



**Audit Committee**  
25<sup>th</sup> June 2008

**Report from the Director of Finance  
and Corporate Resources**

For Information  
\* delete as necessary

Wards Affected:  
ALL

**Report Title: Internal Audit Annual Report 2007-08**

**1. Summary**

- 1.1. This report is the annual report from the Head of Internal Audit. The report includes an opinion on the overall adequacy and effectiveness of the Council's internal controls and presents a summary of the audit work undertaken during the year.

**2. Recommendations**

- 2.1. The Audit Committee note the content of the report.

**3. Detail**

- 3.1. The Account and Audit Regulations 2003<sup>1</sup>, as amended, require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. The role of internal audit is to provide an independent and objective opinion on the control environment within the Council. Internal audit work is undertaken in accordance with the CIPFA Internal Audit Code of Practice 2006<sup>2</sup> ("the code"). The code sets out a number of elements to be included in an annual report from the Head of Audit. These are:

- An opinion on the overall adequacy and effectiveness of the internal control environment
- Any qualifications to the opinion
- A summary of audit work undertaken
- Any issues particularly relevant to the Annual Governance Statement (previously the Statement on Internal Control (SIC))
- A comparison of the work undertaken against the plan and performance issues

- A comment on compliance with the CIPFA code

### **Opinion of the Head of Audit and Investigations**

- 3.2. *“I have considered all of the work conducted by internal audit staff, Deloitte and Touche Public sector Internal Audit Ltd and investigation staff for the year ended 31st March 2008 and work undertaken post year end. This includes oversight of all internal audit reports and fraud investigations and personal conduct of specific projects. In my opinion, the controls in place in those areas reviewed are adequate and effective. Where weaknesses have been identified, these are being addressed by management and followed up by Internal Audit.*
- 3.3. *In addition, I have had oversight of the process by which the Annual Governance Statement has been completed. As this is the first year in which an Annual Governance Statement has been required, there are some minor limitations within the current process although, in my opinion, these do not materially affect the Council’s overall governance arrangements. I am satisfied that the content of the statement is accurate and its completion has complied with the relevant CIPFA guidance. Any issues which I have judged relevant to the preparation of the Annual Governance Statement have been included.”*

### **Qualifications to the Opinion**

- 3.4. The audit plan for each year is based upon a number of factors: Knowledge of functions and services of the authority, the risk environment, previous audit experience and new developments. Achievement of the plan is at its highest level for a number of years and represents 98% of planned work. There are no qualifications with regard to resourcing or coverage.
- 3.5. There have been some difficulties in arranging external assessments in the Council’s schools in order to ensure compliance with the DCSF Financial Management Standards in Schools requirements in 2007/08. This will mean an enhanced focus on this work in 2008/09.

### **Summary of work undertaken**

- 3.6. The 2007/08 Audit Plan was approved by the Performance & Finance Select Committee on 4th March 2007<sup>2</sup>. The plan allocated some 1224 audit days across three distinct areas: Risk Based Operational Systems audits (including IT audits and Brent Housing Partnership audits) and Schools.
- 3.7. At the end of March 2008, a total of 1194 days had been delivered representing 98% of the audit plan. The outstanding 30 days and thus the 2% shortfall in the achievement of the 100% target initially set was due to the primary schools not being ready for their FMSIS assessment prior to 31 March 2007. Given the high number of schools now requiring assessment in 2008/09, these 30 days have been carried forward to the 2008/09 financial year and will help to reduce the pressures on the 2008/09 Plan in terms of

having to allocate a high proportion of days to the schools.

3.8 Audit work focused on the reliability of the financial and operational information, management accounting controls, safeguarding of assets, economy and efficiency of operations and review of compliance with relevant statutes and Council regulations.

3.8. For each audit where controls have been analysed, an assurance statement is issued. This simple grading mechanism indicates the level of confidence we have in the controls within the area audited. Each category is defined below:

<b>Full Assurance</b>	There is a sound system of control designed to achieve the client's objectives. The control processes tested are being consistently applied.
<b>Substantial Assurance</b>	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic controls leaves the processes/systems open to error or abuse.

3.9. The following table indicates the audits completed and relevant levels of assurance during the 2007-08 financial year:

<b>Ref</b>	<b>Systems Audits</b>	<b>Level of Assurance</b>
1.	Pensions	Substantial
2.	Payroll/HR System – Pre implementation Review (IT)	Substantial
3.	Planning Applications	Substantial
4.	Contract Audit – Alperton Underpinning	Substantial
5.	Mount Stewart Junior School	Substantial
6.	IDEAR Application (IT)	Substantial
7.	Epicor Application (IT)	Substantial
8.	Housing Rents (BHP)	Substantial
9.	Complaints (BHP)	Substantial
10.	Cashiers	Substantial
11.	Bankline Application	Substantial
12.	Budgetary Control	Substantial
13.	Supporting People (Contracts and Contract Management)	Substantial
14.	Housing & Council Tax Benefits	Substantial
15.	BACES	Substantial
16.	Anti Social Behaviour (BHP)	Substantial

17.	Bulky Waste Collection	Substantial
18.	Dropped Kerbs	Substantial
19.	Parking Enforcement	Substantial
20.	Review of Management Controls over Grants Administered by Brentin2Work	Substantial
21.	NNDR Academy (IT)	Substantial
22.	Oracle Pre-Implementation – Children & Families (IT)	Substantial
23.	Geographical Information System (IT)	Substantial
24.	Adult Care Packages – Learning Disabilities	Limited
25.	St Joseph’s RC Primary	Limited
26.	Vernon House School	Limited
27.	KS3 – Pupil Referral Unit	Limited
28.	Oracle Financials Application (IT)	Limited
29.	View 360 EDMS Benefits System (IT)	Limited
30.	Internal Financial Controls – Community Care	Limited
31.	Election Expenses	Limited
32.	Grants to Voluntary Organisations	Limited
33.	Highway – Pot Holes	Limited
34.	Recoupment	Limited
35.	Avigdor Hirsh Torah Temimah School	Limited
36.	Northview Primary School	Limited
37.	Non – Stop Gov (IT)	Limited
38.	Housing Repairs & Maintenance (BHP)	Limited
39.	Watling Gardens – Follow Up Review (BHP)	Limited
40.	Internal Financial Controls – Environment & Culture	Limited
41.	Internal Financial Controls - Housing	Limited
42.	Internal Financial Controls – Finance & Corporate Resources	Limited
43.	Payroll - Unipay	Limited
44.	Council Tax	Limited
45.	Looked After Children - Placements	Limited
46.	Arboriculture	Limited
47.	Street Lighting PFI	Limited
48.	Older People Services – Care Packages	Limited
49.	BLDP – Establishments	Limited
50.	Gladstone Park Primary	Limited
51.	Barham Primary School	Limited
52.	Mitchell Brook Primary School	Limited
53.	Wembley High College of Technology	Limited
54.	Repairs & Voids (BHP)	Limited
55.	Anson Primary School (FMSIS)	n/a
56.	Fryent Primary (FMSIS)	n/a
57.	St Margaret Clitherow (FMSIS)	n/a
58.	LAA Grant Certification - Corporate	n/a
59.	LAA (Review of Internal Control Environment/Grant Statement – Connexions	n/a
60.	LAA Review of Internal Control Environment /Grant Certification – Safer Stronger Communities Fund	n/a

61.	LAA Review of Internal Control Environment /Grant Certification – Sure Start	n/a
62.	LAA Review of Internal Control Environment /Grant Certification – Children’s Services	n/a
63.	SIC Verification Exercise	n/a
64.	Risk Management – Initial Comparison Exercise	n/a
65.	Payroll - Interact	n/a
66.	Business Continuity Planning	n/a
67.	Libraries – Follow-Up	n/a
68.	NNDR – Follow-up	n/a
69.	Council Tax Application – Follow-Up	n/a
70.	Disaster Recovery – Follow-Up	n/a
71.	iWorld Revenues – Follow Up	n/a
72.	Right to Buy – Follow-Up	n/a
73.	Members Allowances – Follow-Up	n/a
74.	Registers of Interest (Members)– Follow-Up	n/a
75.	Pension Fund Investments –Follow Up	n/a
76.	Licensing – Follow –Up	n/a

**Table 1 - List of completed audits for 2007/08 and levels of assurance**

3.10. The following table indicates audits undertaken in the 2007/08 financial year for which management responses are outstanding.

Ref	Systems Audits	Level of Assurance
77.	Client Index IT	-
78.	Children & Families Imprest Accounts	-
79.	Home to School Transport	-
80.	Curzon Crescent Nursery School	-
81.	Malorees Junior School	-
82.	St Joseph’s Primary School	-
83.	Registers of Interests and Gifts & Hospitality (Members)	-
84.	Registers of Interests and Gifts & Hospitality (Employees)	-
85.	Byron Court Primary School	-
86.	Michael Sobell Sinai School	-
87.	Preston Park Primary School	-
88.	Housing Allocations	-

**Table 2 – List of 2007-08 Reports to be finalised**

### **Fraud Issues**

3.11. In addition to internal audit work, the Audit and Investigations Team has responsibility for fraud investigation across the council. Fraud can impact upon the council’s finances and may have implications for the systems of internal control.

- 3.12. Fraud affecting the council can be split between internal, committed by staff, or external, committed by third parties. As with all other large institutions in both the public and private sector, the council suffers from both.
- 3.13. The fraud case load is split over four main areas. The 2007/8 case load statistics are shown in table 1 below.

<b>Fraud Area</b>	<b>New Cases</b>	<b>Cases Closed</b>	<b>Cases Investigated</b>	<b>Fraud Identified</b>
<b>Housing Benefit*</b>	799	922	280	146
<b>Housing Tenancy Related</b>	81	55	52	23
<b>Other external / third party</b>	18	20	18	14
<b>Internal</b>	45	43	38	15
<b>Totals</b>	943	1040	388	205

**Table 3 – Fraud Case Load 2007/8**

*\* excludes referrals checked and returned to CFIS*

- 3.14. During 2007/08, the team completed investigations into 280 housing benefit fraud cases. The value of fraudulent overpayments (including DWP benefits) created as a result of investigations in 2007/08 was £1,309,198 representing an increase on the previous year of £309,000. Of this amount, £875,000 relates to housing or council tax benefit.
- 3.15. A total of 111 sanctions were applied to cases closed during 2007/8. These are summarised below:

<b>Sanction</b>	<b>2007/08</b>
Prosecutions	44
Administrative Penalties	44
Cautions	23
<b>Total</b>	<b>111</b>

**Table 4 – Housing Benefit Sanctions 2007/8**

- 3.16. The investigation team completed investigations into 52 cases of tenancy fraud, recovering 22 council properties in 2007/08. These recoveries have a significant financial impact on the housing revenue account and temporary accommodation budget.
- 3.17. In relation to internal fraud investigations, which covers all council officers and teachers, 38 investigations were completed during the year. Fraud was established in 13 of these cases. None of these had a material impact upon the council's finances. Cases included three in which officers illegally claimed benefit, one of a serious conflict of interest, two false sickness claims and two thefts of cash. Six staff were dismissed at disciplinary, two received final warnings and five resigned or left prior to action being taken.

## **Issues relevant to the Annual Governance Statement**

3.18. None

## **Compliance with the CIPFA Code of Practice for Internal Audit in Local Government**

3.19. The CIPFA Code of Practice<sup>2</sup> is a non-statutory code. However, the Accounts and Audit Regulations 2003<sup>1</sup>, as amended in 2006 require the Council to maintain an adequate and effective system of internal audit in accordance with proper internal audit practices. The guidance accompanying the Accounts and Audit Regulations specifies that proper practices are those contained within the CIPFA code. Internal Audit is, therefore, required to comply with the code.

3.20. The Internal Audit Team works in accordance with these standards and has a quality control mechanism which involves an internal quality review of all audit reports and ongoing supervision and appraisal of all staff.

3.21. The Accounts and Audit (amendment) Regulations 2006 placed a further requirement on the Council to, "at least once in each year, conduct a review of the effectiveness of its system of internal audit" and that, "the findings of the review referred ..shall be considered, as part of the consideration of the system of internal control." CIPFA are yet to issue guidance on how such a review is to be undertaken. Some authorities have chosen to employ consultants to undertake the review, others use a peer review process whilst some rely on their audit committee. The work of the internal audit team has been reported to this committee on a regular basis, together with summaries of audit work undertaken, in addition the Council's external auditors (District Audit) are in the process of undertaking a triennial review of Internal Audit (including a cross borough review of internal audit services provided by Deloitte). This will be reported in due course.

3.22. As part of the framework agreement for audit services, the Head of Audit and Investigation attends a contract co-ordination board, together with the Heads of Audit from Hammersmith and Fulham, Ealing and senior Deloitte staff. This board generally considers the ongoing delivery of audit services to the three boroughs and conducts an ongoing review of the effectiveness of audit provision across the three boroughs.

## **4. Financial Implications**

4.1. None

## **5. Legal Implications**

5.1. None

## **6. Diversity Implications**

6.1. None

## **7. Background Papers**

1. Accounts and Audit Regulations 2003
2. Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 – CIPFA
3. REPORT FROM THE DIRECTOR OF FINANCE - INTERNAL AUDIT PLAN; JOINT AUDIT & INSPECTION PLAN for 2007/08 & STATEMENT OF INTERNAL CONTROL FOR 2006/07, *Audit Committee – 4<sup>th</sup> March 2007.*

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