



Brent

Audit Committee
26 June 2014

**Report from the Chief
Finance Officer**

For Information

Wards Affected:
ALL

Internal Audit Annual Report 2013/14

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. Recommendation

- 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 Public Sector Internal Audit Standards² (PSIAS). These require the Head of Audit to:

- Deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The annual report must incorporate: the opinion; a summary of the work that supports the opinion; and a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Opinion of the Head of Audit and Investigation

- 3.2. *“I have considered all of the work conducted by internal audit staff, the council’s audit contractor, Mazars Public Sector Internal Audit Ltd and fraud investigation staff for the year ended 31 March 2014 and work undertaken post year end. This includes oversight of all internal audit reports and fraud investigations and personal conduct of specific projects across the Council, schools and BHP. In my opinion, with the exception of those areas in which limited assurance reports have been issued (as set out below); 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.*

The significant number of limited assurance reports is cause for concern and, whilst the key financial systems remain sound, may indicate a general weakening in the control environment.

The framework for governance is set out in the annual governance statement and, in my view, this is an accurate description of the governance arrangements and appropriate issues have been disclosed. I have reviewed departmental certificates of assurance and am satisfied that these are properly stated.

In relation to risk management, I have had oversight of the risk management process and, although there are some weaknesses in the process, the council’s significant risks have been recognised.





Summary of Work Undertaken - Audit

- 3.3. The 2013/14 Audit Plan was approved by the Audit Committee on 30th March 2013³. The plan allocated 1248 audit days across all areas of the council’s operation including schools and Brent Housing Partnership.
- 3.4. A number of changes to the plan were made during the year as set out in the Final Internal Audit Progress Report 2013/14⁴. Although the plan is for the 2013/14 financial year, inevitably audit work which commences in the final quarter of the year may not be completed by 31st of March and, hence, the actual audit year runs to the end of May. The plan has been delivered with the exception of two reports, which are due to be issued in early June 2014.
- 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.
- 3.5. 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:

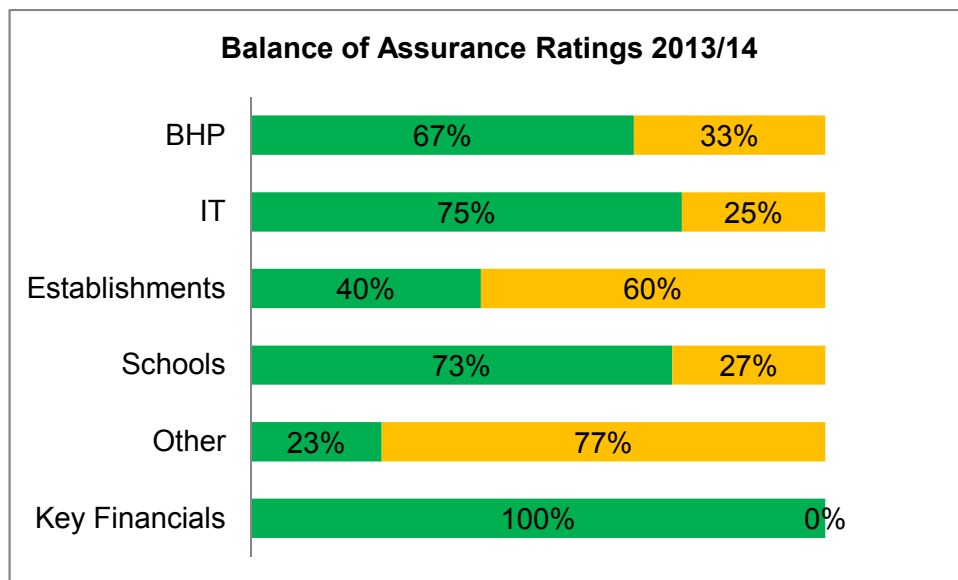
Full Assurance	There is a sound system of control designed to achieve the client’s objectives. The control processes tested are being consistently applied.
Substantial Assurance	While there is a basically sound system of internal control, there are weaknesses, which put some of the client’s objectives 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.

3.6. There has been deterioration in the balance between limited and substantial assurance across the council and BHP as set out below.

	Full 	Substantial 	Limited 	None 
2010/11	0%	58%	39%	3%
2011/12	1%	40%	52%	6%
2012/13	2%	64%	32%	3%
2013/14	1%	56%	43%	0%

3.7. The primary deterioration is in non-key financial systems across the council with IT systems, schools and BHP generally showing higher levels of assurance. It should be noted that all of the main financial systems were given a substantial rating. The position is summarised below.



3.8. The following table indicates the audits completed and relevant levels of assurance (where applicable) during the 2013-14 financial year:

Key Financials	
Accounts Payable, Receivable and General Ledger	Substantial
Payroll	Substantial
Council Tax	Substantial

National Non Domestic Rates (NNDR)	Substantial
Housing Benefits / Discretionary Payments	Substantial
Local Council Support Scheme (formerly Council Tax Benefit)	Substantial
Pension Fund Investments	Substantial
Other Council Systems	
Disclosure & Barring (formerly CRB checks)	Substantial
Data Quality	Substantial
Grants to Voluntary Organisations	Substantial
Public Health Contract Management (Stop Smoking)	Substantial
Members expenses and allowances	Substantial
Frameworkki purchasing	Limited
Recycling & Waste	Limited
Capital Projects (contract audits) - Bronte House Disposal	Limited
Soft Box - Migration of Data on Abacus to Frameworkki	Limited
Homelessness and Temporary Accommodation/ Housing Allocations	Limited
Business Continuity Planning & Emergency Planning	Limited
Insurance	Limited
S106	Limited
Community Infrastructure Levy	Limited
Complaints	Limited
Freedom of Information	Limited
Placements	Limited
Nurseries	Limited
Transitions Team (14-25 year old)	Limited
Carers Audit	Limited
Corporate Income Collection Arrangement	Limited
Sickness & Absence Management	Limited
Schools	
Mount Stewart Junior	Substantial

Our Lady of Grace Infants	Substantial
Our Lady of Grace Juniors	Substantial
Harlesden Primary School	Substantial
Manor Day	Substantial
Braintcroft	Substantial
Donnington	Substantial
Fryent	Substantial
Kingsbury Green	Substantial
Our Lady of Lourdes	Substantial
Northview	Substantial
Woodfield	Limited
Christchurch	Limited
Byron Court	Limited
Mount Stewart Infants	Limited
Establishments	
Tudor Gardens	Substantial
Gordon Brown Education Centre	Substantial
Kingsbury Resource Centre	Limited
John Billam Resource Centre	Limited
New Millennium Day Care Centre	Limited
IT	
Telecommunications	Substantial
Network Infrastructure	Substantial
Academy	Substantial
Oracle - Pre Implementation	Substantial
View 360	Substantial
Remote Access	Substantial
Migration of Appointeeship and Deputyship (Abacus, ResFunds, Quicken)	Limited
Infostore - Apps Sharepoint Implementation	Limited

BHP	
Gas Safety	Full
Housing Rents	Substantial
Major Works Contracts (2)	Substantial
Key Financial Systems Transactions Testing - AR/AP/GL	Substantial
Key Financial Systems Transactions Testing - Payroll	Substantial
Rent Arrears Management	Substantial
Budget Management	Substantial
Management of Non Brent Properties	Substantial
Leasehold Management and Service Charges	Substantial
One Oracle Pre-Migration	Substantial
Housing Repairs and Maintenance	Limited
Major Works Contracts (1)	Limited
Voids and Disrepair	Limited
Fire Safety	Limited
Resident Involvement	Limited

3.9. In addition to assurance work, the following projects were also completed. Although they contain no assurance rating the work has informed the overall opinion.

Troubled Families Grant Claim Certification - Families Worked with June 2013	Grant Certification
Troubled Families Grant Claim Certification - Families Worked with August 2013	Grant Certification
Troubled Families Grant Claim Certification - Payment By Results August 2013	Grant Certification
Troubled Families Grant Claim Certification - Payment By Results October 2013	Grant Certification
Troubled Families Grant Claims January 2014	Grant Certification
Capital Grant Funding for 2 year olds	Non Assurance
Appointeeship account balances verification	Non Assurance
NNDR Strategy	Non Assurance

Summary of Work Undertaken - Fraud

- 3.10. 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.
- 3.11. The team has conducted both reactive and proactive work during the year. Reactive investigation work during the year is summarised out in the earlier report on the agenda⁴.
- 3.12. In relation to external fraud the team identified fraud in 67 housing/council tax benefit cases with a value of £1.14m in overpaid benefit. This type of fraud is a national issue and does not indicate any specific weaknesses in the control environment. The team also recovered 43 council properties which had been sublet (a further three properties were recovered on behalf of registered housing providers). Again, sub-letting fraud is has been identified as a national problem and this does not indicate any specific control weaknesses within the council.
- 3.13. In relation to internal fraud/irregularity there were 44 investigations completed during the year. Fraud or irregularity was established in 16 of these cases resulting in 11 dismissals at disciplinary, 2 resignations, 2 warnings and 1 case where no disciplinary action was taken. These cases are summarised below:

Fraud / Irregularity	Number	Dismissed	Resigned	Warning	No Action
Illegal Working	5	4	1		
Conflict of Interest	2	2			
Wilful Breach of Financial Regulations	3		1	1	1
False benefit claim	2	1		1	
False overtime claim	1	1			
Theft of cash	2	2			
False sickness	1	1			
Total	16	11	2	2	1

- 3.14. Whilst the number of staff identified as having no right to work is of concern, the HR team have recently undertaken a council wide identity verification exercise for existing staff and have tightened procedures for new starters.
- 3.15. One case related to the movement of significant expenditure between accounting years. This impacted upon the 2011/12 and 2012/13 accounts and was reported in last year's Annual Governance Statement. It is reported here as the case was formally closed by the team in early 2013/14. The control failure had no impact upon the 2013/14 accounts and appropriate measures have been taken by management to improve the system.

Compliance with the Public Sector Internal Audit Standards (PSIAS)

- 3.16. 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 PSIAS.
- 3.17. Elements of the standard are reflected in the Terms of Reference for Internal Audit which have previously been approved by this committee at its meeting on 29th September 2010⁵. The standards are set out in the table below together with an

assessment of compliance and any actions for improvement.

Standard	Compliance	Area of Improvement and action plan
<p>1000 Purpose, Authority and Responsibility The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the <i>Definition of Internal Auditing</i>, the <i>Code of Ethics</i> and the <i>Standards</i>. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.</p>	<p>The terms of reference previously agreed by committee set out the purpose, authority and responsibility for internal audit. Authority is also established within financial regulations.</p>	<p>The TORs are more than three years old and require refreshing to ensure alignment with the PSIAS, relevance to the current organisation and to reflect the requirements of the Chief Finance Officer.</p> <p>Head of Audit and Investigation to produce draft terms of reference by September 2014</p>
<p>1100 Independence and Objectivity The internal audit activity must be independent and internal auditors must be objective in performing their work.</p>	<p>The Head of Audit and Investigation is free to report independently to the Chief Executive, Chair of Audit Committee and the Audit Committee. Established in job description and reporting lines.</p>	
<p>1200 Proficiency and Due Professional Care Engagements must be performed with proficiency and due professional care.</p>	<p>All in-house audit staff are suitably qualified or qualified by experience. Contractor staff have the appropriate level of qualification and supervision. All assignments undergo a quality assurance process, including sign off by professionally qualified staff. The Head of Audit and Investigation is CIPFA qualified.</p>	
<p>1300 Quality Assurance and Improvement Programme The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.</p>	<p>Ongoing monitoring is conducted via supervision of individual assignments and oversight of the work of the team is undertaken by the audit committee. There is a requirement for an external review once every five years and there is a review to be scheduled as part of a programme across London. The Head of Audit and Investigation is due to undertake a review of</p>	<p>There is a need to agree the external review date for Brent. The process will need to be signed off by Committee. The Head of Audit and Investigation will report to committee in relation to the review.</p> <p>Head of Audit and Investigation January 2015</p>

	Haringey in 2014/15.	
2000 Managing the Internal Audit Activity The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.	Head of Audit and Investigation maintains oversight of all internal audit work and the outsourced contract. Audit plans and individual briefs are agreed with directors in advance to ensure the service adds value.	
2100 Nature of Work The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.	Internal Audit work is based on an assessment of risk across the organisation and the outputs inform the annual governance statement. The Head of Audit and Investigation advises on relevant governance issues. A systematic approach is taken through planning, use of tested audit techniques, testing schedules etc.	
2200 Engagement Planning Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.	An annual plan is agreed by committee and each assignment has a brief agreed by the relevant director. Resource allocation is monitored during the year.	
2300 Performing the Engagement Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.	Audit files and working papers are maintained for all assignments. Evidence is retained where appropriate. Testing is designed to meet the objectives of the audit.	
2400 Communicating Results Internal auditors must communicate the results of engagements.	Reports are prepared at the end of each assignment and provided to management. Summaries of key recommendations are provided to the audit committee.	
2500 Monitoring Progress The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.	Reports are followed up on a periodic basis.	The tracking of recommendations is recognised as a weakness and steps need to be taken to formalise a tracking process with Departmental Management Teams. A recommendation tracker is to be presented to DMTs on a quarterly basis. Head of Audit and

		Investigation June 2014
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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. Public Sector Internal Audit Standards – CIPFA / IIA
3. Report from the Director of Finance and Corporate Services – Draft Internal Audit Plan 2013/14, *Audit Committee - 30th March 2013*
4. Report from the Chief Finance Officer – Final Internal Audit Progress Report 2013/14, *Audit Committee – 26th June 2014*
5. 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

Simon Lane, Head of Audit & Investigations, Room 1, Town Hall Annexe.
Telephone – 020 8937 1260

Conrad Hall
Chief Finance Officer