



Brent

Audit Committee
26 June 2013

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

Wards Affected:
ALL

Internal Audit Annual Report 2012/13

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 2011¹, 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
- 3.2.** A new code for internal audit has been developed across the private and public sectors. The Public Sector Internal Audit Standards (PSIAS) are in force from 1st April 2013 and compliance is required during the current year. The changes arising from this new code will be set out in a report to the committee later in the year.

Opinion of the Head of Audit and Investigations

- 3.3.** *“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 31 March 2013 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 those issues set out in paragraph 3.1 and within those areas where limited or nil assurance reports have been issued, the controls in place in those areas reviewed are adequate and effective. Where weaknesses have been identified within internal audit reports, these are being addressed by management and followed up by Internal Audit.*”

Qualifications to the Opinion





- 3.1.** *Within Children and Families there has been an instance of incorrect accounting information being reported to improve the appearance of year end deficit positions. This resulted in an understatement of overspend by £1,000,000 in the placements budget. This area is part of the One Council Savings programme.*

Summary of Work Undertaken - Audit

- 3.2.** The final 2012/13 Audit Plan was approved by the Audit Committee on 27th June 2012³. The plan allocated 1200 audit days across all areas of the council’s operation, including 154 within Brent Housing Partnership.
- 3.3.** At the end of March 2013, 1,160 days had been delivered representing 97% of the audit plan. The outstanding 40 days relate, primarily, to work which was withdrawn due to the move to the civic centre.
- 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.
- 3.4.** For each audit where controls have been analysed, an assurance statement is issued. This simple grading mechanism provides an indication of the level of confidence in the controls in operation and the extent to which they are being applied. 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.

3.5. It is positive to note that there has been an improvement in the balance between limited and substantial assurance as set out below:

	Full 	Substantial 	Limited 	None 
2011/12	-	43% (22)	50% (26)	8% (4)
2012/13	4%(2)	64% (37)	28% (16)	4% (2)

3.6. The following table indicates the audits completed and relevant levels of assurance during the 2012-13 financial year:

Ref	Audit Area	Level of Assurance
1.	Financial Planning	Full
2.	Cash & Banking	Full
3.	Council Tax	Substantial
4.	NNDR (Buisness Rates)	Substantial
5.	Housing & Council Tax Benefits	Substantial
6.	Treasury Management	Substantial
7.	Payroll	Substantial
8.	Accounts Receivable	Substantial
9.	General Ledger	Substantial
10.	Pension Fund Administration	Substantial
11.	College Green Nursery	Substantial
12.	Furness Primary School	Substantial
13.	Lyon Park Junior School	Substantial
14.	St Mary's CE Primary School	Substantial
15.	Oliver Goldsmith Primary School	Substantial
16.	Convent of Jesus & Mary Primary School	Substantial
17.	Roe Green Infants	Substantial
18.	Roe Green Juniors	Substantial
19.	St Josephs Infants	Substantial
20.	St Joseph's Juniors	Substantial
21.	St Joseph's RC Primary School	Substantial
22.	Newfield Primary School	Substantial
23.	Elsley Primary School	Substantial
24.	St Mary Magdalen School	Substantial
25.	Preston Manor Secondary School	Substantial
26.	St Gregory's Secondary School	Substantial
27.	The Village School	Substantial
28.	Phoenix Arch	Substantial
29.	Fawood Children Centre	Substantial
30.	Manor School	Substantial
31.	Property Disposals	Substantial
32.	Building Control & Enforcement	Substantial
33.	Partnership Management	Substantial

34.	Public Sector Reform – Policy & Key Legislative Changes	Substantial
35.	Capital Projects (contract audits)	Substantial
36.	Automated Customer Contact (IT)	Substantial
37.	Wireless Networks (IT)	Substantial
38.	Safeguarding (Children)	Substantial
39.	Libraries (Children)	Substantial
40.	Appointment of Consultants & Non Agency Staff	Limited
41.	Comensura	Limited
42.	Oyster Cards	Limited
43.	Chalkhill Primary School	Limited
44.	Accounts Payable	Limited
45.	Stonebridge Primary School	Limited
46.	Granville	Limited
47.	Mayor's Office	Limited
48.	Language Shop	Limited
49.	Mental Health Partnership	Limited
50.	Home Care	Limited
51.	Appointeeship & Receivership	Limited
52.	Personal Budgets and Direct Payments (ASS)	Limited
53.	High Value Contracts – Compliance with Blue Book	Limited
54.	Northgate SX3 Housing Benefits System (IT)	Limited
55.	IT Service Management (ICT Infrastructure Library)	Limited
56.	Torah Temimah	Nil
57.	Newman Cathilic College	Nil
58.	Reform of Council Tax Benefit	Non Assurance Work
59.	Olympics	Non Assurance Work
60.	Civic Centre Project (Move to Civic Centre)	Non Assurance Work
61.	Staff Expenses	Non Assurance Work
62.	Housing Rents (BHP)	BHP
63.	CAM Estate (Major Works Contract)	BHP
64.	The Grove (Major Works Contract)	BHP
65.	Procurement & Contracts (Non-Major Works)	BHP
66.	Rent Arrears Management	BHP
67.	Internal Financial Controls	BHP

68.	Tenant Management Organisations – Watling Gardens	BHP
69.	Tenant Management Organisation – Kilburn Square Co-op	BHP
70.	Housing Repairs & Maintenance	BHP
71.	Management of Non-Brent Properties	BHP
72.	V5 System (Housing Rents)	BHP

Summary of Work Undertaken - Fraud

- 3.7. In addition to internal audit work, the Audit and Investigation Team has responsibility for fraud and other investigation across the council. Fraud can impact upon the council's finances and may have implications for the systems of internal control.
- 3.8. 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.
- 3.9. The fraud case load is split over seven main areas. The 2012/13 case load statistics are shown in table 2 below.

Fraud Area	New Cases	Cases Closed	Cases Investigated	Fraud Identified
Housing Benefit*	666	622	190	121
Housing Tenancy Related	206	227	222	59
Blue Badge	28	23	23	10
Other external / third party	37	17	8	2
Internal	47	42	41	18
Totals	984	931	484	222

Table 2 – Fraud Case Load 2012/13

- 3.10. In relation to housing benefit fraud the team completed investigations into 190 cases with fraud proven in 121 cases. The value of fraudulent overpayments (including DWP benefits) created as a result of investigations in 2012/13 was £2.45 million. Of this amount, £1.78 million relates to housing or council tax benefit.
- 3.11. In relation to housing tenancy fraud the team received 206 new referrals and completed investigations into 222 cases. As a result of these investigations the team recovered 57 properties. Including 5 managed by housing

associations. These recoveries have a significant financial impact on the housing revenue account and temporary accommodation budget.

- 3.12. Blue Badge fraud continues to be an issue for the council and, although is a relatively low value offence, it has a high profile with members of the public. This abuse takes a number of forms. The lowest level is misuse of a badge by a family member when the badge holder is not present. This abuse is normally dealt with by the parking enforcement team. More serious offences such as persistent misuse, false applications for a badge, forged or counterfeit badges or misuse by a council officer are dealt with by Audit and Investigations. The team completed 23 investigations during the year resulting in 8 warnings and 2 prosecutions. There were an additional two cases involving staff members who both resigned pending disciplinary.
- 3.13. In relation to internal fraud there were 41 investigations completed during the year. Fraud or irregularity was established in 18 of these cases resulting in 5 dismissals at disciplinary, 10 resignations and 2 warnings.
- 3.14. In addition, the team undertook a proactive exercise to identify bogus student discounts for council tax. This resulted in the cancellation of £84,000 of in year discount.
- 3.15. A more detailed review of fraud work is included in the internal audit year end progress report which is included within the agenda for this meeting.

Issues relevant to the Annual Governance Statement

- 3.16. The issue set out in paragraph 3.1 is relevant to the annual governance 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 2011¹, 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 elements of the code are reflected in the Terms of Reference for Internal Audit which have previously been approved by this committee at its meeting on 29th September 2010⁴. 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. Accounts and Audit Regulations 2011
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 2012-13, *Audit Committee – 27th June 2012.*
4. Report from the Director of Finance and Corporate Resources – Internal Audit Terms of Reference and Strategy, *Audit Committee – 29th September 2010.*

8. Contact Officer Details

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