



Audit Advisory Committee
26 June 2017

**Report from the Chief Finance
Officer**

For Information

Wards Affected: ALL

Internal Audit Annual Report – 2016/17

1. Summary

- 1.1. This report is the annual report from the Head of Audit & Investigations. 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 2015 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 Standards (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. This report gives a summary of the work carried out by Internal Audit and Investigations in the financial year 2016/17 and the results of that work. From the

work undertaken during the year, my overall opinion on the Council's system of internal control is that:

I have considered all of the work conducted by internal audit staff, the Council's audit contractor and fraud investigation staff for the year ended 31 March 2017. This includes oversight of all internal audit reports, fraud investigations and specific projects across the Council, schools and Brent Housing Partnership (BHP). In my opinion, with the exception of those areas in which limited or nil 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 have been accepted and actions agreed by management.

There is an improvement in overall assurances provided with more full and less no assurance. The number of limited assurance audit reports continues to be closely monitored as a percentage this is slightly increased on last year.





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 conclude that the usual range of significant risks for a local authority have been identified and arrangements are in place to manage these within the council appetite for risk and available resources.

Summary of Work Undertaken – Audit

- 3.3. The 2016/17 Audit Plan was approved by the Audit Committee on 23 March 2016. The plan for 2016/17 had a total of 56 projects. For the first half of the financial year the Internal Audit Plan was delivered via a shared service arrangement lead by the London Borough of Ealing. In June 2016 the shared service appointed PricewaterhouseCoopers as its Strategic Partner for the period of four years. In September 2016 an Interim Head of Audit and Investigations was appointed to oversee the delivery of the Audit Plan using the small provision of audit resources available to the Council. A review of the effectiveness of the shared service was undertaken, as had been planned at the outset in 2015, and in January 2017 it was decided that the council would commence procedures to leave the shared service and establish an in house service.
- 3.4 We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high risk areas and, in the light of new and ongoing developments in the organisation, ensure the most appropriate use of resources. As a result of this, some changes were agreed to the plan during the year, with some audits added or deleted. The total number of projects completed in 2016/17 was 55, against a revised total plan of 61. The remaining plan could not be completed during 2016/17 due to resourcing pressures within the in-house team, however, these have been scheduled to be completed during 2017/18.
- 3.5 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.

- 3.6 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:

| | | |
|---|-------------|--|
|  | Substantial | There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied. |
|  | Reasonable | 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. |
|  | Nil | 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. |

- 3.7 There has been an improvement on 2015/16 overall as the percentages of nil and substantial have moved positively. The proportion of systems receiving below limited in 2016/17 was 26% which is reduced from 37% the year before. 11% more of the plan therefore was rated as reasonable or above. This is positive as the audit plan is directed at areas of inherent risk and/or where concern.

| | Substantial | Reasonable | Limited | Nil |
|---------|-------------|------------|---------|-----|
| 2016/17 | 5% | 69% | 26% | 0% |
| 2015/16 | 0% | 63% | 31% | 6% |
| 2014/15 | 3% | 66% | 28% | 3% |
| 2013/14 | 1% | 56% | 43% | 0% |

- 3.8. The following table indicates the audits completed and relevant levels of assurance (where applicable) during the 2016-17 financial year. Key themes from systems work are captured below and also highlighted within the internal fraud section later in the report. Audits marked with a * were not finalised at the time of drafting this report.

| <u>Audit</u> | Assurance Opinion |
|---|--------------------------|
| Key Financials | |
| Accounts Payable* | Reasonable |
| Accounts Receivable* | Substantial |
| Business Rates (NNDR)* | Reasonable |
| Council Tax* | Reasonable |
| General Ledger* | Reasonable |
| Housing Benefits* | Reasonable |
| Payroll* | Reasonable |
| Other Council Systems | |
| Community & Wellbeing | |
| Direct Payments | Reasonable |
| Homelessness Prevention & Assistance | Limited |
| MH S117 Aftercare Service Provision | Reasonable |
| Service user involvement in service development and quality assurance | Reasonable |
| Performance & Payments to GPs and Pharmacists | Reasonable |
| Children & Young People | |
| Early Years – Early Education for 2 year olds* | Reasonable |
| No recourse to public funds – homeless families | Reasonable |
| Schools Thematic – Finance and Governance* | Reasonable |
| Schools Thematic – Safer Recruitment inc Safeguarding | Substantial |
| Schools Thematic – Contract and Procurement | Reasonable |
| Regeneration & Environmental Services | |
| Section 106 Agreements/Community Infrastructure Levy | Reasonable |
| Planning Applications | Limited |
| School expansion Programme* | Limited |
| South Kilburn Regeneration Programme* | Limited |
| Resources | |

| | |
|---|------------|
| Third Party Management* | Reasonable |
| IT Governance* | Reasonable |
| Corporate/Cost Cutting | |
| Procurement - Contract Management & Monitoring | Reasonable |
| Business Continuity Planning | Limited |
| Income Generation | Reasonable |
| Chief Executive's Department | |
| Grants to Voluntary Organisations | Reasonable |
| Performance Management and Data Quality | Reasonable |
| Brent Housing Partnership | |
| Housing Rents (Rent Accounting) | Reasonable |
| Tenant Management Organisation (Watling Gardens) | Limited |
| Procurement and Contracts Non Major Works | Limited |
| Management of Non Brent Properties | Limited |
| Conflict of Interests and Gifts and Hospitality (Members) | Reasonable |
| Conflicts of Interest and Gifts and Hospitality (Staff)* | Limited |
| Complaints Management | Reasonable |
| Gas Servicing | Reasonable |
| Kilburn Square Coop | Limited |

With finite resources the organisation is faced with developing an increasingly efficient system of internal control that is risk focused. The Audit and Investigations Team have a key role in ensuring management are supported in achieving this and do respond to requests for assistance where new process are being developed. The team notes an increase in the requests from management and a number of schools have also asked for advice, assistance or for assurances to be provided. This has been considered as part of the plan for 2017/18 and is part of the wider work on schools with Council colleagues.

Key themes identified across audits are:

- Lack of timely reconciliation or corroboration between systems or to independent information;
- Methodology deployed in management of projects;
- The use of retrospective purchase orders or other payment mechanisms that are less both less well controlled and also resource efficient;
- Timeliness of the review and update of policy, procedures;
- Loss of knowledge, corporate history and/or lack of hand over when officers leave including audit trails that cannot be accessed.

3.9 Follow up Reviews

Internal Audit complete a programme of follow up reviews to ensure that agreed management actions in respect of significant recommendations made have been implemented. The status of the Priority One recommendations raised during 2015/16 is as outlined within the table below:

| | |
|--|----|
| Number of P1 recommendations to follow up | 14 |
| Number of P1 recommendations due to be implemented by May 2017 | 14 |
| Number of P1 recommendations fully implemented | 11 |
| Number of P1 recommendations partially implemented | 0 |
| Number of P1 recommendations no longer applicable | 3 |

At the request of the Audit Committee increased effort has been made in 2016/17 in ensuring the status of all outstanding recommendations is known and reported appropriately to Corporate Management team for action and Audit Committee for information. Work continues into 2017/18 with a focus on streamlining processes and will also be enhanced to include all recommendations due to ensure more timely reporting of issues.

3.10 Schools

The thematic internal audits undertaken in Schools during 2016/17 have provided reasonable and substantial assurance. However the number of referrals relating to financial irregularities within schools and, as noted above, the requests for support from schools who face challenges in maintaining good financial process with finite back office resources indicated that a change in the audit plan was required. The approach to schools assurance has been reviewed in light of Member and Management concerns to ensure increased assurances are available to Governing Bodies and the Council in 2017/18.

3.11 Internal Audit Performance

Only 90% of the plan was completed to inform this Annual Report however it is noted that this is largely due to additional work added to the plan and 55 assignments were completed compared to an original plan of 56.

The significant changes faced by the service in 2016/17 will undoubtedly had an impact on delivery of the audit plan. However the actions taken by Senior Management have brought increased stability to the service and will enable performance and service developments to be implemented in 2017/18.

3.12 Customer Satisfaction

The practice of seeking formal feedback has not been consistently gathered in 2016/17. A new process has been developed and will be implemented for 2017/18.

Due to the interim management arrangements and the review of the shared service there has been significant focus not only on what the service has been delivering but also on the needs of the Council going forward. Discussions have included Corporate Management Team as a group as well as Strategic Directors and their own Management Teams. Key stakeholders were interviewed as part of the review into the shared service.

Management have provided feedback on individual audits completed by both the in-house provision and PwC and this feedback has been incorporated into the continuous improvement of the service and protocols with PwC are strategic Partner.

It has been a challenging year but there has been a strong commitment on all sides to invest into the Audit and Investigations service to ensure satisfaction can be increased in future years.

3.13 Compliance with the Public Sector Internal Audit Standards

A self-assessment was completed to consider the audit arrangements provided by the shared service arrangement, focused on Brent Council, due to the uncertainty regarding the future at the time. This was reviewed again in March 2017 when the standards were updated.

A number of areas were identified where there was no evidence of compliance with the standards. Actions have been taken to address this where possible in 2016/17 and particularly to ensure evidence could be presented if required, further work will be required in 2017/18. It is also noted that as the standards have been in place now for five years that the Council should be seeking an independent review of the service before the end of this financial year.

3.14 Whistleblowing

The team have received six whistle-blower reports in 2016/17 under the Council's policy. Two were in relation to the Council directly and the others related to Schools. The teams work on five of the six is concluded at the time of producing this report. The team work closely with Human Resources with regards ensuring the requirements of the Council's whistleblowing policy are met.

3.15 Anti-Fraud & Corruption Activity

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 have reviewed the Anti-Fraud and Corruption Policy during 2016/17 and delivered both reactive and proactive assignments during the year, to deliver the approved Strategy.

During 2016/17 the team consisted of ten FTEs, Eight of which were qualified officers. In Q4 two agency workers left so at the end of the financial year there were Eight FTEs, six of whom are qualified officers. The budget for the Anti-Fraud work in 2016/17 was circa £500k.

Quarterly reports regarding caseload and outcomes are reported to both Corporate Management Team and Audit Committee. A high level summary of the year is included within this report.

During 2016/17 the team used their powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 201444 63 times (source; NAFN authorised approved requests).

Internal Fraud

At the start of 2016/17 22 internal cases were open, during the year another 28 referrals were received. During the year 34 of these cases were closed. In 12 of these closed cases Fraud was identified. In Eight cases system improvements were required in four cases an officer left the Council (2) was dismissed (1) or issued a warning (1). The outcomes of work indicate the need to refocus attention on the control environment, which is why more proactive work has been undertaken, as weaknesses in control will increase the likelihood that fraud will occur and where a robust control environment is embedded resources are not wasted investigating false allegations against officers.

In Q1 and Q2 of 2016/17 a significant proportion of staff time was spent in investigating allegations of housing corruption, time was spent in analysing particular allocations decisions and data on associated housing allocation. The work identified no fraud but the risk remains high and therefore further proactive work is being undertaken.

The robustness of declaration of interests approach and therefore the management of the conflict of interest risk has been a theme in a number of investigations, we have been working with Human Resources to look at strengthening the process and this will be overseen by the Corporate Governance Group.

Housing Fraud

At the start of the year there were 121 open cases, with a further 332 new referrals received in year. 371 cases were closed leaving 82 cases open at the end of the year. Use of intelligence available to the team assists in the efficient vetting of cases and where required prompt closure of cases. The team have worked with other teams and organisations who refer fraud to ensure the quality of the referrals is high.

In 52 of the above cases Fraud was found. This resulted in 44 recovered properties, four families rehoused to a smaller property, four right to buy properties recovered, prevention of £416k of right to buy discount being granted, 26 of the cases are being prosecuted.

External Fraud

External Fraud includes all other external fraud/irregularity cases, such as blue badge, direct payments and council tax discounts.

At the start of 2016/17 there were 57 open cases, 161 new referrals were received, and 204 cases closed therefore 14 cases remained open at year end.

In 22 of the cases fraud was identified, two prosecutions were secured with six cases concluding in a caution or warning. In seven cases financial savings were identified.

The team has promoted publicly the success on these external cases in an attempt to deter fraudsters in the future.

4. Diversity Implications

4.1. None

5. Background Papers

5.1. None

6. Contact Officer Details

Michael Bradley, Head of Audit & Investigations, 7th floor, Brent Civic Centre
Telephone – 0208 937 6526

CONRAD HALL
Chief Finance Officer