



Audit Committee
15th June 2011

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

For Information
* delete as necessary

Wards Affected:
ALL

Report Title: Internal Audit Annual Report 2010/11

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 31 March 2011 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 3.4, 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 fourth 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 qualified in relation to two issues: Firstly, in relation to the Council’s single accounting system, I have recently issued three draft reports with limited assurance opinions. Given this is a new system, implemented in 2010/11, there were always likely to be weaknesses identified in such a major change. I am confident that management will address the weaknesses identified within these reports. However, there are ongoing risks associated with significant staffing reductions and consequent loss of expertise which will need to be mitigated. I also remain concerned about the apparent lack of financial control within a significant minority of the council’s schools and the general approach to internal audit findings. Whilst schools are responsible for their own budgets, they are required to adhere to both legal requirements and to financial regulations issued by the council. These ensure public money is properly spent and accounted for. A number of schools are demonstrating a lack of compliance with basic procurement regulations. This is placing schools at risk of failing to achieve value for money and at risk of potential legal challenge where EU procurement regulations apply. In addition, a number of schools are failing to adhere to the national rules concerning teacher’s pay, specifically in relation to head teacher pay being outside the prescribed bandings determined by the school size. Although, in certain circumstances schools are permitted to pay above the maximum group range, I consider that in a number of cases these circumstances may not apply and school governing bodies may be paying above the ranges set out within the national conditions document to facilitate incremental increases in pay once the natural pay cap, relative to the size of school, has been reached. This is further exacerbated by Governing Bodies not always being diligent in their*

recording of the reasons for granting permission to exceed to cap thus placing the school at risk of challenge

- 3.5. The 2010/11 Audit Plan was approved by the Audit Committee on 3rd March 2010³. The plan allocated 1201 audit days across all areas of the council's operation, including 135 within Brent Housing Partnership.
- 3.6. At the end of March 2011, 1178 days had been delivered representing 98% of the audit plan. The outstanding 23 days, representing the 2% shortfall in delivery was due to the planned audit work for one a One Council Project not going ahead due to delays in the implementation of project and a reorganisation in one department resulting in staff changes which resulted in the audit start date being postponed. The 98% delivery rate represents an improvement on the 2009/10 audit plan for which 95% of the Plan was delivered.
- 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 2010-11 financial year:

Ref	Audit Area	Level of Assurance
1.	Council Tax	Substantial
2.	Payroll	Substantial
3.	NNDR (Business Rates)	Substantial
4.	Treasury Management	Substantial
5.	Service Planning & Performance Management	Substantial
6.	Sports & Leisure Centre	Substantial
7.	Business Continuity Planning	Substantial
8.	Local Area Agreement Data Management	Substantial
9.	School Admissions	Substantial
10.	Housing Provision for 16-17 years old	Substantial
11.	Traffic Management	Substantial
12.	PC & Laptop Security	Substantial
13.	Data Protection Administration & FOI	Substantial
14.	Northgate Revenues & Benefits Application	Substantial
15.	Interact Payroll Application	Substantial
16.	Internet Protocol (IP) Telephony	Substantial
17.	Mobile Device Security	Substantial
18.	Oracle Database Security	Substantial
19.	Experian Payments Gateway (IT)	Substantial
20.	Christchurch Primary School	Substantial
21.	Mount Stewart Infants	Substantial
22.	Northview Primary	Substantial
23.	Anson Primary School	Substantial
24.	Barham Primary School	Substantial
25.	Fryent Primary School	Substantial
26.	Preston Park Primary School	Substantial
27.	St Andrew & St Francis Primary School	Substantial
28.	Donnington Primary School	Substantial
29.	St Margaret Clitherow Primary School	Substantial
30.	Debt Management	Limited
31.	Self Directed Support	Limited
32.	Oracle Database Migration	Limited

33.	Manhattan Property Management	Limited
34.	Contender System(IT)	Limited
35.	Copland Community College	Limited
36.	Kingsbury Green Primary School	Limited
37.	Harlesden Primary	Limited
38.	Newman Catholic College	Limited
39.	Braincroft Primary School	Limited
40.	Queens Park Community College	Limited
41.	Malorees Infants School	Limited

Table 1 - List of completed audits for 2010/11 and levels of assurance

3.9. 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.

3.10. 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 fraud case load is split over seven main areas. The 2010/11 case load statistics are shown in table 2 below.

Fraud Area	New Cases	Cases Closed	Cases Investigated	Fraud Identified
Housing Benefit*	757	675	290	121
Housing Tenancy Related	120	166	155	37
Blue Badge	43	29	20	13
Direct Payments	3	6	5	3
Other external / third party	19	15	14	8
Internal	53	51	50	21
Totals	995	942	534	203

Table 2 – Fraud Case Load 2010/11

3.12. In relation to housing benefit fraud the team completed investigations into 290 cases with fraud proven in 121 cases. The value of fraudulent overpayments (including DWP benefits) created as a result of investigations in 2010/11 was £2.5 million. Of this amount, £1.8 million relates to housing or council tax

benefit. This is increase on previous years' performance and reflects an ongoing strategy of dealing with higher value cases.

- 3.13. 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.
- 3.14. 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 71 sanctions were applied to cases closed during 2010/11. These are summarised below:

Sanction	2010/11
Prosecutions	50
Administrative Penalties	20
Cautions	1
Total	71

Table 3 – Housing Benefit Sanctions 2010/11

- 3.15. In relation to housing tenancy fraud the team received 120 new referrals and completed investigations into 166 cases. As a result of these investigations the team recovered 36 council properties (33 managed by BHP and 3 Registered Social Landlords (RSLs)). The team also conducts investigations into social housing fraud for five housing associations. During the year the team recovered 2 housing association properties, which then became available for the council to nominate tenants to. These recoveries have a significant financial impact on the housing revenue account and temporary accommodation budget.
- 3.16. 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.
- 3.17. 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 although the Audit and Investigation Unit co-ordinated a successful proactive exercise in the Wembley area which resulted in 18 badges being seized in the latter part of the year.

- 3.18. 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 43 new referrals in 2010/11 with 20 completed investigations. Fraud was identified in 13 of these. Most are dealt with by way of a warning letter from Older Peoples Services who issue the badges. There were 4 more serious cases resulting in 1 staff dismissal and 3 prosecutions. All prosecuted defendants received a fine and a criminal record.
- 3.19. In relation to internal fraud there were 50 investigations completed during the year. Fraud or irregularity was established in 21 of these cases resulting in 5 dismissals at disciplinary, 14 resignations and 2 warnings.
- 3.20. During the previous three years, the Audit & Investigations Team have been involved in proactively verifying staff identities (ID) and their right to work in the UK. This work has been carried out in areas which are considered to be high risk i.e. where staff have access to vulnerable clients and there is a risk that their IDs' permission to work in the U.K may be irregular. The work undertaken has resulted in the dismissal of 15 staff for ID / immigration issues; 32 staff left whilst they were still being investigated and 3 are still being investigated. The intention going forward is for these checks to be rolled out across the Council by management and Human Resources.

Issues relevant to the Annual Governance Statement

- 3.21. Following the Copland School investigation changes were made to the internal audit programme to ensure all foundation schools were audited by the council. In addition the audit coverage in schools was changed to include an increased focus on procurement.
- 3.22. The increased coverage of procurement arrangements at Schools has resulted in significant findings in relation to the procurement of leases, mainly for photocopying equipment. This affects some eight schools, a number of which have leasing commitments which will have a material impact upon the finances of these schools.

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

- 3.23. 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.
- 3.24. 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.

- 3.25. 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.
- 3.26. The Accounts and Audit Regulations 2011 come into force from 1st April 2011 and are not relevant for the purposes of this report.

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 – INTERNAL AUDIT PLAN FOR 2010-11, *Audit Committee – 3rd March 2010.*

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