



Audit Committee

15 June 2010

Report from the Director of Finance and Corporate Resources

For Information

Wards affected:
ALL

Internal Audit Annual Report 2009/10

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 2010 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 areas where limited assurance was given, 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 third year in which an Annual Governance Statement has been required 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. *My opinion is not qualified. I note the decreased proportion of substantial assurance audit reports in comparison to the previous year. However, there has been no deterioration in assurance where repeat audit work has been undertaken and significant improvements in a number of areas. The key financial systems audited in 2009/10, Council Tax, NNDR and Payroll all attained substantial assurance.”*

Summary of work undertaken

- 3.5. The 2009/10 Audit Plan was approved by the Audit Committee on 4th March 2009³. The plan allocated 1,166 audit days across all areas of the council’s operation, including 128 within Brent Housing Partnership. A further 45 days were brought forward from the previous years plan. Total planned coverage was 1,211days.
- 3.6. At the end of March 2010, 1,152 days had been delivered representing 95% of the audit plan.
- 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 2009-10 financial year:

	Audit	Assurance
1	Veolia Contract Management / Recycling	Substantial
2	Frameworkki Financial Module Post Implementation (IT)	Substantial
3	Stonebridge Estate – Hyde Contract Management	Substantial
4	Traffic Management – Notifications	Substantial
5	Blue Badges	Substantial
6	Pensions Application (IT)	Substantial
7	Windows Operating System (IT)	Substantial
8	Appointeeships and Deputyships	Substantial
9	Grants to Voluntary Organisations	Substantial
10	Transportation	Substantial
11	E-Recruitment Post Implementation (IT)	Substantial
12	Council Tax	Substantial
13	NNDR	Substantial
14	Payroll	Substantial
15	Internal Financial Controls F&CR	Substantial
16	Contact Point (IT)	Substantial
17	CRM Post Implementation Review	Substantial
18	Insurance	Substantial

Table 1: List of completed audits for 2009/10 and levels of assurance		
	Audit	Assurance
19	Houses in Multiple Occupation	Substantial
20	Home Care – Contract Management	Limited
21	Recruitment	Limited
22	Joint Commissioning	Limited
23	Complaints	Limited
24	Private Sector Procurement Team	Limited
25	Section 106	Limited
26	Registration and Nationality Service	Limited
27	Children’s Centres Financial Management	Limited
28	Treasury Management	Limited
29	Corporate Health & Safety	Limited
30	Cash Receipting Application (IT)	Limited
31	Internal Financial Controls – Business Transformation	Limited
32	Disaster Recovery Planning Provisions	Limited
33	iCasework Application – Support Arrangements	Limited
34	Oracle I-Procurement Sanity Check	N/A
35	Sundry Debt Recovery Team	N/A
36	Traffic Management - London operational Pilot Scheme	N/A
37	Supporting People Programme Grant	N/A
38	Carbon Reduction Commitment Energy Efficiency	N/A
39	Safeguarding Adults Quality Assurance	N/A
40	Adult Social Care – Reablement	N/A
41	LAA Stretch Target	N/A

Financial Management Standard In Schools

- 3.9. Since 1997 the government has required all secondary schools to be assessed against a financial management standard. This has applied to all primary schools by March 2010. The assessment requires an on site visit and inspection of various governance and financial control documents, measured against a standard framework. The Internal Audit team has undertaken a number of these assessments during the year. Schools are either assessed as having passed, failed or are given a conditional pass pending receipt of further evidence within 20 days.
- 3.10 During 2009/10, 22 schools were assessed as having passed the standard, 7 were given conditional passes and 1 failed.

Fraud Issues

- 3.11 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.
- 3.12 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.
- 3.13 The fraud case load is split over seven main areas. The 2009/10 case load statistics are shown in table 2 below.

Fraud Area	New Cases	Cases Closed	Cases Investigated	Fraud Identified
Housing Benefit*	634	758	330	154
Housing Tenancy Related	94	77	68	26
Blue Badge	18	32	22	9
Direct Payments	1	6	6	0
Single Person Discount	23	19	15	11
Other external / third party	17	15	14	10
Internal	34	22	19	12
Totals	821	925	474	224

- 3.14 In relation to housing benefit fraud the team completed investigations into 330 cases with fraud proven in 154 cases. The value of fraudulent overpayments (including DWP benefits) created as a result of investigations in 2009/10 was £1.93 million. Of this amount, £1.52 million relates to housing or council tax benefit. This is a significant increase on previous years' performance and reflects an ongoing strategy of dealing with higher value cases.
- 3.15 There are a number of options available when considering disposal of housing benefit fraud cases. In all instances a fraudulent overpayment will be identified and the Revenues and Benefits Service will attempt to recover the full overpayment. In addition, a number of sanctions are available to the Council, these are: Formal cautions, administrative penalties and prosecution. The sanction sought is determined by a number of factors including the amount and duration of the offence, aggravating and mitigating factors.
- 3.16 A formal caution is issued by Local Authority staff at an interview with the claimant and is used for low level offences. An administrative penalty is a fine of 30% of the overpayment and is added to the recovery of the overpayment. This is used in mid-range cases. Prosecution is reserved for more serious cases and is either undertaken by the Council's Legal Service or the Solicitors

Branch of the Department of Work and Pensions. In order to apply any of these sanctions, each case must be investigated, from its inception, to a prosecution standard. A total of 81 sanctions were applied to cases closed during 2009/10. These are summarised below:

Table 3: Housing Benefit Sanctions 2009/10	
Sanction	2009/10
Prosecutions	36
Administrative Penalties	40
Cautions	5
Total	81

- 3.17 In relation to housing tenancy fraud the team received 94 new referrals and completed investigations into 68 cases. As a result of these investigations the team recovered 26 council properties. These recoveries have a significant financial impact on the housing revenue account and temporary accommodation budget.
- 3.18 Blue Badge fraud is a relatively new area of operation, its profile has been raised by the Audit Commission's National Fraud Initiative (NFI) data match of Blue Badges issued to the DWP deceased list. Some publicity around this type of fraud has generated a number of additional referrals from the public, who appear to be concerned by abuse of the scheme.
- 3.19 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 dealt with by the parking enforcement team and is not covered in this report. 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. There were 18 new referrals in 2009/10 with 22 completed investigations. Fraud was identified in 9 of these. Most are dealt with by way of a warning letter from Older Peoples Services who issue the badges. There were four more serious cases resulting in one staff dismissal and three prosecutions. All prosecuted defendants received fines ranging from £130 to £350.
- 3.20 The NFI data match of Council Tax Single Person Discount claims to Electoral Register data provided a major source of new referrals. The match compared SPD claimants with information submitted for electoral registration purposes and identified where more than one person was registered to vote in a single property where an SPD claim existed. The council received some 3,600 matches, representing almost 10% of all SPD claimants. In order to deal with this volume of matches the Audit and Investigation Team piloted two separate approaches before recommending how the remaining matches should be dealt with by Revenues and Benefits. The intention was to investigate a sample of cases to prosecution standard where there was significant and deliberate fraud, with other minor cases being dealt with by way of recovery.
- 3.21 Over 3,500 of the matches have been checked, mostly by post and 1,260 discounts have been removed. This has increased the collectable council tax

debt by some £830,000, including £385,000 relating to 2009/10. Revenues and Benefits have already recovered in excess of £230,000.

- 3.22 In relation to internal fraud there were 19 investigations completed during the year. Fraud or irregularity was established in 12 of these cases resulting in six dismissals at disciplinary and six resignations. These figures do not include Copland School which remains an open investigation whilst the police consider whether to mount a criminal investigation.

Issues relevant to the Annual Governance Statement

- 3.23 During the early part of 2009/10 a number of allegations were received about one of the council's foundation schools. The council has concluded its investigation into this matter and findings have been passed to the police for consideration of a possible criminal investigation. The internal investigation into this matter concluded that there had been significant governance failures by the governing body. However, the council took swift action to address the issues and placed the school under the control of an interim executive board. That board has taken appropriate steps to improve governance within the school.
- 3.24 There are no further matters which impact upon the Annual Governance Statement.

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

- 3.25 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.
- 3.26 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.
- 3.27 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.

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 and Corporate Resources – Internal Audit Plan for 2009/10, Audit Committee – 4th March 2009.

8. Contact Officer Details

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