authority's Asset Register with the Atrium valuation system to ensure all acquired assets have been accounted for in line with the recommended value where title has passed to the Authority.</p>	Medium	<p>a) IA to review use of control accounts and IA to review 17/18 accounts</p> <p>b) CSG to propose alternative response to the GT proposal to reconcile the asset register with the Atrium Valuation system, which will be reviewed for acceptability by LBB/GT</p>	CSG	<p>a) 30/09/2018</p> <p>b) 29/06/2018</p>	<p>a) Not due yet</p> <p>b) Submitted, awaiting verification and compliance testing</p>

Appendix A – Action Plan (cont'd)

Pillar II: Control over the processing of transactions

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
14	<p>CIL, S106 Payments and Private Treaty Agreements</p> <p>We recommend that the process for processing CIL, S106 payments and Private Treaty Agreements be reviewed for the adequacy of controls and the prevention of fraud, including scrutiny of specific transactions.</p>	Medium	Carry out recommendations from the Internal audit review of CIL , Private Treaty agreements and S106.	CSG/Re	30/09/2018	Not yet due
15	<p>BACS Process for new suppliers</p> <p>We recommend that the BACS process be reviewed for the adequacy of controls over new suppliers where there is no purchase order (such as E-form payments).</p>	High Immediate	CSG to review process for one time vendors, propose improvements and implement.	CSG	a)29/06/18 b) Can audit in Sept	Submitted, awaiting verification and compliance testing
16	<p>Duplicate banking details</p> <p>The Masterfile supporting the BACS payment process does not automatically identify and flag payments made to different suppliers/recipients that had the same bank account number. There was also no manual control in place to identify BACS and CHAPS payments made to different suppliers which had the same bank accounts. We recommend that this control be considered as an addition to the new Treasury Payment Procedure.</p>	Medium	Put in place controls to identify BACS and CHAPS payments made to different suppliers with the same bank accounts and update the Treasury Payment Procedure accordingly. Any exceptions need to be clearly documented and assurance provided around the controls relating to those processes.	CSG	18/05/2018	Submitted, awaiting verification and compliance testing

Appendix A – Action Plan (cont'd)

Pillar III: Control over journals within the Integra ledger

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
17	<p>Process note for Journals We recommend that the development of a process note for Journal processing and its dissemination to staff. This should include a checklist for the officer processing the journal, to ensure that adequate explanation for the journal has been provided along with robust, preferably supporting evidence, preferably from 3rd parties.</p>	High Immediate	Expand journal template to include a guidance note and communicate to all CSG finance staff and other relevant officers. Remind CSG staff of the supporting documentation and approval that must be in place before journals are entered and approved.	CSG	18/05/2018	Verified and awaiting the results of compliance testing
18	<p>Journal request templates We recommend that journal processing be reviewed further to ensure that Integra journal request templates are properly completed and that there is evidence of a robust review and approval process.</p>	Medium	Review ongoing implementation of actions from Recommendation 17.	CSG	31/08/2018	Verified and awaiting the results of compliance testing

Appendix A – Action Plan (cont'd)

Pillar IV: Budgetary control and financial reporting

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
19	<p>Role of finance business partners</p> <p>We found that in a number of cases, finance business partners supporting Re had not challenged a number of unusual balances on control accounts and movements on cost centres. This could be due to the level of knowledge they had around the service and the activity that was being reviewed, for example, new costs accumulating on the control account for a project that was substantially complete. We recommend that finance business partners be equipped to take a more active role in confirming that movements on budgets and control accounts are consistent with the underlying activity, ensuring that appropriate monthly monitoring reports are being sent to budget holders.</p>	Medium	<p>a) Clearly document the role and expectations of Finance Business Partners (including levels of support and challenge to service areas) and the level of skills, knowledge and experience required. Agree this with LBB.</p> <p>b) Develop and implement learning and development plans for Finance Business Partners as individuals and a group to equip them to take a more active role in line with the agreed role/expectations, ensuring they have an understanding of the business that enables them to effectively support and challenge</p> <p>c) Ensure Finance Business Partners are providing levels of support and challenge in line with agreed role/expectations.</p>	CSG	<p>a) 29/06/2018</p> <p>b) 31/08/2018</p> <p>c) 01/10/2018</p>	<p>a) Submitted, awaiting verification and compliance testing</p> <p>b) Outstanding</p> <p>c) Not yet due</p>
20	<p>Capital budget review</p> <p>We recommend that the budget monitoring process for capital schemes be reviewed to determine if additional and proportionate review controls could be implemented to improve the ability of finance business partners and senior management to detect unexpected variations.</p>	Medium	<p>Review and revise current capital budget monitoring process (to include frequency and detail of reporting see recommendation 22).</p>	CSG	30/06/2018	<p>Verified and awaiting the results of compliance testing</p>

Appendix A – Action Plan (cont'd)

Pillar IV: Budgetary control and financial reporting

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
21	<p>Capital Budgets</p> <p>We recommend that all capital budgets are recorded on the Integra general ledger system and that opportunities are explored to use the BDM system to improve the ability of budget holders to access up to date information on capital budgets.</p>	High Immediate	<p>Record all capital budgets on the General Ledger in Integra and determine a process to keep them up-to-date.</p> <p>Propose and subsequently implement a budget monitoring solution (which may be Integra) that provides budgets holders and managers with up-to-date information on capital budgets and supports effective budget monitoring.</p>	CSG	31/07/2018	Verified and awaiting the results of compliance testing
22	<p>Capital budget monitoring information</p> <p>We recommend that more regular and detailed capital monitoring reports be made available to budget holders to improve their ability to detect unexpected variances.</p>	Medium	Provide more regular and detailed capital monitoring reports (links to Recommendation 20).	CSG	29/06/2018	Verified and awaiting the results of compliance testing
23	<p>Roles and responsibilities for capital budget monitoring</p> <p>We recommend that the respective responsibilities of Re, CSG and Barnet Council in regard to Capital budget monitoring are reviewed and more clearly defined.</p>	Medium	CSG to propose respective responsibilities for capital budget monitoring (working with LBB and strategic partners to develop and agree) and document these.	CSG	29/06/2018	Verified and awaiting the results of compliance testing
24	<p>Monitoring of Control accounts</p> <p>We recommend that balances held on control accounts under the indemnity agreements, are included in the budget monitoring information and in the GROB highlight report. This should include narrative on variances against a zero budget provided by budget holders and validated by business partners.</p>	Medium	Enhance monthly reporting to include control account balances and accounting treatment, and ensure this is understood by Finance Business Partners and budget managers and holders.	CSG	29/06/2018	Verified and awaiting the results of compliance testing

Appendix A – Action Plan (cont'd)

Pillar IV: Budgetary control and financial reporting

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
25	<p>Control accounts</p> <p>The policy of using of control accounts for recording PTA/CPO transactions should be reviewed. We recognise that this can be a legitimate and useful method of accounting in some circumstances, but there is a risk that comparatively large income and expenditure transactions are not accounted for with sufficient transparency. The lack of a specific budget against which accumulated costs and income can be measured can also serve to reduce the organisation's ability to monitor transactions.</p>	Medium	Policy of using control accounts for recording PTA/CPO transactions to be reviewed	CSG	29/06/2018	Verified and awaiting the results of compliance testing
26	<p>Principle Development Agreement (PDA) Caps and Budget Monitoring</p> <p>In order to manage the risk of accumulating unbudgeted liabilities on Regeneration cost centres, we recommend that expenditure against the PDA cap is reflected in the budget monitoring process for relevant cost centres, and forecast overspends against the cap are reported to business partners as part of the monthly cycle, and to GROB if the balances become significant an may require an adjustment to the budget.</p>	Medium	Re to provide documentation about what is to be reported to Business partners and GROB going forward in respect of PDA caps and subsequently implement.	Re/CSG	29/06/2018	Verified and awaiting the results of compliance testing

Appendix A – Action Plan (cont'd)

Pillar V: The financial control environment for regeneration projects

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
27a	<p>Documented procedures for regeneration projects Clarification should be sought and evidence provided from Re management on the existence of:</p> <p>a) formal documented processes and controls that apply to all regeneration projects (including but not limited to CPO related aspects), and the extent to which these vary for each project.</p>	High Immediate	a) Re to produce documents detailing the monthly process of managing and reporting the finances of regeneration projects. Re to ensure that the updated CHAPS and BACS payments introduced into the finance processes are referenced in any process changes and in the flowchart.	Re	29/06/2018	Verified and awaiting the results of compliance testing
27b	<p>Documented procedures for regeneration projects Clarification should be sought and evidence provided from Re management on the existence of:</p> <p>b) Evidence that training of staff in regard to these procedures has taken place.</p>	High Immediate	b) As per recommendation	Re	29/06/2018	Verified and awaiting the results of compliance testing
27c	<p>Documented procedures for regeneration projects Clarification should be sought and evidence provided from Re management on the existence of:</p> <p>c) Ongoing CPD and risk management and the means by which they ensure that project managers are adhering to the agreed processes.</p>	High Immediate	c) Re to provide evidence that procedures outlined in Recommendation 27a are incorporated into ongoing CPD.	Re	29/06/2018	Verified and awaiting the results of compliance testing

Appendix A – Action Plan (cont'd)

Pillar V: The financial control environment for regeneration projects

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
28	<p>Supervision of regeneration managers</p> <p>We recommend that Re take steps to ensure that Regeneration Managers are subject to closer supervision within Re to ensure that projects are being properly executed and to provide assurance on business continuity. Specifically, we recommend that Re re-reinstates a Head of Regeneration Role or a satisfactory equivalent, to whom all regeneration managers report, and who has overall responsibility for all regeneration schemes within Re.</p>	Medium	Re to provide management oversight proposal to ensure that projects are being properly executed and to provide assurance on business continuity.	Re	29/06/2018	Verified and awaiting the results of compliance testing
29	<p>Communication and training of staff</p> <p>We recommend that key lessons learned from this review be communicated to relevant staff involved in financial processing across Re, CSG and Barnet Council and incorporated into existing training programmes. This should emphasise the importance of meeting standards of professional ethics and behaviour set out by the professional accountancy bodies, particularly in regard to fraud prevention and cover financial skills for budget holders.</p>	Medium	<p>a) Develop communications and training plan across CSG, RE and LBB, with particular focus on ethics and professional standards and financial skills, and rollout.</p> <p>b) Test that roll out has been completed</p>	CSG, Re and LBB	<p>a)31/08/18</p> <p>b)30/09/18</p>	<p>a) Outstanding</p> <p>b) Not yet due</p>

Appendix A – Action Plan (cont'd)

Pillar V: The financial control environment for regeneration projects

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
30	<p>Internal Audit - Developing the Terms of Reference (TOR)</p> <p>We recommend that during the stakeholder engagement to develop the ToR for the Key Financial Systems review, greater rigour should be applied to:</p> <ul style="list-style-type: none"> • making sure that all required stakeholders engage fully in the process • understanding the process to be tested, in order to identify key risks • ensuring that the design of controls mitigates all key risks identified • ensuring that planned audit tests adequately interrogate the controls 	Medium	<p>a) Obtain explicit agreement from S151 officer to updated audit approach to Key Financial Systems audits before proceeding with testing.</p> <p>b) Year 1 - full review / systems documentation to be completed for all KFS.</p>	LBB	31/07/2018	Verified and awaiting the results of compliance testing
31	<p>Internal Audit - Weighting Risks in testing</p> <p>We recommend that, during internal audit sample selection, greater consideration is given to weighting the sample towards those transactions that are potentially higher risk, either inherently (such as unusual or high value items) or as a result of a more complex process, for example, CHAPs payments requested from outside of the Treasury Team.</p>	Medium	<p>a) Incorporate approach immediately on all audits e.g. 'Integra - GL' and 'Banking and Payment Arrangements'</p> <p>b) Update Audit Manual to better reflect this requirement</p> <p>c) Provide training to team on this point at next IA Team Meeting</p>	LBB	31/07/2018	Submitted, awaiting verification and compliance testing

Appendix B – Action Plan (Forensic Review)

Proposed further work on cost centres

Rec No	Recommendation	Priority	Management response	Responsibility	Action date	Status
32	<p>Review of cost centres and fraudulent transactions</p> <p>Recommendation 32 - We recommend that further final review of the cost centres relevant to the fraud (cost centres 1,2 and 3) is undertaken, including a review of year end reconciliations for 2016/17 (Year 1) and 2017/18 (Year 2).</p> <p>The purpose of this additional review is to ensure completeness and to confirm that the mis-postings and other transactions that contributed to the fraud being concealed, have been correctly accounted for (noting that we have seen no direct evidence to suggest that these transactions are themselves fraudulent). The review should ensure that:</p> <ul style="list-style-type: none"> All costs are reconciled to invoices addressed to the associated development partners and, if applicable, with costs written off as revenue expenditure. All costs, revenue and receipts are reconciled with entries on the Integra general ledger. Corrections are made to the Integra general ledger if required 	High Immediate	CSG to perform the analysis and GT to review on completion.	LBB	30/7/18	Submitted, awaiting verification and compliance testing

