



**Performance and Finance Select
Committee**

9th November 2005

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

For Information

Wards Affected:
ALL

Report Title: Internal Audit Annual Report 2004/5

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 Performance and Finance Select Committee note the content of the report.

3. Detail

- 3.1. 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 2003¹ ("the code"). The code sets out a number of elements to be included in an annual report from the Head of Audit. These are:
- The opinion of the Head of Audit on the overall adequacy and effectiveness of internal controls
 - Any qualifications to the opinion
 - A summary of audit work undertaken
 - Any issues particularly relevant to 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, Deloitte and Touche and investigation staff for the year ended 31st March 2005 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.*

In addition, I have had oversight of the process by which the Statement on Internal Control has been completed and 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 Statement on Internal Control have been included.”

Qualifications to the Opinion

3.3. The audit plan for each year is drawn from a three year strategic plan. Audit coverage in any one year is based on a risk assessment of all areas in the plan. Staffing shortages within Internal Audit mean that some lower risk areas in the strategic plan may not be covered within a three year period.

Summary of work undertaken

3.4. Internal Audit work was split across three main areas: Year end financial reviews, schools audits and systems reviews. In addition some follow up work was undertaken on reviews completed in previous years. A detailed summary of the findings arising from audit reviews is attached as appendix 1. The audits completed during the year are shown in table 1 below.

Financial Audits
1. Adult Physical Disability – Operational Account
2. Adult Physical Disability – Purchasing Account
3. Brent Learning Disability – Operational
4. Brent Learning Disability Partnership – Purchasing Account
5. Brent Transport
6. Children Services – Operational Account
7. Children Services – Purchasing Account
8. Education – Core Operational
9. Education – Services to Schools
10. Environmental Services
11. Health, Safety & Licensing
12. Highways & Emergency Operations
13. Housing Resource Centre
14. Human Resources & Consultancy
15. Older People Services – Operational
16. Older People Services – Purchasing Account
17. Sports Services
Schools Audits

<ol style="list-style-type: none"> 1. College Green Nursery 2. Donnington Primary School 3. Gladstone Park Primary School 4. Kingsbury Green b/f 5. Lyon Park Infants b/f 6. Malorees Infants b/f 7. Manor Day Special School 8. Oliver Goldsmith Primary 9. Roe Green Infants 10. St Andrews & St Francis Primary b/f 11. Uxendon Manor Primary 12. Woodfield Special School
Systems Audits
<ol style="list-style-type: none"> 1. Acolaid Applications Review 2. Business Continuity Planning 3. Internet Controls Audit 4. iWorld Housing Benefits & Council Tax Applications Review 5. iWorld Revenues Application Audit 6. Register of Interest & Gifts and Hospitality – Members 7. Register of Interests & Gifts & Hospitality – Officers 8. Risk Management 9. S17 Rents & Deposits 10. Unaccompanied Minors & Care Leavers 11. Virus Controls 12. Follow Up Audit - NNDR 13. Follow-Up Audit – Asylum Seekers 14. Follow-Up Audit – Homelessness & Temporary Accommodation 15. Follow-Up Audit – Income Collection at Bridge Park 16. Follow-Up Audit – Parking Enforcement 17. Follow-Up Audit – Transportation Capital Programme 18. BHP - Kilburn Square TMO 19. BHP Capital Works & Decent Homes 20. BHP Follow-Up Audit Rent Accounting 21. BHP Follow-Up Audit Voids and Disrepair 22. BHP Rent Arrears Management & Collection

Table 1 List of completed audits for 2004/05

- 3.5. In addition to planned individual audits a review of the Council's Corporate Governance Arrangements and Action Plan was undertaken in December 2004. The results of this review were reported to Performance and Finance Committee in January 2005². The review concluded that the Council's governance arrangements were sound and that good progress had been made on completion of the action plan.

Issues relevant to the Statement on Internal Control

- 3.6. The Statement on Internal Control (SIC) is a statutory declaration regarding the adequacy of the Council's internal control environment. The SIC is published each year with the Council's Accounts. Details of the SIC were reported to the Performance and Finance Committee in June 2005³. The work of Internal Audit during 2004/05 informed the development of the SIC and the Certificates of Assurance for each Service and Corporate area. Audit findings, particularly in relation to the Risk Management review and Business Continuity

Planning fed into the overall SIC.

3.7. In addition, audit work informed the significant risk or control issues identified for improvement in the individual service and corporate area assurance certificates. This Committee, at its meeting in June, requested sight of these control issues. They are shown in table 2 below. (Note: The Service and Corporate Area descriptions pre-date the recent structural changes).

Housing	<ul style="list-style-type: none"> • Risk Management – Ongoing process for identifying and managing risks. • Risk Management – Testing of business continuity arrangements.
Environment	<ul style="list-style-type: none"> • Improve the systematic management and review of risks • Update and improve business continuity plans across the department • Implement management schemes across the department to ensure clarity of delegations and responsibilities for decision making • Improve contract monitoring and management across the department • Formalise health and safety responsibilities in StreetCare
Education	<ul style="list-style-type: none"> • Improved review of risks • Check JDs for HR responsibilities • Review compliance with IT standards
Social Services	<ul style="list-style-type: none"> • A detail scheme of financial delegation for the department. • Improved risk management within the department • Improved awareness and management of Health & Safety.
BFS	<ul style="list-style-type: none"> • Lack of testing of the Business Continuity Plan • Embedding Risk Management across the organisation • Lack of clarity on HR responsibilities in relation to recruitment
Corporate Services	<ul style="list-style-type: none"> • Overall concern with risk management at corporate and service area level. • Contract monitoring has been identified as a weakness in Corporate Property and plans are in place to strengthen that aspect of its work.
Policy and Regeneration	<ul style="list-style-type: none"> • South Kilburn NDC
Human Resources and Diversity	<ul style="list-style-type: none"> • None identified

Table 2 – Service and Corporate Area Risk and Control Issues Identified through the Assurance Certificates

Comparison of work undertaken against the Audit Plan and performance issues

3.8. The Audit Plan for 2004/5 was agreed by this committee at its meeting on 23rd June 2004⁴. Completion against the plan is shown in table 3 below. The shortfall on the completion of system reviews is of some concern and is mainly due to staff shortages. The % completion figure is shown in table 3 below.

Audit Type	Planned Audits	Completed Audits	2004/5 % Completion	2003/4 % Completion	2002/3 % Completion
Financial Audits	17	17	100.00%		
Systems Audits	38	22	58%		
Schools Audits	17	12	71%		
Total	72	51	71%	73%	80%

Table 3 Audit Plan Completion

3.9. The downward trend in ability to complete the plan is due to lack of resources and some projects taking longer than anticipated. The resourcing situation has been of some concern over the past three years. The problem is mirrored across a number of London boroughs. The Audit Team currently has four permanent posts and two agency staff. A further three posts are unfilled.

3.10. Although performance on completion of the plan is below target, individual auditors are showing a high level of productive time. This is the time actually spent on audits as a percentage of total time available. Unproductive time is time spent on administrative functions which cannot be charged to audit work. All staff have hit or are above target for this indicator with the team, including managers, averaging 83%.

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

3.11. The CIPFA Code of Practice¹ is a non-statutory code. However, the Accounts and Audit Regulations 2003 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. The code sets out a number of organisational and operational standards for internal audit.

3.12. 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.

4. Financial Implications

4.1. None

5. Legal Implications

5.1. None

6. Diversity Implications

6.1. None

7. Background Papers

1. Code of Practice for Internal Audit in Local Government in the United Kingdom 2003 – CIPFA
2. MEETING OF THE PERFORMANCE AND FINANCE SELECT COMMITTEE - 11th January 2005 REPORT NO /05 FROM THE DIRECTOR OF FINANCE - Annual Review of Corporate Governance and Action Plan update
3. MEETING OF THE PERFORMANCE AND FINANCE SELECT COMMITTEE - 22nd June 2005 REPORT NO /05 FROM THE DIRECTOR OF FINANCE – Statement on Internal Control 2004/5
4. MEETING OF THE PERFORMANCE AND FINANCE SELECT COMMITTEE - 23rd June 2004 REPORT NO. BFS FROM THE DIRECTOR OF FINANCE - INTERNAL & EXTERNAL AUDIT PLANS FOR 2004/05

Simon Lane
Head Of Audit and Investigations Team