



**Internal Audit
3rd Progress Report 2013/14
London Borough of Brent
March 2014**

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Executive Summary

Introduction	This report sets out a summary of the work completed against the 2013/14 Internal Audit Plan, including the assurance opinions awarded and any high priority recommendations raised.
Summary of Work Undertaken	<p>10 final reports have been issued since the last committee meeting relating to the following areas, with further details of these provided in the remainder of this report:</p> <ul style="list-style-type: none">• Pension Fund Investment• Insurance• Mount Stewart Junior• Our Lady of Grace Infants• Braintcroft• Kingsbury Green• Northview• Mount Stewart Infants• Fire Safety (BHP)• Gas Safety (BHP)




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 
2011/12	-	42% (22)	50% (26)	8% (4)
2012/13	4% (2)	61% (33)	31% (17)	4% (2)
2013/14	(0)	59% (13)	41% (9)	(0)

Direction of Travel

	Improved 	Unchanged 	Deteriorated 
2011/12	5	4	2
2012/13	3	4	3
2013/14	3	4	2

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

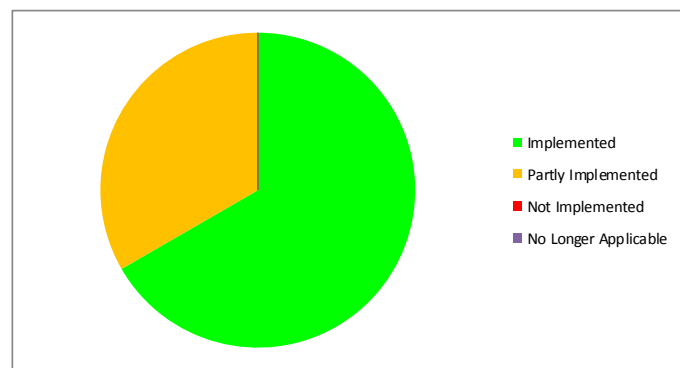
Follow-Up of Previously Raised Recommendations

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 Of the recommendations followed-up, 100% had either been fully or partly implemented, or are no longer applicable due to changes in the scope of operations.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, 100% had either been fully or

partly implemented.






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
General and Computer Audits	
Pension Fund Investment	
One Oracle – Pre Implementation	
SCHOOLS	
Kingsbury Green	
Northview	
Mount Stewart Junior	

Audit	Assurance Opinion and Direction of Travel
Our Lady of Grace Infant School	
Braintcroft	
BHP	
Gas Safety	  
One Oracle – Pre Implementation (BHP)	

LIMITED ASSURANCE REPORTS – General Audits

For all Limited Assurance reports, we have included a brief rationale, together with details of any **priority 1** recommendations raised, including the agreed actions to be taken and deadlines for implementation. These are the key audits and recommendations which the Committee should be focusing on from a risk perspective. The only exception is for any BHP reports, for which the details are reported separately to the BHP Audit & Finance Sub-Committee.

Insurance

Under the Brent Insurance Management Buildings Policy, all buildings owned by the Council, in all service areas are insured. The cover is underwritten externally for individual losses in excess of £303,900 (casualties) and £500,000 (properties) and total annual losses in excess of £3.5m. For claims below these amounts the policy is self-funded, with claims being met from the Council's Insurance Fund.

Claims made against the Council are initially dealt with by the Insurance Team. The relevant Service Area is then informed to gather information. Claims relating to personal injury where the Principal Insurance Officer does not believe the Council has a defence are submitted to one of three external companies (Cunningham Lindsey UK, Ufton, and Crawford & Co who make a recommendation on whether or not to accept liability. About 60% of all claims related to personal injuries in 2012 are repudiated. For any other claims, officers within the Insurance Team are responsible for determining whether or not to accept the liability and apply the compensation in accordance with the Council's policy. Approximately 65% of claims are handled by the Insurance Team. For personal injury claims, although the external company makes a recommendation, the insurance team (Finance) are ultimately responsible for making the decision.

The key issues identified relate to the implementation of an Insurance Strategy; insurable risks being assessed as part of the insurance contract renewal process; service areas informing the Insurance Team of acquisitions and disposals; reinstatement valuations being carried out on Council properties; an actuarial review; a Scheme of Delegation being implemented for the Insurance Team; completing all required details about claimants; and a reconciliation taking place between the Oracle payments system and the LACHS (Local Authority Claims Handling Service) system.

The Direction of Travel provides a comparison with any prior audit visit. In this case the arrow indicates that the assurance opinion has deteriorated since the previous audit when a 'substantial' opinion was given in 2009/10. Of the twelve recommendations raised in 2009/10, three have been implemented, four have been partly implemented, and five have not been implemented.

Nine priority 1, five priority 2, and one priority 3 recommendations were raised.



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>The draft Insurance Strategy should be reviewed by senior management and a relevant Committee and / or Executive. Input should be sought from the Head of Audit and Investigations in respect of the Anti-Fraud Strategy contained within the Brent Insurance Strategy. This should be co-ordinated with the Council's Corporate Anti-Fraud and Bribery Policy.</p> <p>Once approved, this should be made available to all relevant officers and it should be reviewed on a regular basis.</p>	<p>Agreed.</p> <p>The strategy is currently being finalised and will be approved and distributed once this has occurred.</p> <p>Dave Huberman – Finance Manager February 2014</p>
<p>The identification of insurable risks and the development/review of an insurable risks register should be made an annual process. The insurable risks register should be reviewed and formally approved by Members and the review of the register should be used to assist the tendering/renewal of the Council's Insurance Cover.</p> <p>Evidence should be maintained of the annual review of these risks.</p>	<p>Agreed.</p> <p>Insurance risks are set out in the risks register. This will be developed further in partnership with relevant service areas.</p> <p>Dave Huberman – Finance Manager Joe Delaney – Principal Insurance Officer July 2014</p>
<p>A Scheme of Delegation should be implemented and maintained by the Insurance Team which states the delegated responsibilities for insurance claims.</p> <p>The Scheme of Delegation should include but not be limited to: review and authorisation of claim decisions by a senior manager, and the authorisation to amend/renew the insurance cover by a senior manager.</p> <p>As part of the review, data input, and documents held on LACHS should be checked to ensure that all required information about the claimant and all required documents are captured on the system.</p>	<p>Agreed.</p> <p>A scheme of delegation with approval limits will be agreed and implemented in January.</p> <p>Dave Huberman – Finance Manager End of January 2014 Application Support Team Leader/ 30th September 2013</p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>This review should include but not limited to checking that all claimant's name, address, date of birth, and NI number (for personal injury claims) and evidence of verification checks carried out are on the system.</p> <p>Where management determines that review and approval of all decisions made by the Principal Insurance Officer will cause resource constraints on the manager, they may do this on a sample basis and also define a financial limit. However, such an approach should be kept under review to ensure that the level of residual risk remains within the Council's risk tolerance.</p> <p>A copy of the Scheme of Delegation including specimen signatures should also be retained by Finance so that the financial authoriser only approves claim settlement payments if the decision has been approved by the authorised officer.</p> <p>The Scheme of Delegation should be reviewed and updated on a regular basis to take account of changes in personnel.</p>	
<p>All service units and directors/managers should be reminded of the need to notify the Insurance Team of any acquisitions, disposals and other relevant events with regards to assets.</p>	<p>Agreed. However, the following points should be noted.</p> <p>The council's "Use of vehicles policy" already states that insurance should be informed of all acquisitions and disposals but this is not adhered to. Further work is needed by all areas of the council to ensure that the insurance are promptly informed of all changes to ensure cover is up-to-date. Reminders will be sent to service units of the need to inform Insurance Team of changes, but consideration needs to be given to imposing sanctions on units who fail to do this. Within CRT some of the workers were setup to act for other workers. All of "Can Act For" access rights within CRT have been reviewed and removed for everyone with Financial Authorisation access rights. In future, if CRT needs to grant "Can Act for" access rights</p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
	<p>this needs to go through formal ITU support process.</p> <p>Dave Huberman – Finance Manager Joe Delaney Principal Insurance Officer Early 2014</p>
<p>Reinstatement valuations should be carried out on Council properties.</p> <p>The Council's properties should then be revalued at least every five years.</p>	<p>Agreed.</p> <p>The Principal Insurance Officer has also liaised with Zurich Municipal and arranged for a sample of 20 larger council properties to be revalued; as an interim measure the values of all remaining properties will be increased/decreased by the average difference these valuations identify. However, in the longer run a proper revaluation of all properties to ascertain their reinstatement values should be undertaken on a rolling basis. The insurance valuation process could be combined with the Council's valuation requirement to provide Balance Sheet valuations. This would be done over a rolling five year programme</p> <p>Dave Huberman – Finance Manager Joe Delaney – Principal Insurance Officer Starting from mid 2014</p>
<p>An actuarial valuation on the insurance fund should be undertaken as soon as possible.</p> <p>The risks carried and covered by the insurance fund should be reviewed and this review should feed into the determination of the level of contributions to the fund.</p>	<p>Agreed.</p> <p>The final report for this should be published in early 2014; the recommendations will be considered and action will be taken if necessary.</p> <p>Dave Huberman – Finance Manager Joe Delaney – Principal Insurance Officer Early 2014</p>
<p>A verification policy should be developed in consultation with the Head of Audit and Investigation. The policy should set out the types of verifications required to validate claims. As minimum, this should include vouching of the claimant's name and address. Evidence of any</p>	<p>Agreed. Access to all council databases (benefits, council tax, and the electoral roll) should be given to insurance to assist in verification. The Council's internal Audit department could be used to assist in verifying people who live outside of the Borough. However for non-injury claims the claimant is under no obligation to disclose their date of birth or National Insurance number and asking them to do so may antagonise the claimant</p>

Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>verification should be retained.</p> <p>The policy should also include a mechanism for risk assessing claims to determine the extent of further verifications and investigations required to validate high risk claims.</p>	<p>and ensure they seek legal representation which will increase the costs of settling claims.</p> <p>Joe Delaney – Principal Insurance Officer Early 2014</p> <p><u>Audit Comment</u> When developing the verification policy, the Insurance team should agree the type and level of information with the Head of Audit and Investigation.</p>
<p>All required claimant details should be input accurately and completely onto LACHS. The claimant's details should include as minimum full name, full address, date of birth, and NI number*.</p> <p>All claimants should be required to provide their previous addresses if they have moved within the last three years and address of these should also be captured on LACHS.</p> <p>In addition, signed claim form should be obtained from all claimants and stored on LACHS.</p> <p>*NI number and date of birth should be required for all personal injury claims.</p>	<p>The LACHS system has no means of storing previous addresses and it is hard to see what use this information would be anyway. The risk of antagonising a claimant (as outlined in the previous recommendation) must also be considered, especially if information has been disclosed via other means than our accident form.</p> <p>Joe Delaney – Principal Insurance Officer Early 2014</p> <p><u>Audit Comment</u> When developing the verification policy, the Insurance team should agree the type and level of information with the Head of Audit and Investigation.</p>
<p>Monthly financial reports should be produced from Oracle and reconciled to transactions on the LACHS. The reconciliation should be reviewed and approved by an independent officer. Any discrepancies identified as part of the reconciliation should be followed up promptly and remedied.</p>	<p>There are insufficient resources to do this monthly, but reconciliations will be carried out on a quarterly basis.</p> <p>Dave Huberman – Finance Manager Joe Delaney – Principal Insurance Officer April 2014</p>

LIMITED/NIL ASSURANCE REPORTS – School

Mount Stewart Infants

Six priority 1; seven priority 2 and four priority 3 recommendations were raised as a result of this audit. All of our recommendations were agreed for implementation by the School.



LIMITED/NIL ASSURANCE REPORTS – BHP

Fire Safety

One priority 1 and three priority 2 recommendations were raised as a result of this audit. All of our recommendations were agreed for implementation by BHP. Details of issues will be reported to BHP Audit Committee.



NON-ASSURANCE WORK

Troubled Families Grant Claim Certification	<p>Certification of 5 Grant Claims as follows:</p> <ul style="list-style-type: none">• 2 Claims for Troubled Families• 3 Payment by Results Claim <p>This is a grant which the Head of the Audit & Investigation is required to certify. This funding is for the DCLG's Troubled Families programme which is aimed at reducing the cost of problem families. The government is providing funding to cover up to 40% of the cost of interventions for these families.</p>
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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	
Northview	2	1	0		2	1	0		0	0	0		4	2	0	0	
	2	1	0		2	1	0		0	0	0		4	2	0	0	

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

London Borough of Brent	Contact Details
Simon Lane – Head of Audit & Investigations	 simon.lane@brent.gov.uk
Aina Uduehi – Audit Manager	 020 8937 1260
	 aina.uduehi@brent.gov.uk
	 020 8937 1495

Mazars Public Sector Internal Audit Limited	Contact Details
Mark Towler – Director	 miyako.graham@brent.gov.uk
Miyako Graham – Senior Audit Manager	 020 8937 1491
Shahab Hussein – Computer Audit Sector Manager	