



Internal Audit
3rd Progress Report 2012/13
London Borough of Brent
March 2013

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Executive Summary

Introduction	<p>This report sets out a summary of the work completed to date against the 2012/13 Internal Audit Plan, including the assurance opinions awarded and any high priority recommendations raised.</p> <p>Those audits reported on at previous meetings have been removed, but reference can be made to the full list of assurance opinions in the cover report.</p>
Summary of Work Undertaken	<p>A range of audits have been undertaken since the last meeting, comprising both financial and non-financial systems, some One Council Projects and work across the schools.</p> <p>The Final Reports issued since the last meeting relate to the following areas, with further details of these provided in the remainder of this report:</p> <ul style="list-style-type: none">• Payroll• Accounts Receivable• Treasury Management• Financial Planning• Convent of Jesus and Mary• St Gregory's Secondary School• Automated Customer Contact
One Council Project	<p><u>One Oracle (Formerly Project Athena)</u></p> <p>The Council is currently working with the other local authorities in preparation for the launch of the new Oracle system which will be operated using new operational procedures and Oracle Cloud from August 2013. The Audit Managers have attended the Finance Implementation Team (FIT) meeting for the first time in early December 2012 and they will continue to attend the meetings until the project launch. In addition, as part of this, the Audit Managers will work with the FIT in respect of Governance Risk Compliance.</p>




Summary of Assurance Opinions and Direction of Travel

A summary of the assurance opinions and direction of travel assessments is as follows, as compared to the previous two financial years.

Assurance Opinions

	Full 	Substantial 	Limited 	None 
2010/11	-	71% (29)	29% (12)	-
2011/12	-	42% (22)	50% (26)	8% (4)
2012/13	4% (1)	65% (17)	27% (7)	4% (1)

Direction of Travel

	Improved 	Unchanged 	Deteriorated 
2010/11	5	4	-
2011/12	5	4	2
2012/13	2	2	1

For the Committee's reference, the definitions of the assurance opinions and direction of travel assessment are included at Appendix A.

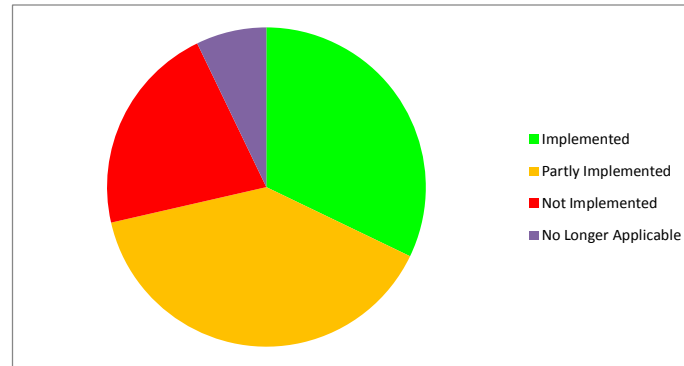
Follow-Up of Previously Raised Recommendations

As part of our rolling programme, all recommendations are being followed-up with management, as and when the deadlines for implementation pass. This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any priority 1 recommendations.

The current level of implementation is as per the chart on the following page. Of the recommendations

followed-up, 78% had either been fully or partly implemented, or are no longer applicable due to changes in the scope of operations. Of the priority 1 recommendations, 73% had either been fully or partly implemented. Whilst the implementation rates are relatively low, compensating controls have been put in place by management where possible. In addition, one of the key reasons provided by management is that the recommendations will need to be implemented in line with the major changes taking place such as the One Oracle project.







Implementation of Recommendations






Detailed summary of work undertaken

FULL / SUBSTANTIAL ASSURANCE REPORTS

Only the assurance opinion and direction of travel is being reported on for those audits for which Substantial Assurance was given. The Committee's focus is directed to those audits which received a Limited Assurance opinion.

Audit	Assurance Opinion and Direction of Travel
Accounts Receivable	
Payroll	
Treasury Management	
Financial Planning	
Automated Customer Contact – Web Enhancement Project Pre Implementation Audit (Computer Audit)	
SCHOOLS	
Newfield Primary School	

Audit	Assurance Opinion and Direction of Travel
Convent of Jesus and Mary	
BHP	
Rent Arrears Management	 

NON ASSURANCE WORK

This section summarises other work undertaken during the year for which an assurance opinion was not applicable.

We have previously reported on the following works:

- Olympic Games Preparedness;
- Manor School;
- Staff Expenses Testing; and
- Kilburn Square TMO (BHP).

Reform of Council Tax Benefits

Background

The government has made provision within the Local Government Finance Bill to replace the current national Council Tax Benefit (CTB) scheme from 1st April 2013 with localised schemes for Council Tax Support (CTS) devised by individual (or groups of) local authorities (LA's).

Local CTS schemes will be funded by a fixed grant unlike the current Council Tax Benefit scheme which has demand-led funding and the fixed grant will result in an immediate reduction to funding when compared to current levels of subsidised expenditure. The headline reduction is 10% but draft figures issued by the Department for Communities and Local Government (DCLG) indicate that the reduction for the Council is closer to 13.7%. Depending upon the funding settlement from the government, this is anticipated to require financial savings in the region of £3.9M to £5.1M for 2013/14 dependent upon growth and Council Tax levels and based upon the Council's proportionate share of the reduced funding.

The findings and outcomes of the consultation for the proposed local Council Tax Support Scheme were presented to the Full Council along with the recommended new local Council Tax Support (CTS) scheme which reflected the consultation outcome as well as achieving, as far as reasonably practical, a financially neutral position in 2013/14 (the first year of operation).

Scope of the work

This work focused on the controls within the administration process such as types of checks planned to validate eligibility under the new CTS. It should be noted that the scope of this work was not to comment or advise on the scheme as this is beyond the remit of Internal Audit. The final outcome of this work will be a flow chart diagram which maps eligibility criteria against the types of checks and source of evidence required to validate applicants' eligibility. Where any gaps are identified between the expected checks and planned checks, recommendations will be raised.

Progress of the work

Through examination of the new CTS document and discussion with the Head of Benefits and Customer Services, we have completed the initial phase of the work including: Payro

- Identification of all discount categories as per the scheme;
- Identification of eligibility criteria for all discount categories as per the scheme;
- Mapping eligibility criteria with expected checks including source of evidence; and
- Drafted work flow diagram on the basis of the above.

Next Step

A draft flow chart diagram will be presented to the Service for their comments and further discussions will be held before analysing any gaps in control and raising recommendations.

Follow-Up of Previously Raised Recommendations

The table below provides a summary of the findings from the follow-up work completed since the last meeting, excluding any BHP recommendations.

Our approach is explained within the Executive Summary. Recommendations are classified as either Implemented (I); Partly Implemented (PI); Not Implemented (NI); or in some cases no longer applicable (N/A), for example if there has been a change in the systems used.

For any recommendations found to have only been partly implemented or not implemented at all, further actions have been raised with management. As such, we have included all recommendations followed-up to date, including Draft Follow-Up Reports, as well as those that have been finalised. Where the reports have been finalised, the further actions have been agreed with management, including revised deadlines and responsible officers. For those at Draft stage, we are awaiting responses from management. All agreed further actions will be added to our rolling follow-up programme as explained in the Executive Summary to this report.

The table includes a column to highlight any priority 1 recommendations which were found not to have been fully implemented. Please note that we have not replicated the full recommendation, only the general issue to which they relate.

Audit Title	Priority 1			Priority 2			Priority 3			Total				Priority 1 Recommendations not implemented
	I	PI	NI	I	PI	NI	I	PI	NI	I	PI	NI	N/A	
Treasury Management	1	-	-	1	-	1	-	-	-	2	-	1	1	
Financial Planning	1	-	-	1	-	-	-	-	-	2	-	-	-	
Payroll	-	1	1	-	-	1	-	-	-	-	1	2	-	Resolution of issues outstanding with Interact (Payroll application provider)*
Accounts Receivable	1	1	2	-	3	1	-	-	-	1	4	3	-	Automation of Invoice/Credit Note requests** Service Area Invoice Checks***
John Keble	1	2	-	2	4	-	1	-	-	4	6	-	1	
	4	4	3	4	7	3	1	0	0	9	11	6	2	

*Management indicated that this recommendation will not be implemented due to the imminent introduction of Oracle HR/Payroll. The Interact payroll application will be redundant when Oracle HR/Payroll is launched as part of the One Oracle Project.





**Management indicated that due to the high cost of automating the invoice/credit note request, a decision was made to continue with the use of e-forms without work flow approval. However, a compensating control will be in place whereby requests over specified limit will require approval from authorised officer and a list of authorised officer will be maintained by FSC. FSC will not process requests over specified limit unless it is requested from the authorised officer.

***Compensating controls are in place. Any significant discrepancies between the services to be invoiced and actual invoices processed will be identified as part of budget monitoring process.

Appendix A – Definitions

Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	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	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.
	None	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance grading provided are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

Recommendation Priorities

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

Priority 1	Major issues for the attention of senior management and the Audit Committee.
Priority 2	Important issues to be addressed by management in their areas of responsibility.
Priority 3	Minor issues resolved on site with local management.

Appendix B – Audit Team and Contact Details

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