

	<p style="text-align: center;">Audit Committee 18th June 2009</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
<p>Wards Affected: ALL</p>	
<p>Internal Audit Annual Report 2008-09</p>	

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 Accounts and Audit Regulations 2003¹, 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 2006² ("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
- 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, the council’s audit contractor, Deloitte and Touche Public sector Internal Audit Ltd and fraud investigation staff for the year ended 31st March 2009 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, with the exception of foundation schools which I refer to below, 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. This is the second year in which an Annual Governance Statement has been required, the minor limitations referred to in my opinion for 2007/08 have been resolved and I am satisfied that the process to produce the statement is robust. 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. *In relation to Foundation Schools, mentioned above, I am concerned that the audit arrangements within these schools may be inadequate. Foundation Schools have been free to make their own audit arrangements since inception and these are commissioned by Governing Bodies. Although schools have been instructed as to what audit coverage should be commissioned and they are expected to comply with this, it is clear that this has not occurred in all cases. As a result of serious governance failures in one of these schools I consider that these arrangements should be changed and that the Council should conduct internal audits within these schools in future to provide fuller assurance to governing bodies and the council that governance arrangements are sound.”*

Summary of work undertaken

- 3.5. The 2008/09 Audit Plan was approved by the Performance & Finance Select Committee on 25th June 2008³. The plan allocated some 1220 audit days across three distinct areas: Risk Based Operational Systems audits (including IT audits and Brent Housing Partnership audits) and Schools.
- 3.6. At the end of March 2009, some 1165 days had been delivered representing 96% of the audit plan. The outstanding 45 days, representing the 4% shortfall in delivery was due to the primary schools not being ready for their FMSIS assessment prior to 31 March 2007. Given the relatively high number of schools requiring assessment in 2009/10, these 45 days have been carried

forward to the 2009/10 financial year and will help to reduce the pressures on the 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.
- 3.7. 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:

Full Assurance	There is a sound system of control designed to achieve the client's objectives. The control processes tested are being consistently applied.
Substantial Assurance	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.
Limited Assurance	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.
No Assurance	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.

- 3.8. The following table indicates the audits completed and relevant levels of assurance during the 2008-09 financial year:

Ref	Audit Area	Level of Assurance
1.	Internal Financial Controls – Environment and	Substantial
2.	Internal Financial Controls - Housing	Substantial
3.	Internal Financial Controls – Adult Social Care	Substantial
4.	Business Continuity Planning	Substantial
5.	NNDR	Substantial
6.	Pension Fund Investment	Substantial
7.	Facilities Management	Substantial
8.	Sports Centre – Contract Management	Substantial
9.	Queens Park Children's Centre (Contract Audit)	Substantial
10.	Data Centre Move (IT)	Substantial
11.	Remote Working (IT)	Substantial
12.	Housing and Council Tax Benefits	Substantial

13.	Information Governance & Security (IT)	Substantial
14.	Review of Internal Financial Controls – HR &	Substantial
15.	Cemeteries	Substantial
16.	Northgate Council Tax and Benefits Applications	Substantial
17.	Communications & Consultation – Review of	Substantial
18.	Housing Allocations & Lettings	Substantial
19.	Melrose House – Establishment Audit	Substantial
20.	Home Improvement Grants	Substantial
21.	Interact Payroll & HR Application Audit (IT)	Substantial
22.	Schools Thematic Work - Procurement	N/A
23.	Risk Management	N/A
24.	Local Area Agreement (LAA)	N/A
25.	Self Directed Support	N/A
26.	Payroll (first visit)	N/A
27.	Section 52(9) Waste Charges	N/A
28.	Local Area Agreement (LAA) Grant Certification	N/A
29.	Tendering of the Highway Maintenance Works	N/A
30.	Elsley Primary School	Pass
31.	Christ Church Primary School	Pass
32.	St Andrew and St Francis C.E Primary School	Pass
33.	Our Lady of Lourdes Primary School	Pass
34.	Michael Sobell Sinai School	Pass
35.	Uxendon Manor Primary School	Pass
36.	Malorees Infant School	Pass
37.	Preston Park Primary School	Pass
38.	Mount Stewart Infant School	Pass
39.	Sudbury Primary School	Pass
40.	St Mary's C.E Primary School	Pass
41.	Kingsbury Green Primary School	Pass
42.	Byron Court Primary School	Pass
43.	Harlesden Primary School	Pass
44.	Our Lady of Grace Juniors	Pass
45.	Oliver Goldsmith Primary School	Pass
46.	Donnington Primary School	Pass
47.	Our Lady of Grace Infants	Pass

48.	Kilburn Park Junior School	Pass
49.	Gladstone Park Primary School	Pass
50.	Mount Stewart Junior School	Pass
51.	Leopold Junior School	Pass
52.	Mitchell Brook Primary School	Pass
53.	St Joseph's RC Primary School	Pass
54.	Convent of J & M	Pass
55.	Freedom Passes	Limited
56.	Payroll (second visit)	Limited
57.	Direct Payments	Limited
58.	Council Tax	Limited
59.	Trading Standards	Limited
60.	Oracle Post Implementation Audit (IT)	Limited
61.	Common Assessment Framework	Limited

Table 1 - List of completed audits for 2008/09 and levels of assurance

Fraud Issues

3.9. 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.

3.10. 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.

3.11. The fraud case load is split over four main areas. The 2008/9 case load statistics are shown in table 2 below.

Fraud Area	New Cases	Cases Closed	Cases Investigated	Fraud Identified
Housing Benefit*	723	832	321	118
Housing Tenancy Related	82	55	52	21
Blue Badge	54	32	30	28
Direct Payments	8	8	8	1
Other external / third party	26	30	29	18
Internal	26	34	31	11
Totals	919	991	471	195

Table 2 – Fraud Case Load 2008/9

** excludes referrals checked and returned to CFIS*

- 3.12. During 2008/09, the team completed investigations into 321 housing benefit fraud cases. The value of fraudulent overpayments (including DWP benefits) created as a result of investigations in 2008/09 was £1.32 million representing a small increase on the previous year. Of this amount, £0.93 million relates to housing or council tax benefit fraud.
- 3.13. A total of 97 sanctions were applied to cases closed during 2008/9. These are summarised below:

Sanction	2008/09
Prosecutions	44
Administrative Penalties	46
Cautions	7
Total	97

Table 3 – Housing Benefit Sanctions 2008/09

- 3.14. The investigation team completed investigations into 52 cases of tenancy fraud, recovering 21 council properties in 2008/09. These recoveries have a significant financial impact on the housing revenue account and temporary accommodation budget.
- 3.15. In relation to internal fraud investigations, which covers all council officers and teachers, 31 investigations were completed during the year. Fraud was established in 11 of these cases. None of these had a material impact upon the council's finances. Cases included four in which officers illegally claimed benefit, two in which officers misused a blue badge, one working whilst off sick, two thefts, one false claim and one false application for housing. Six staff were dismissed at disciplinary and five resigned or left prior to sanction action being taken.

Issues relevant to the Annual Governance Statement

- 3.16. During the early part of 2009/10 a number of allegations were received about one of the council's foundation schools. Although this investigation is ongoing, it is apparent that there are significant governance failures by the governing body. As the Annual Governance Statement covers the period after 31st March and until publication, this has been included in the 2008/09 statement.

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

- 3.17. The CIPFA Code of Practice² is a non-statutory code. However, the Accounts and Audit Regulations 2003¹, 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.

- 3.18. 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.
- 3.19. 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) have recently conducted their triennial review of Internal Audit has recently and this confirms that, whilst there are some areas for improvement, the Audit and Investigation Team complies with the code.
- 3.20. 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 FOR 2008-09, *Audit Committee – 25th June 2008.*

Duncan McLeod
Director of Finance and Corporate Resources