

**Internal Audit
Quarter 1 Internal Audit Report
2015/16
London Borough of Haringey**

Mazars Public Sector Internal Audit Ltd.
September 2015

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Executive Summary

Introduction

This is our first quarter report to the Corporate Committee for the 2015/16 financial year including details of all reports which are now at final stage. The report provides information on those areas which have achieved full or substantial assurance and gives an indication of the direction of travel for key systems work which will provide Members with information on how risks are being managed over time. The format of this report is also designed to highlight the key risks facing individual departments and the Council which have been identified during the course of our internal audits. A more detailed summary of the limited assurance audit findings is included for information. The report draws together the summary information which is provided on a monthly basis to Members of the Corporate Committee. Members of the Committee will also be provided with full copies of our audit reports upon request.

All recommendations are agreed with Council officers, and any disputes are discussed prior to the final report being issued. All recommendations to address any control weaknesses highlighted within this report have been agreed. Officers' actions to address the recommendations, including the responsible officer and the deadline for completion, are fully detailed in the individual final audit reports.

The attached tables reflect the status of the systems at the time of the audit, and recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

As a reminder, our recommendations are prioritised according to the following categories:

- Priority 1* - major issues for the attention of senior management
- Priority 2* - other recommendations for local management action
- Priority 3* - minor matters and/or best practice recommendations

Key Highlights/Summary of Quarter 1 2015/16:

2015/16 Internal Audits finalised in the quarter:

- Mortuary Service
- Teachers Pension Contribution

2015/16 Internal Audits drafts issued in the quarter:

- Campsbourne School;
- Coleridge School; and
- Belmont Infants School.

2014/15 Internal Audits finalised in the quarter:

- Strategic Financial Management & Budgetary Control;
- Accounting & General Ledger;
- Accounts Payable (Creditors);
- Accounts Receivable
- Debt Collection
- Housing Benefits (KFS);
- Specific Contract Audits - Disposal of IT Assets;
- EU Contract Regulations - Compliance with Legislation;
- Procurement Strategy - Governance & Communications;
- Scheme of Delegation - Contract Standing Orders;
- Council Website and Website Security;
- ICT Strategy - Governance, Performance and Compliance;
- Medium Term Financial Strategy
- Environmental Services Enforcement;
- Commissioned Services;
- BIP Programme Health Check
- Devonshire Hill;
- South Haringay Infant;
- Pendarren House Outdoor Education Centre; and
- Free School Meals.

2014/15 Internal Audits drafts issued in the quarter:

- Community Safety Partnership, and
- Direct Payments.

Follow Up of Prior Years' Recommendations

The results of our follow-up work are as follows:

2013/14

To date we have followed up 57 recommendations raised in 2013/14 and the results of our work are as follows:

- Implemented – 50 (87.8%);
- Partly Implemented – 1 (0.02%);

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- Not Applicable – 6 (12%).

2014/15

- Follow up of our 2014/15 reports will commence in Quarter 2.

Audit Progress and Detailed Summaries

The following table sets out the audits finalised in Quarter 1 of 2015/16 financial year and the status of the systems at the time of the audit. It must be noted that the recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

Detailed summaries of all audits which do not receive 'Full' or 'Substantial' assurance ratings are also provided for Members' information.

Audit Title	Date of Audit	Date of Final Report	Assurance Level	Direction of Travel	Number of Recommendations (Priority)		
					1	2	3
2014/15							
Strategic Financial Management & Budgetary Control;	Jan’15	15.04.15	Substantial	↔	0	1	0
Accounting & General Ledger	Feb’15	15.04.15	Substantial	↔	0	2	0
Accounts Payable (Creditors);	Feb’15	20.05.15	Limited	⇐	3	5	0
Accounts Receivable (Debtors)	Mar’15	28.05.15	Substantial	↔	0	2	2
Debt Collection	Jul’14	28.05.15	Limited	N/A	1	3	0
Housing Benefits (KFS)	Feb’15	15.04.15	Substantial	↔	0	2	1
Specific Contract Audits - Disposal of IT Assets	Mar’15	24.06.15	Substantial	N/A	0	4	0
EU Contract Regulations - Compliance with Legislation	Mar’15	18.05.15	Substantial	N/A	0	2	1
Procurement Strategy - Governance & Communications	Mar’15	03.06.15	Substantial	N/A	0	0	0
Scheme of Delegation - Contract Standing Orders	Apr’15	29.06.15	Substantial	⇒	0	4	0
Council Website and Website Security	May 15	20.07.15	Substantial	N/A	0	0	3
ICT Strategy - Governance, Performance and Compliance	Apr’15	09.07.15	Substantial	N/A	0	1	1
Medium Term Financial Strategy	Jan’15	15.04.15	Substantial	N/A	0	0	0
Environmental Services Enforcement	Nov’14	24.04.15	Substantial	N/A	0	1	1

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Audit Title	Date of Audit	Date of Final Report	Assurance Level	Direction of Travel	Number of Recommendations (Priority)		
					1	2	3
Commissioned Services	Nov'14	24.04.15	Substantial	N/A	0	3	0
BIP Programme Health Check	Dec'14	09.06.15	N/A	N/A	0	3	3
Pendarren House Outdoor Education Centre	Feb'15	14.04.15	Limited	N/A	6	4	1
Free School Meals	Apr'15	20.07.15	Substantial	N/A	0	3	0
2015/16							
Mortuary Service	Apr'15	21.07.15	Substantial	⇒	0	4	1
Teacher Pensions - Advisory	Apr'15	27.05.15	N/A	N/A	0	0	0

As part of the 2015/16 Internal Audit Plan we have visited the following schools, completed a probity audit and during Quarter 1 issued a final report.

School	Date of Audit	Date of Final Report	Assurance Level	Number of Recommendations (Priority)		
				1	2	3
Devonshire Hill	Oct'14	24.03.15	Substantial	1	2	0
South Harringay Infants School	Jan'15	11.05.15	Substantial	0	12	5

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DETAILED SUMMARIES

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Audit area	Scope	Status/key findings	Assurance
AD HOC			
Pendarren Outdoor Education Centre	<p>Audit work was undertaken to cover the following areas:</p> <ul style="list-style-type: none"> • Compliance with statutory requirements ; 	<p>Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.</p> <p>The key findings are as follows:</p> <ul style="list-style-type: none"> • There are no formal governance arrangements in place for the management of the Centre. • The Centre does not hold a formal and approved Scheme of Financial Delegation. • We sampled five items of income from the RM Income Transaction Report and found the following: <ul style="list-style-type: none"> ➤ All were supported by an invoice, with the correct amount and VAT posted to the system. ➤ The income was banked in a timely manner in all cases. ➤ All were supported by a signed contract between the Centre and the hirer. ➤ In one out of the five cases, the price charged was less than the price shown on the Centre's Price List. In this instance, a special rate was charged to the hirer to secure their business during a quiet period. However, the decision was made by the Centre Manager without any consultation with the Council. • The Centre delegated the management of the tender process relating to the refurbishment of the main building and annex heating to NPS. This resulted in the selection of BBM for a series of work totalling approximately £80,000. However, there is no documentation held at either the Centre or the Council from NPS to demonstrate that the correct process had been followed and to confirm the basis for the selection of the contractor. • We sampled 10 expenditure items and found that in all cases, the Purchase Order was raised after receipt of the invoice. • A copy of the bank mandate for the Centre's bank account could not be located at the Centre. As a result, we were unable to 	Limited

Audit area	Scope	Status/key findings	Assurance
		<p>confirm that the signatories to the bank account were current employees.</p> <ul style="list-style-type: none"> • A comprehensive asset register is maintained by the Centre on Excel spreadsheets covering different activities and areas within the premises. However, there is no evidence that a physical stock check is completed on a periodic basis. • The Centre does not have an asset disposal and write off policy. • Examination of the 2014/15 approved budget against the budget loaded on the RM Cash Accounts identified discrepancies, resulting from changes made to the approved budget by the Centre Manager. • Currently, the budget codes used for the RM Cash Accounts at the Centre and for the Council's SAP system are inconsistent, which does not allow for ease of identification of the specific items of income and expenditure. • Examination of the employee files for staff employed by the Centre found that a final offer of employment, signed by the Council and the employee, was not in place in all cases. • Review of Health & Safety at the Centre found that up-to-date procedures are in place and risk assessments are completed. <p>As a result of our audit work we have raised six Priority 1, four Priority 2 recommendations, and one Priority 3 recommendation which should assist in improving the control environment.</p> <p>The Priority 1 recommendations are as follows:</p> <ul style="list-style-type: none"> • The Centre Manager should discuss with the Council the necessary governance arrangements to put in place to satisfy the needs of the Council. This will assist with the periodic review of the financial and operational performance of the Centre. <p>We also recommend that adequate guidance is given to the Centre Manager's appraiser at the Council to assist with the effective monitoring of their performance with regard to the management and governance of the Centre.</p> <ul style="list-style-type: none"> • The Centre's Scheme of Financial Delegation should be presented to the Council for review and formal approval, documentary evidence of which should be retained at the Centre. Any 	

Audit area	Scope	Status/key findings	Assurance
		<p>authorisation limit above which Council approval is required should also be identified.</p> <p>Where there are changes in the delegated financial authority, resulting from new starters, leavers or reallocation of job responsibilities, the document should be revised and reapproved by the Council.</p> <ul style="list-style-type: none"> • The Centre should ensure that all documentation in support of the process followed for high value expenditure requiring a tender process to be followed or three quotes obtained, as appropriate, is retained on file at the Centre. <p>The documentation should allow for transparency in the rationale followed for the selection of the contractor or supplier. Where there is a business case for not following procedures, a waiver should be raised and approved in line with the Centre's Scheme of Financial Delegation.</p> <p>With regard to the selection of BBM, the Centre should liaise with the Council to ensure that relevant documentation is obtained from NPS in support of the decision.</p> <ul style="list-style-type: none"> • The Centre should ensure that a purchase order is raised and signed by an Officer with the appropriate authority prior to the Centre being committed to any expenditure. <p>This requirement should be formally communicated to all Officers with financial responsibility delegated through the Centre's Scheme of Financial delegation.</p> <ul style="list-style-type: none"> • The process for setting the Centre's annual budget should be strengthened to include involvement and input from the Centre Manager, which will help ensure that realistic and achievable budgets are set. <p>A process should then be implemented at the Centre for the approved budget to be loaded on the RM Cash Accounts. Where budget virements need to be made, appropriate approval should be obtained.</p> <ul style="list-style-type: none"> • Management should ensure that there is a formal offer of employment, signed by both the Council and the employee, together with a job description, in each of its employee files. 	

Audit area	Scope	Status/key findings	Assurance
		<p>Where terms and conditions for the employment has changed, a revised contract or formal offer letter, signed by both parties, should be retained on file.</p> <p>The Priority 2 recommendations are as follows:</p> <ul style="list-style-type: none"> • The Centre should obtain a copy of the current signed bank mandate and check that the authorised signatories are all current employees of either the Centre or the Council. <p>Any changes in authorised signatories should be communicated to the bank and a copy of the revised signed mandate should be retained.</p> <ul style="list-style-type: none"> • The Centre should complete a physical asset check at least annually and the results should be reported to senior management for further action, if necessary. <p>The check should be undertaken by an officer independent of the individual who maintains the asset register.</p> <ul style="list-style-type: none"> • An asset disposal and write off policy should be developed for the Centre, for review and sign off by senior management. The policy should state the circumstances for disposing and writing off assets, the method of disposal and the authority and approval for disposal. • The Centre should liaise with the RM Cash Accounts supplier with a view to making the budget codes on the system consistent and compatible with the Council's SAP system. <p>The Priority 3 recommendation is as follows:</p> <ul style="list-style-type: none"> • A process should be implemented for the rationale for any price concessions to be discussed and agreed by a Management Committee, in line with the governance arrangements recommended in 1 above. 	
KEY FINANCIAL SYSTEMS			
Accounts Payable (Creditors) 2014/15	<p>Audit work was undertaken to cover the following areas:</p> <ul style="list-style-type: none"> • Receipt and certification of Invoices; • Input of Invoices to System; 	<p>Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.</p> <p>The key findings are as follows:</p> <ul style="list-style-type: none"> • Under the previous SAP system invoices were required to be 'parked' on SAP by one officer and 'posted' by another. Since the 	Limited

Audit area	Scope	Status/key findings	Assurance
	<ul style="list-style-type: none"> • Payments; • Amendments to Supplier Master File; • BACs Control; • Cheque Control; and • Follow-up of 2013/14 recommendations. 	<p>One SAP migration invoices are received, scanned into SAP and allocated through a workflow to officers for review and approval.</p> <ul style="list-style-type: none"> • A scanned copy of the invoice is retained within SAP. • Invoices are paid on SAP as either FB60 (Non Order) Invoices or SAP Purchase Order (MIRO) invoices. • We sampled 10 FB60 invoices (including four from December 2014 onwards) and found that: <ul style="list-style-type: none"> ➢ All were supported by an approved invoice prior to payment and were correctly posted on the system; and ➢ For two of four FB60 invoices processed from December 2014, the invoice was coded and authorised by the same officer. • We sampled 19 MIRO invoices (including six from December 2014 onwards) and confirmed the following: <ul style="list-style-type: none"> ➢ Although all were supported by an approved purchase order, in three cases the purchase order was raised after the invoice date; and ➢ In all cases the details on the purchase order, the delivery notes (where applicable) and the invoice were consistent. • Creation and amendment of SAP Vendors or suppliers is restricted to relevant officers from Corporate Procurement. • The creation of new or amended vendors is completed on receipt of a written instruction from services. • SAP Creditors General Ledger Code 72025 had as at 31 March 2015 1,451 Open items with a value of £1,711,632.03. It was observed that 649 of these items were posted from 2002 to 2010. • BACS and Cheque Payments runs are completed daily. • BACS payment files are generated and received automatically by the Treasury Team. Each BACS Payment File is processed through ePAY. • Submission of BACS payments is restricted to senior finance managers, which results in the release of the BACS file for payment by the bank. • It was noted that there has been a considerable backlog of invoices awaiting processing following the implementation of the new One 	

Audit area	Scope	Status/key findings	Assurance
		<p>SAP system in December 2014. Since then, management have ensured that resources are focused on clearing the backlog, which has resulted in an improvement in the percentage of invoices paid within supplier payment terms in subsequent months.</p> <p>As a result of our audit work we have raised three Priority 1 and five Priority 2 recommendations, which should assist in improving the control environment.</p> <p>The Priority 1 recommendations are as follows:</p> <ul style="list-style-type: none"> • The system access rights of individual officers should be reviewed to ensure that no individual can both code and approve an FB60 invoice. • Resources should be allocated by Corporate Finance for the prompt investigation and resolution of all long outstanding Open items on the SAP Creditors General ledger Code. • Vendor Management should implement a process for the periodic review of a sample of new and amended vendor details on the Supplier Master File. <p>The Priority 2 recommendations are as follows:</p> <ul style="list-style-type: none"> • Management should put in place an effective process for the receipt and scanning of all invoices received from suppliers. • The use of the Creditors Aged Debt Reports should be developed to allow for the identification of invoices received, not paid and overdue. Appropriate corrective action should then be taken to minimise delays in paying supplier invoices. • Staff should be reminded of the need to raise Purchase Orders in advance of any commitment to procure works, goods and services. Where it is identified that a Purchase Order has been raised after the invoice date, the Service should be required to state the reason. • Progress on the implementation of actions to resolve the technical problems preventing the use of FISCAL should be reported to the Assistant Director for Finance, together with a timescale by when the system is expected to be operational. • The Banking and Income Section should liaise with the SAP Systems Team to promptly resolve the status of cheques on One SAP. 	

Audit area	Scope	Status/key findings	Assurance
		Progress should be periodically reported to the Assistant Director for Finance.	
BUSINESS AREA RISK			
Debt Collection 2014/15	<p>Audit work was undertaken to cover the following areas:</p> <ul style="list-style-type: none"> • Policies and Procedures; • Arrangements for monitoring the level of corporate debt Licence; • Collation of accurate information and assurance gained; • Reporting arrangements; • Write Offs; • Appointment of and remuneration to Bailiffs; and • Collection rates and management information 	<p>Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk. Information was not provided by management in some areas of this review which meant that we were unable to provide assurance in these areas; and this has adversely affected the overall assurance rating of this review.</p> <p>The key findings are as follows:</p> <ul style="list-style-type: none"> • Both Commercial Rents and Estates and Adult Services follow the Corporate SAP Debtors - Collection Procedures. Additional local procedure is also used by CRE due to slight variances from the Corporate Procedures. • Commercial Rents and Estates monitor debt using the aged debtors report. The reports are generated directly from the Manhattan system employed by the Service. Three reports are generated that contain the same information, sorted via cost centre, value, and debt status for different users. The reports are sent to Corporate Finance on a monthly basis. • For Adult Services, the level of debt is monitored by Corporate Finance directly as they can extract reporting information from SAP. Within the department, debt is monitored using the quarterly 'ZLAR' report generated and sent by Corporate Finance. • The Manhattan system used by Commercial Rents and Estates incorporates a billing system which produces an error and validation report. • The ICON system collects and sends payments to Manhattan on a daily basis. The daily report indicates what has been paid. • Staff assigned to the Commercial Debt team carry out a data matching exercise, which highlights any anomalies between ICON, SAP and Manhattan. Therefore, a 'three-way' reconciliation is 	Limited

Audit area	Scope	Status/key findings	Assurance
		<p>undertaken between SAP, Manhattan, and ICON.</p> <ul style="list-style-type: none"> • SAP data for Adult Services is reconciled to Mosaic on a quarterly basis by the Corporate Finance team. Reports are provided to Revenue officers who clear the exception by checking the Mosaic case number provided to them and investigating the reasons for the invoices not reconciled. • We were informed that neither Adult Services nor Commercial Rents and Estates use bailiffs with regards to debt collection. Therefore, testing was not carried out in this area. • Response was not received from Corporate Finance contacts during the audit fieldwork on Commercial Rents and Estates; therefore we were unable to provide an assurance opinion in the following areas: <ul style="list-style-type: none"> ○ Reporting Arrangements; ○ Write offs; and ○ Collection rates and management information. • Although we were provided with details of write-off of debts for Adult Services, no details of debt write-offs for Commercial Rents and Estates were provided to us. • The debt write-offs for Adult Services relate to the financial year 2013/14 and there is no evidence of any write-offs in 2014/15. The 2013/14 write-offs were properly authorised. However, there is no evidence that the schedule for the Bad Debt Provision at 31 March 2014 was signed off. <p>As a result of our audit work we have raised one Priority 1 recommendation and three Priority 2 recommendations which should assist in improving the control environment.</p> <p>The Priority 1 recommendation is as follows:</p> <ul style="list-style-type: none"> • Further to the debts written off in 2013/14 in respect of Adult Services, all further irrecoverable debts relating to each Service should be identified and written off in line with the Council's Financial Regulations. <p>The Priority 2 recommendations are as follows:</p>	

Audit area	Scope	Status/key findings	Assurance
		<ul style="list-style-type: none"> Corporate and local procedures relating to debt collection should be subject to regular review and approval. Version control should be introduced, detailing the author and date of last and next reviews. Downward feedback should be provided to service level staff, including the KPIs for the service and the performance of the service against agreed targets. All calculations of Bad Debt Provision should be formally signed off by an appropriate officer under delegated authority. 	

Follow Up Table – 2013/14 Audit Work

AUDIT AREA	Assurance Level	Recommendations												Priority 1 Recs. Outstanding
		Category				Implemented								
		1	2	3	Total	1	2	3	Total	N/A	Not Imp.	In Progress	Not due	
Key Financial Systems														
Accounts Receivable	Substantial	0	2	0	2	0	2	0	2	0	0	0	0	0
Payroll	Substantial	0	4	0	4	0	4	0	4	0	0	0	0	0
Strategic Financial Management & Budgetary Control	Substantial	0	2	0	2	0	2	0	2	0	0	0	0	0
Housing Benefits	Substantial	0	2	0	2	0	2	0	2	0	0	0	0	0
Cash Receipting	Substantial	0	3	0	3	0	3	0	3	0	0	0	0	0
Accounts Payable	Substantial	0	2	1	3	0	2	1	3	0	0	0	0	0
Treasury Management	Substantial	0	1	1	2	0	1	1	2	0	0	0	0	0
Procurement Audits														
Temporary Accommodation	Substantial	0	2	0	2	0	2	0	2	0	0	0	0	0
Corporate Purchase Cards	Substantial	0	1	0	1	0	1	0	1	0	0	0	0	0
IT Audits														
Framework-I Application	Substantial	0	1	3	4	0	1	3	4	0	0	0	0	0
eBenefits Application	Limited	0	9	1	10	0	6	0	7	4	0	0	0	0
Children’s Service														
14-19 Provision	Limited	4	4	0	8	4	4	0	8	0	0	0	0	0
Adult Social Services														
Residential and Community Care Charges	Substantial	0	2	1	3	0	1	1	2	1	0	0	0	0
Pan-London (Major) Equipment Service	Substantial	1	2	0	3	1	1	0	1	0	0	1	0	0
Pan-London (Minor) Equipment Service	Substantial	0	3	0	3	0	2	0	2	1	0	0	0	0
Customer Services														
Social Fund	Substantial	0	0	3	3	0	0	3	3	0	0	0	0	0

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AUDIT AREA	Assurance Level	Recommendations												Priority 1 Recs. Outstanding
		Category				Implemented								
	1	2	3	Total	1	2	3	Total	N/A	Not Imp.	In Progress	Not due		
Policy and Business Management														
Data Quality	Substantial	0	1	1	2	0	1	1	2	0	0	0	0	0
Total		5	41	11	57	5	35	10	50	6	0	1	0	0

Implemented – officers has indicated through self-certification the progress of recommendations. We have verified a sample of responses.

N/A – the recommendation is no longer applicable due to changes in the system, or alternative action has been taken to address the risk.

Not implemented – the recommendation has not been addressed, alternative action has not been taken.

In Progress – officers have started implementation of recommendations

Detailed Progress Report – Outstanding Recommendations 2013/14

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
Pan London (Major) Equipment Service				
6	<p>Management should ensure that a formal Service Level Agreement is put in place, signed by both the Council and the NHS, which details the basis of the agreed recharges to be paid by the NHS. The SLA should clearly identify the type of equipment which is eligible for a recharge.</p> <p><i>Responsibility: Head of Adaptations Service</i></p>	2	31 March 2014	<p>Status: Partly Implemented</p> <p><i>Management update October 2014:</i> Copy of the SLA is still with Haringey Clinical Commissioning Group (CCG) and there will be an indication by end of October 2014 as to when this is likely to be signed.</p> <p><i>Management Update December 2014:</i> Still awaiting the CCG to sign the Access Agreement.</p> <p><i>Revised Deadline: 31/3/15.</i></p>

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited**London****September 2015**

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