



Audit Committee
23 June 2015

**Report from the Chief Finance
Officer**

For Information

Wards Affected:
ALL

Internal Audit Annual Report 2014/15

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 2015¹ require the Council to undertake an internal audit of its control systems taking into account public sector internal audit standards or guidance. That guidance is set out within 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 2015 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 and investigations, these are being addressed by management.

Although the number of limited and nil assurance reports has reduced, overall the number remains too high and is of significant concern.

There are two specific themes arising from internal audit and investigation work which I wish to bring to the attention of management: Firstly to remind management of the need to ensure that documentation is retained to support decisions/assessments and to ensure that audit trails are fit for purpose to enable such documentation to be easily located. Secondly that reductions in staffing levels may increase the risk of fraud, particularly where responsibilities are being pushed lower down the organisation, and that compensatory controls need to be put in place where, for example, segregation of duties is not practical.

Management are reminded of the need to ensure that agreed audit recommendations are implemented within appropriate timescales and that the recommendation tracker is updated periodically in order that evidence of assurance can be given as to the status of audit recommendations.

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.

In relation to risk management, I have had oversight of the risk management process and, although there are some weaknesses in the process, the usual range of significant risks for a local authority have been identified.

Summary of Work Undertaken - Audit

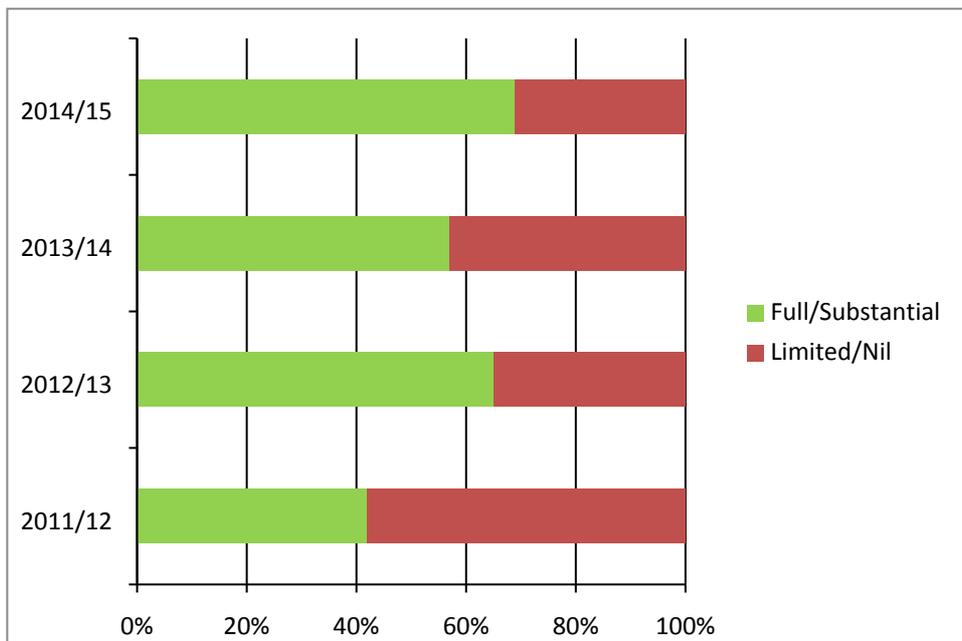
- 3.3. The 2014/15 Audit Plan was approved by the Audit Committee on 19th March 2014³. The plan allocated 1200 audit days across all areas of the council's operation including schools and Brent Housing Partnership. The plan has been delivered with the exception of two projects.
- 3.8 Audit work focused 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.

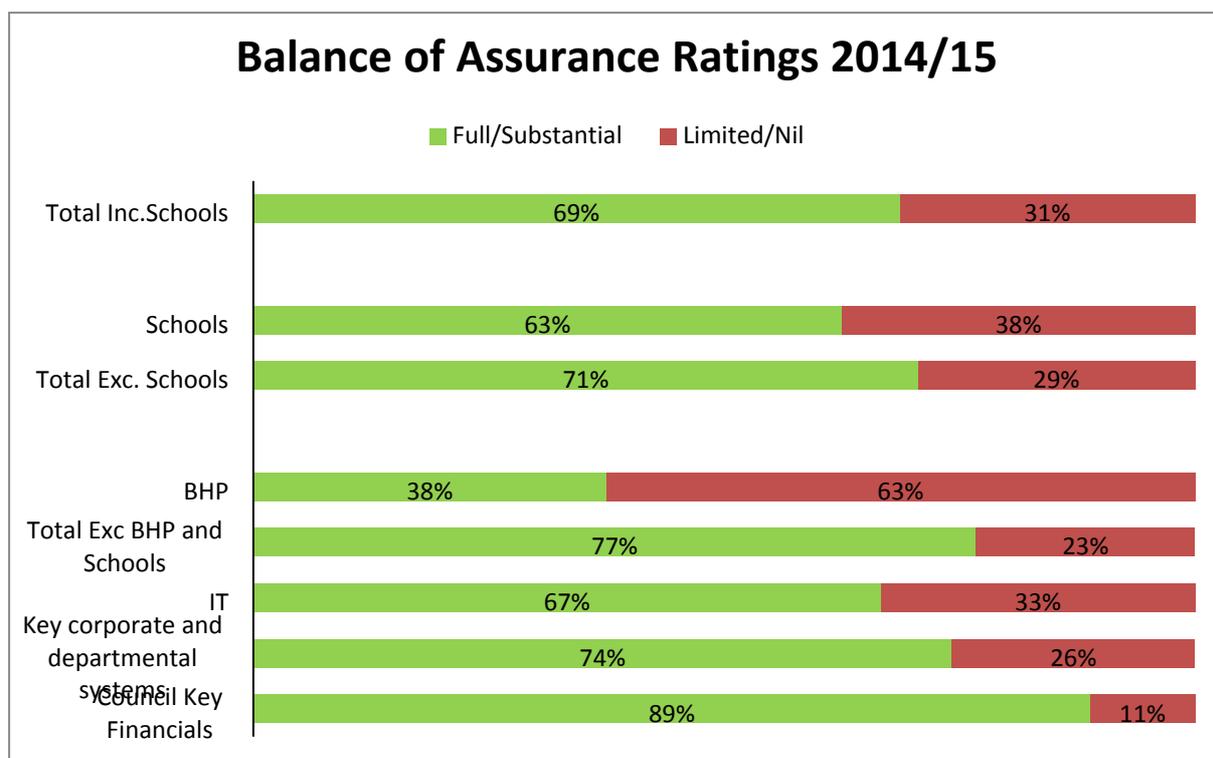
Limited Assurance	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
No Assurance	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic controls leaves the processes/systems open to error or abuse.

3.5. There has been an overall improvement in the balance between limited and substantial assurance across the council and BHP as set out below. However, the number of limited reports remains high and the re-emergence of two nil assurance ratings within schools is a concern.

	Full 	Substantial 	Limited 	Nil 
2014/15	3%	66%	28%	3%
2013/14	1%	56%	43%	0%
2012/13	2%	63%	32%	3%
2011/12	1%	41%	52%	6%



3.6. There has been an improvement over last year in the position with regards to the council's systems (excluding schools and BHP). The balance of assurance ratings has improved from 55% substantial/full to 77%. There has been a deterioration within BHP although one adverse opinion can make a significant difference due to the relatively small number of audits. The position is summarised below.



3.7. The following table indicates the audits completed and relevant levels of assurance (where applicable) during the 2014-15 financial year:

Audit	Assurance Opinion
Key Financials	
Accounts Receivable & Income Management	Substantial
General Ledger & Cash Management	Substantial
Treasury Management	Substantial
Payroll	Substantial
Council Tax	Substantial
Local Council Support Scheme (formerly Council Tax Benefit)	Substantial
National Non Domestic Rates (NNDR)	Substantial
Local Welfare Assistance Scheme	Substantial
Accounts Payable	Limited
Other Council Systems	
Parking Contract (Special Project)	Substantial
Highways Contract (Special Project)	Substantial
Highways Maintenance	Substantial
Street Tree Contract	Substantial
Public Realm Contracts – Waste & Recycling	Substantial
Vale Farm Contract	Full
Election Expenses	Substantial
Public Health Contracts	Substantial
Procurement	Substantial
Adult Commissioning	Substantial

Respite Care Payments	Substantial
Mental Health	Substantial
Personalisation - Direct Payments & Personal Budgets	Substantial
Supporting People	Substantial
Safeguarding	Substantial
Concessionary Fares	Substantial
Blue Badges	Substantial
Capital Projects (contract audits - Stonebridge School Expansion and Re-development of Surrounding Area)	Full
Capital Projects (contract audits - Crest Academy)	Substantial
Choice Based Lettings/ Housing Allocations	Substantial
Facilities Management	Substantial
Care Leavers	Substantial
School Admissions	Substantial
Members – Declarations of Interests & Gifts and Hospitality	Limited
Parking	Limited
Licensing (Alcohol & Entertainment)	Limited
Discretionary Housing Payments	Limited
Departmentally managed IT Contracts	Limited
Appointeeship & Deputyship	Limited
No Recourse to Public Funds (Adolescent Prevention Service)	Limited
Income from Civic Centre (Melting Pot & Other Hire Facilities)	Limited
IT Systems	
Information Governance	Substantial
Acolaid	Substantial
Echo	Limited
Schools	
Anson	Substantial
Barham	Substantial
Kilburn Park Junior	Substantial
Michael Sobell Sinai	Substantial
Park Lane	Substantial
Preston Park	Substantial
St Margaret Clitherow	Substantial
St Andrews and St Francis	Substantial
Village	Substantial
Malorees Infants	Substantial
Oakington Manor	Limited
JFS	Limited
Newman CC	Limited
Princess Frederica	Limited
St Mary's RC	Nil
Islamia	Nil
BHP	
Payroll Processing and Payroll SLA	Substantial
Lift Maintenance	Substantial

General Ledger	Substantial
Former Tenants Arrears	Limited
Procurement	Limited
Tree Management	Limited
Accounts Payable	Limited
Complaints	Limited

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

Audit	Opinion
Review of Payment Processes to Public Health Suppliers and Grant Recipients	Non Assurance
Review of Security of Personal Data across PH Providers	Non Assurance
Barham Park Trust Accounts	Unqualified
Troubled Families System Audit	Non Assurance
Troubled Families Grant Claim Certification June 2014	Certified
Troubled Families Grant Claim August 2014	Certified
Troubled Families Grant Claim October 2014	Certified
Troubled Families Grant Claims January 2015	Certified
Adoption Allowance Grant Certification	Certified
Adoption Allowances	Advice Report
BHP Garages	Advice Report

- 3.9. In addition to new projects, 15 follow reviews were undertaken to establish the extent of implementation of recommendations. This is a reasonable measure of how well the organisation responds to recommendations. A total of 108 recommendations were made across the 15 audits, 92% of these had either been implemented or partly implemented.
- 3.10. A new tracking system for audit recommendations has been implemented relatively recently which should provide a full picture of the level of implementation. It is intended that this will replace traditional follow up work by internal audit with a system of self declaration and sample checking by internal audit. This system is not fully embedded across the organisation and it is too early to produce a position statement.

Summary of Work Undertaken - Fraud

- 3.11. 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. The team has conducted both reactive and proactive work during the year as set out below.
- 3.12. In relation to external fraud the team identified fraud in 50 housing benefit/council tax benefit cases with a value of £1m in overpaid benefit. This type of fraud is a national issue and does not indicate any specific weaknesses in the control environment. Investigation of this type of fraud was moved to the DWP in October 2014.
- 3.13. The team also recovered 51 properties which had been sublet. Again, sub-letting fraud is has been identified as a national problem and this does not indicate any specific control weaknesses within the council.

- 3.14. A number of other cases of external fraud were identified, including false claims for council tax discount and blue badge misuse. The only material case, affecting the opinion on the control environment related to a case of attempted mandate fraud (fraudulent altering of supplier bank details) to the value of £410,000. This raised control issues for the Accounts Payable team. This remained an issue post year end but has now been addressed by management.
- 3.15. In relation to internal fraud/irregularity there were 51 investigations completed during the year. Fraud or irregularity was established in 17 of these cases resulting in 5 dismissals at disciplinary, 6 resignations, 5 warnings and one case where no sanction was applied. These cases are summarised below:

Fraud / Irregularity	Number	Dismissed	Resigned	Warning	No Sanction
Misuse Blue Badge	1		1		
Wilful Breach of Regulations / Procedure	5	1	3		1
Conflict of Interest	4	1	1	2	
Other	2			2	
Recruitment Irregularity	1	1			
Pecuniary Advantage	3	1	1	1	
False benefit claim	1	1			
Total	17	5	5	5	1

- 3.16. None of the above cases give cause to raise an adverse opinion on the control environment.

Compliance with the Public Sector Internal Audit Standards (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. 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*
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.	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.	The TORs are more than four 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. Head of Audit and Investigation to produce draft terms of reference by September 2015

<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 Haringey in 2014/15.</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 September 2015</p>
<p>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.</p>	<p>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.</p>	
<p>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.</p>	<p>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.</p>	
<p>2200 Engagement Planning Internal auditors must develop and document a plan for each engagement, including the engagement's objectives,</p>	<p>An annual plan is agreed by committee and each assignment has a brief agreed by the relevant director. Resource allocation is monitored during the</p>	

scope, timing and resource allocations.	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. A recommendation tracking portal is available on infostore. However, use is not consistent across the council.	Increased awareness of the tracking system is required within DMTs. Head of Audit and Investigation September 2015

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 2015
2. Public Sector Internal Audit Standards – CIPFA / IIA
3. Report from the Director of Finance and Corporate Services – Internal Audit Plan 2014/15, *Audit Committee - 19th March 2014*

8. Contact Officer Details

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