

Final Internal Audit Report

Client Management of Octavo Partnership

February 2017

Distribution: Executive Director of Resources (Final Report only)
Executive Director of People (Final Report only)
Director of Universal People Services
Director of Education and Youth Engagement

Assurance Level	Recommendations Made	
Limited Assurance	Priority 1	4
	Priority 2	2
	Priority 3	0

Confidentiality and Disclosure Clause

This report has been prepared on the basis of the limitations set out in Appendix 3.

This report and the work connected therewith are subject to the Terms and Conditions of the Contract dated 1st April 2008 between the London Borough of Croydon and Mazars Public Sector Internal Audit Ltd. The content of the report is confidential and has been prepared for the sole use of the London Borough of Croydon and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law, we accept no responsibility or liability to any third party who purports to use or rely, for any reason whatsoever on this report, its contents or conclusions.

Contents

Page

Executive Summary

1. INTRODUCTION.....	2
2. KEY ISSUES	2

Detailed Report

3. ACTIONS AND KEY FINDINGS/RATIONALE.....	3
--	---

Appendices

1. TERMS OF REFERENCE
2. DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS
3. STATEMENT OF RESPONSIBILITY

1. Introduction

The Octavo Partnership delivers school improvement services across the Borough of Croydon and beyond. In light of significant budget cuts, it was necessary to find a new and innovative way of providing services to Croydon schools. The Octavo Partnership sells discretionary support services to schools directly, whilst delivering statutory services on behalf of Croydon Council. Staff of the Octavo Partnership continue to work with staff at Croydon Council to create a service that supports schools.

The Octavo Partnership was established as a mutual trading company in April 2015, The Articles of Association and Members' Agreement bestow upon London Borough of Croydon a 40% voting share, with 40% allocated to the Croydon Headteachers' Association and the remaining 20% allocated to staff Members. Certain matters, such as alteration of the Mutual's objectives, require a unanimous vote, and the quorum for Board meetings requires that there is at least a 40% representation from the Council.

This audit was undertaken as part of the Internal Audit Plan for 2016/17, as agreed by the Council's General Purposes and Audit Committee.

2. Key Issues

Priority 1 Recommendations
The service charges paid to Octavo were not in accordance with the fees set out in the contract and there was an inadequate audit trail showing how these were varied. (Rec 1)
The responsibility for monitoring receipt of rental payments from Octavo and levying interest payments is unclear. (Rec 2)
Monitoring of compliance with the Education Services specification is inconsistent and evidence of robust monitoring of KPIs could not be provided. (Rec 3)
Minutes to the Strategic and Project Boards responsible for Octavo contract management were requested but could not be provided. (Rec 4)
Priority 2 Recommendations
Historically, Octavo invoices have been received late after the invoice date by Accounts Payable, which has slowed down payment. (Rec 5)
It is not clear whether ad-hoc expenditure with Octavo is 'on-contract' or 'off-contract' spend and there is no evidence this is being monitored on a regular basis. (Rec 6).

During our audit we requested copies of budgetary control reports/management accounts directly from Octavo and these were not provided. Although we have not seen management accounts during the course of our work, we were provided with Octavo Board and Finance and Policy Committee minutes which evidenced that Directors were presented with these between December 2015 and May 2016. We were also able to confirm that a new Board reporting pattern was set from July 2016 onwards, which included provision for regular financial reporting. We have not therefore raised a recommendation in regards to this issue.

3. Actions and Key Findings/Rationale

Control Area 2: Contract Payments		Detailed Finding/Rationale																		
Priority	Recommendation 1																			
1	<p>A regular review of payments to the Mutual should be undertaken as part of budget monitoring and the accuracy of these against the contractually specified service charges established.</p> <p>Requests for adjustments to payments should be made in a timely manner.</p> <p>Staff should be reminded to retain an audit trail of all correspondence relating to service charges, and to forward this to the contract monitoring officer for retention.</p> <p>All variations of service charges should be recorded on the contractual variation form and signed by the Council's representative, in accordance with the service contract.</p>	<p>The 2015/16 service specification in the Education Services contract signed on 31 March 2015 states that service charges are as follows:</p> <ul style="list-style-type: none"> • April 2015-March 2016: £96,834.11 per month (£1,126,009.32 annually) • April 2016-March 2017 and all subsequent years of service: £75,349.36 per month (£904,192.32 annually) <p>In addition to the service specification signed in March 2015 we were provided with a schedule of payments for the 2015-16 and 2016-17 financial years, as well as a variation form for the 2016-17 service year. Comparison of the figures provided identified the following variances:</p> <p>Table: Comparison of service charges stated in contractual and finance documents</p> <table border="1"> <thead> <tr> <th>Service Year</th> <th>Service Specification (April 2015)</th> <th>Schedule of Payments (March 2015)</th> <th>Purchase Order</th> <th>Service Specification following variation (May 2016)</th> <th>Overall variance</th> </tr> </thead> <tbody> <tr> <td>2015-2016</td> <td>£1,126,009.32</td> <td>£1,137,471.36</td> <td>£1,137,471.36</td> <td></td> <td>£11,462.04*</td> </tr> <tr> <td>2016-2017</td> <td>£904,192.32</td> <td>£915,654.36</td> <td>£959,000.00</td> <td>£1,050,554.01</td> <td>(£91,554.01)**</td> </tr> </tbody> </table> <p>*Purchase order minus service specification **Purchase order minus varied service charge.</p>	Service Year	Service Specification (April 2015)	Schedule of Payments (March 2015)	Purchase Order	Service Specification following variation (May 2016)	Overall variance	2015-2016	£1,126,009.32	£1,137,471.36	£1,137,471.36		£11,462.04*	2016-2017	£904,192.32	£915,654.36	£959,000.00	£1,050,554.01	(£91,554.01)**
Service Year	Service Specification (April 2015)	Schedule of Payments (March 2015)	Purchase Order	Service Specification following variation (May 2016)	Overall variance															
2015-2016	£1,126,009.32	£1,137,471.36	£1,137,471.36		£11,462.04*															
2016-2017	£904,192.32	£915,654.36	£959,000.00	£1,050,554.01	(£91,554.01)**															

	<p>Although the documentation provided indicated that the service specification and payments had been varied, no evidence was provided showing on what basis the varied service charges were calculated, or who had authorised these.</p> <p>In addition, we were provided with a variation form for the reduction in contract price for year two. This form is signed by the Octavo representative, but has not been signed by the Council. The contract states that it 'may not be varied except by an agreement in writing signed by the duly authorised representatives of the parties'.</p> <p>Furthermore, a monthly service charge instalment of £113,747.14 was paid on 10 May 2016 for the 2016-17 service year. An amount of £86,917.25 should have been paid, and the Mutual was therefore overpaid by £26,829.89.</p> <p>We were informed that the Mutual had raised an invoice with the incorrect amount. The error was not identified and this amount was then goods-receipted on 10 May 2016. The e-mail correspondence provided to us indicated that the Council had not resolved this issue until June 2016 despite being informed and chased by the Mutual in May and June 2016 respectively. We were informed that the error in goods-receipting and invoicing arose due to an inaccurate purchase order being raised.</p> <p>There is a risk that inaccurate or invalid payments may be approved and paid. There is a further risk such payments may not be identified and rectified in a timely manner.</p>		
Management Response	Agreed/Disagreed	Responsible Officer	Deadline
<p>All invoices are received by Accounts Payable and are now checked with the contract manager prior to receipting and payment being made. This now ensures that payments are correct and that there are no concerns regarding the performance of the contract. Invoices are paid monthly and checked against the annual budget as a part of the normal Council quarterly budget monitoring process.</p> <p>Variations to contract amounts are made annually by mutual agreement and a signed variation form will be completed by the contractor and Council.</p> <p>Due to changes to service structure for the financial year 2017/18 the contract will be managed by the Head of</p>	<p>Agreed</p>	<p>Improvement Advisor, People Department</p>	<p>1 April 2017 and ongoing</p>

Service for Education Commissioning and Post-16 Participation.				
--	--	--	--	--

Control Area 3: Use of Council Property and Services (including Payroll)				
Priority	Recommendation 2	Detailed Finding/Rationale		
1	<p>Management should determine whether the responsibility for monitoring rental income rests with the Asset Management and Estates Team, or with the Corporate Debt Recovery Team.</p> <p>Where this is the responsibility of the Corporate Debt Recovery Team, a schedule should be prepared of all income due from the Mutual and provided to them. The schedule should include references to specific contractual and lease obligations, and expected amounts and dates, so that staff may readily discern whether the income expected has been received completely and in a timely manner.</p> <p>Income in respect of the lease agreement should be reviewed and management should determine whether any other sums in respect of rent are owed.</p> <p>Where sums in respect of rent are owed, consideration should be given to calculating and levying interest charges in relation to overdue amounts.</p>	<p>The 'interpretation' section of the lease agreement between Octavo and the Council states that rent of £33,000 and a service charge of £26,000 must be paid on an annual basis (total of £59,000). The agreement goes on to state the rent payment dates for payments are: 25 March, 24 June, 29 September and 25 December.</p> <p>Our testing of the Council's Property Management system identified:</p> <ul style="list-style-type: none"> The first invoice in respect of rental and service charge payments was raised on 20 November 2015 for the sum of £41,623.29, which represents a period of 257.5 days between 25 March and 7 December (when the second invoice was raised); The second rent payment was received on 11 March 2016 (or 77 days late); and The third rent payment was received on 8 April 2016 (or 14 days late). <p>The Council has the ability to levy late payment interest charges. There was no evidence that late interest charges had been levied in respect of the above payments.</p> <p>Our initial discussions with staff identified that the Corporate Debt Recovery team were not aware that Octavo make rental and service charge payments in addition to interest payments on a loan facility provided by the Council. Our discussions with the Asset Management and Estates team identified that it was their belief the Corporate Debt Recovery team monitored income received from Octavo.</p> <p>There is a risk the Council may not receive all income owed to it in a timely manner.</p>		
Management Response		Agreed/Disagreed	Responsible Officer	Deadline
The decision for responsibility for action on this recommendation will be taken at the next Mutual Strategic Board Meeting.		Agreed	Director of Education and Youth Engagement	28 March 2017

Control Area 6: Use of Council Property and Services (Including Payroll)	
Priority	Detailed Finding/Rationale
<p>1</p> <p>Recommendation 3</p> <p>Contract Monitoring Officers should request that contract monitoring reports are produced in accordance with the timescales listed in the service contract specification.</p> <p>Where Officers at the Mutual do not prepare contract monitoring reports within the agreed timescales, consideration should be given to using the retention mechanisms specified in the contract.</p> <p>Where it is deemed by senior management that the Key Performance Indicators in the contract and their reporting frequency does not meet the needs of the Council, the specification and indicators should be formally varied.</p>	<p>The varied Educated Services specification dated April 2016 provides a listing of key performance indicators relating to School Improvement and Educational Psychology services and states the required reporting frequency of these.</p> <p><i>School Improvement Key Performance Indicators</i></p> <p>We were informed that 'School Improvement' KPIs can only be monitored on an annual basis as these are dependent on student exam performance. However, the contractual KPI schedule states that quarterly progress updates are required.</p> <p>We note that the KPI schedule includes targets which are not exam-based and which are to be reported on a quarterly, termly or bi-annual basis.</p> <p>We could not therefore confirm that School Improvement KPIs are being monitored in accordance with the varied service specification.</p> <p><i>Education Psychology Key Performance Indicators</i></p> <p>The service specification states Education Psychology KPIs are to be reported on a monthly basis.</p> <p>We requested but were not provided with evidence that monitoring of this nature had been undertaken between January and June 2016. We could not therefore confirm that Education Psychology KPIs are being monitored in accordance with the varied service specification.</p> <p>We acknowledge that the Mutual prepares performance reports, and presents this information to their own Board on a regular basis. However, there is no evidence that independent review of the performance reports is undertaken within the Council.</p> <p>There is a risk that sub-standard performance may not be identified and/or rectified in a timely manner. There is a further risk that the Council may pay for services that do not meet required performance levels and value-for-money may not be evidenced as a result. There is a risk that the reporting frequency of key performance indicators</p>

	may not be aligned with business processes and that monitoring activities may be ineffective as a result.		
Management Response	Agreed/Disagreed	Responsible Officer	Deadline
The Head of Service for Education Commissioning and post-16 participation will review the format of the contract monitoring reports against the annually revised KPI's to ensure all necessary information is captured and reported. The revised KPI's are included in the variation.	Agreed	Improvement Officer, People Department	April 2017 and ongoing

Control Area 6: Collaboration, Performance Monitoring and Management Reporting			
Priority	Recommendation 4	Detailed Finding/Rationale	
1	<p>Senior management should review whether there is a need for a Council contract management board to oversee the Mutual contract.</p> <p>Where it is decided that a contract management board should not be formed, senior management should implement an alternative reporting process to enable regular review of key performance indicators.</p>	<p>During the Mutual project implementation phase it was intended that contract performance monitoring information would be reported to a Council contract monitoring board. We obtained a document entitled 'Mutual Governance' which sets out responsibilities for this monitoring as follows:</p> <p>'Mutual Strategic Board: The decision making body, which has ultimate accountability and responsibility for the education support services commissioned contract.</p> <p>Mutual Project Board: The operational group, which oversees the delivery of the education support services contract.'</p> <p>We requested minutes to the Mutual Strategic Board and the Mutual Project Board meetings held since January 2016 but were not provided with these.</p> <p>There is a risk accountability for contract management may be diminished. There is a further risk of ineffective or inefficient decision-making in regards to service provision.</p>	
Management Response		Agreed/Disagreed	Responsible Officer
<p>The mutual project board oversees the contract performance and the strategic board has ultimate responsibility and takes strategic decisions. We will ensure minutes are available for both of these meetings.</p>		Agreed	Director of Education and Youth Engagement
		Deadline	Immediate

Control Area 2: Contract Payments	
Priority	Recommendation 5
Detailed Finding/Rationale	
2	<p>Payments should be made within 21 days of a Mutual invoice being received.</p> <p>Late provision of invoices should be identified as part of internal Council-side budget monitoring activities.</p> <p>Contract management staff should be reminded to forward any invoices received to the Accounts Payable team in a timely manner.</p>
	<p>The Education Services contract dated 31 March 2015 states in section 15.3 'The Council shall pay each invoice submitted to it by the Contractor within twenty one (21) days of receipt to a bank account nominated in writing by the Contractor unless there is a dispute in relation to the amount to be paid in which case the provisions of Condition 15.4 shall apply.'</p> <p>Our testing of all 13 contract payments received to date identified one payment made after the 21 day deadline following the receipt of an invoice dated 05/05/2015, where the payment was made 3 days late.</p> <p>Furthermore, four invoices were received by Accounts Payable more than ten days after the respective invoice dates. Whilst these were paid by Accounts Payable within 21 days of the them receiving these, it is not clear whether the Council as an organisation complied with this target:</p> <ul style="list-style-type: none"> • Invoice dated 05/05/2015 – received 34 days later on 08/06/2015; • Invoice dated 28/08/2015 – received 27 days later on 24/09/2015; • Invoice dated 10/04/2015 – received 25 days later on 05/05/2015; and • Invoice dated 29/02/2016 – received 17 days later on 17/03/2016. <p>We were informed by the then Head of School Standards, Commissioning and Learning Access that, previously invoices were being received directly by the contract management team, and then passed to Accounts Payable for processing. Currently, Octavo sends invoices directly to Accounts Payable, and these are sent to the contract management team for approval prior to payment. We requested but were not provided with an exact date on which the process changed and could not therefore confirm whether the risks have been adequately mitigated.</p> <p>Furthermore, we note that no November 2015 invoice was raised by Octavo. The December 2015 invoice was £227,494.27 covered both the November and December charges.</p>

		<p>There is a risk that late payments will impact the cash-flow management of the Mutual. There is a further risk that late interest payments may be charged by the Mutual.</p>	
Management Response	Agreed/Disagreed	Responsible Officer	Deadline
<p>Invoices are now sent simultaneously to Accounts Payable and the contract manager to avoid delays in the process from the Council side.</p>	<p>Agreed</p>	<p>Director of Education and Youth Engagement</p>	<p>In place</p>

Control Area 2: Contract Payments		Detailed Finding/Rationale
Priority	Recommendation 6	
2	<p>A spend analysis of expenditure with the Octavo Mutual should be undertaken and it determined whether ad-hoc expenditure is off-contract or on-contract.</p> <p>Where it is determined that ad-hoc expenditure is 'off-contract' further advice should be sought from the Procurement team to confirm whether it is appropriate and compliant to aggregate it, and commence a fresh tender process.</p> <p>Where it is determined that ad-hoc expenditure is 'on-contract' the spend analysis should identify which staff are engaging the Mutual to perform services. These staff, and other staff who may potentially engage the Mutual in the future, should be informed of the correct process for engaging the Mutual to perform services.</p> <p>Where ad-hoc expenditure is 'on-contract' the contract management team should create an internal procedural document explaining the process for raising ad-hoc service instructions and the documentation and authorisations required to instruct the Mutual.</p> <p>Planned and ad-hoc expenditure with the Mutual should be monitored on a monthly or quarterly basis as part of regular budget and contract management activities.</p>	<p>Point 2.3 of Schedule 6 'Change Control' of the Octavo Service Contract states, 'The Council shall not be responsible for the cost of any work undertaken or services or goods or materials ordered by the Contractor or its Sub-Contractors which has not been authorised in advance under this Schedule 6 or which did not form part of the Services prior to the enactment of the Council Change or Contractor Change (as the case may be) unless agreed otherwise in writing between the parties.'</p> <p>We obtained a report of all contract spend for the period April 2015 to March 2016, and April 2016 to June 2016. The report included payments made by various teams within the Council for services provided by Octavo, including the Transformation and Traded Services Finance teams. The total value of ad-hoc expenditure, adjusted for staff redundancy payments and a South West London School Effectiveness (SWLSEP) payment is £139,880.12. The split of these payments was as follows:</p> <ul style="list-style-type: none"> • £136,942.32 between April 2015 and March 2016; and • £2,937.80 between April 2016 and June 2016. <p>We were informed that the Strategic Contracts Manager does not undertake monitoring of ad-hoc expenditure and that the staff raising requisitions on Oracle have this responsibility. One of two scenarios has therefore arisen in respect of this contract:</p> <p><u>Scenario A: The ad-hoc expenditure represents 'off-contract' or 'maverick' spend</u></p> <p>As the individual purchases have not been raised via the contract manager and the change control process specified in the contract, it could be argued that each separate purchase represents a separate contract. If this view is taken, then it follows that each separate purchase is subject to the provisions of the Tender and Contract Regulations, and that where any single expenditure above £5,000 has been incurred this should have been market-tested prior, in accordance with Appendix C of the Tender and Contracts Regulations.</p> <p>In addition, the Tender and Contract Regulations (Section 1.20) place an onus on the commissioning or procuring manager to consider whether separate goods and services can be aggregated. The services listed fall broadly under assorted</p>

	<p>education services, and are capable of being aggregated given that similar services have been included in the Octavo Mutual service contract.</p> <p>The average monthly value of ad-hoc expenditure between April 2015 and March 2016 is £11,411.86. If the ad-hoc expenditure was aggregated into a contract of indefinite length, the total value of the contract would be £547,769.28 under provisions made in the Public Contract Regulations 2015. Although this is below the OJEU limit for light-touch services, this is above the limit defined in the Tender and Contract Regulations, and it could be argued that the ad-hoc expenditure should be subject to a separate tender process.</p> <p><u>Scenario B: The ad-hoc expenditure is 'on-contract'</u></p> <p>The alternative scenario would be that the ad-hoc expenditure incurred forms part of the contract (due to Council and Octavo Officers informally varying the contract) and is in fact 'on-contract' spend.</p> <p>This scenario highlights there are issues relating to the governance of the contract as we are not able to evidence that the ad-hoc expenditure was approved or documented in accordance with the terms of the contract as the contract manager was not aware of the instructions' existence.</p> <p>There is a risk of non-compliance with the Tender and Contract Regulations. There is a risk that adequate approval is not being obtained prior to expenditure, and that the governance processes are weakened. There is a further risk that the additional expenditure represents variations to the original contract, and that these are therefore not being executed in accordance with contractual terms.</p>		
<p>Management Response</p> <p>A spend analysis will be undertaken as recommended and advice sought from the procurement and finance teams.</p>	<p>Agreed/Disagreed</p> <p>Agreed</p>	<p>Responsible Officer</p> <p>Category Manager, Resources Department</p>	<p>Deadline</p> <p>April 2017</p>

INTERNAL AUDIT TERMS OF REFERENCE

Client Management of Octavo Partnership

1. INTRODUCTION AND BACKGROUND

- 1.1 The Octavo Partnership delivers school improvement services across the Borough of Croydon and beyond. In light of significant budget cuts from 2015, it was necessary to find a new and innovative way of providing services to Croydon schools. The Octavo Partnership sells discretionary support services to schools directly, whilst delivering statutory services on behalf of Croydon Council. Staff of the Octavo Partnership continue to work with staff at Croydon Council to create a service that supports schools.
- 1.2 The Octavo Partnership was established as a mutual trading company in April 2015, The Articles of Association and Members' Agreement bestow upon London Borough of Croydon a 40% voting share, with 40% allocated to the Croydon Headteachers' Association and the remaining 20% allocated to staff Members. Certain matters, such as alteration of the Mutual's objects, require a unanimous vote, and the quorum for Board meetings requires that there is at least a 40% representation from the Council.
- 1.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment relating to the client management of Octavo.
- 2.2 In order to achieve the overall objectives, a risk based systems audit approach will be carried out, documenting and evaluating the actual controls against those expected and based on this, undertaking appropriate testing conducted.
- 2.3 The key findings, conclusions, and subsequent recommendations arising will be presented at an exit meeting and followed by the circulation of a draft report for consideration by management. This prior to agreement and issue of the final audit report.

3. SCOPE





- 3.1 This audit will examine the Council's arrangements for the following areas relating to Client Management arrangements in respect of the Octavo Partnership (and number of recommendations made):

Control Areas/Risks	Recommendations		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Governance – Legal Form, Board and Internal	0	0	0
Contract Payments	1	2	0
Use of Council Property and Services (including Payroll)	2	0	0
Cost Structure and Trading Activities	0	0	0
Budget Efficiencies and Monitoring, Financial Reporting and Going Concern Status	0	0	0
Collaboration, Performance Monitoring and Management Reporting	1	0	0
TOTAL	4	2	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

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

February 2017

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.