	Audit and Standards Advisory Committee 10 July 2019 **Report from the Director of Legal, HR, Audit and Investigations**
For Information	Wards Affected: ALL
Report Title: Internal Audit Annual Report – 2018/19	

1. Summary

1.1. This report includes an opinion on the overall adequacy and effectiveness of the Council's internal controls and presents a summary of the Internal Audit work undertaken during the year.

2. Recommendations

2.1. The Audit and Standards Advisory 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 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 in 2018/19. 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 for the year ended 31 March 2019.
>
> In my opinion, with the exception of those areas in which limited or no 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.
>
> 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 oversight of the risk management process and conclude that a range of significant risks for the authority have been identified and are being managed.

Summary of Work Undertaken

3.3.   The 2018/19 Audit Plan was approved by the Audit and Standards Advisory Committee on 20 March 2018. The plan had a total of 60 audits (excluding follow up reviews, schools audits and advisory work). The plan has been delivered via an in-house team in partnership with a contracted service from PWC.

3.4   We have liaised with senior management throughout the year to ensure that internal audit work focuses on high risk areas and, in 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 and made to the plan during the year:

Internal Audits	Number
Additions to plan during year	2
Completed	35
In progress - draft reports issued to management	1
In progress - fieldwork	5
Deferred to 2019/20	8
Cancelled	11
Schools	13
Follow Up Reviews	42

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.
No	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 2017/18 in the percentage of 'Substantial' and 'Reasonable' opinions. The proportion of systems receiving 'Limited' or 'No' opinions (one audit conclusion of 'No' assurance) has reduced. The audit plan is directed at areas of inherent risk and/or where concern has been raised by management - therefore this can distort the overall assurance picture.

The amount of 'consultancy' work undertaken has increased slightly. This is part of our revised approach which is intended to provide Internal Audit input when systems and processes are changing rather than after implementation.

	Substantial	Reasonable	Limited/No	Consultancy
2018/19	11%	43%	20%	26%
2017/18	4%	41%	31%	24%
2016/17	2.5%	60%	35%	2.5%
2015/16	0%	63%	31%	6%
2014/15	3%	66%	28%	3%

3.8   The following table shows the completed audits and their levels of assurance (where applicable) during the 2018/19 financial year. Key themes are captured below. A 'Limited' or 'No' assurance level indicates that there were risk exposures which hadn't previously been identified. The audit is intended to identify these and assist management in identifying cost-effective actions to mitigate these issues. Management have engaged fully with audit in identifying these areas and then in undertaking and concluding the mitigation work.

Audit	Assurance Opinion
Key Financials	
Budgetary Control	Consultancy
Income Management	Limited
Accounts Payable	Consultancy
Supplier Registration	Limited
Accounts Receivable	Reasonable
Community and Wellbeing	
Libraries – Stock Control	Reasonable
Direct Leasing	Reasonable
Children and Young People	
Unaccompanied Asylum Seeking Children	Reasonable
Looked After Children	Substantial
Schools Monitoring	Reasonable
Children In Need	Reasonable
Virtual School	Substantial
Regeneration and Environmental Services	
Building Control	Reasonable
Barham Park Accounts	Consultancy
Licensing	Limited
Trading Standards	Reasonable
Community Safety	Substantial
Aboriculture	Reasonable
Footways Business Case	Consultancy
Resources	

Benefits – Risk Based Verification	Reasonable
Staff Performance Management	Consultancy
IT Device Provision Project Assurance	Consultancy
Northgate Housing Application	Limited
Mosaic Application	Limited
Council Tax and Associated IT Transition Project	Consultancy
Property Payments	Consultancy
Property Asset Register	No Assurance
Corporate/Cross Cutting	
Gifts & Hospitality/Declarations of Interest	Reasonable
Health and Safety	Limited
Use of Social Media/RIPA	Reasonable
Data Security	Reasonable
Corporate Governance – Decision Making Process	Reasonable
Emergency Planning	Substantial
Performance, Policy & Partnership	
Digital Strategy	Reasonable
I4B	
Financial Model Review	Consultancy

3.9 Further details on the audits resulting in a 'Limited' or 'No' Assurance opinion can be found in Appendix A. Where high risk issues were raised on audits with a 'Reasonable' opinion, these can be found in Appendix B.

3.10 Audits where the opinion is shown as 'Consultancy' were reviews conducted as a result of a management request for advice or assistance on developing systems and processes. The organisation is faced with developing an increasingly efficient system of internal control that is risk-focused and Internal Audit have a key role in ensuring management are supported in achieving this and to respond to requests for assistance.

3.11 Key themes identified across audits were:

- Programme and Project Management including methodology and assurance;
- Policies and Procedures including missing or out-of-date processes and procedures, and
- Operational risk management in services including the escalation of risks.

3.12 Internal Audit also completed a number of grant claim certifications for the Troubled Families Programme.

Follow up Reviews

3.13 As part of the audit process, follow-up reviews are carried out to ensure that agreed management actions in respect of significant risks have been implemented. This process continued through 2018/19.

3.14 During the year 42 follow-up reviews were completed which included seeking evidence that 409 management actions had been implemented as agreed. The results of which were:

Action Status	Number
Implemented	269
Partially Implemented	49
Not Implemented	32
No Longer Relevant	59

3.15 Where actions remain partially or not implemented, revised completion dates have been agreed with management when Internal Audit will revisit to confirm implementation where appropriate. Details of the follow up reviews are set out in Appendix C.

3.16 Work continues in ensuring the status of all outstanding recommendations are reported appropriately to the Council Management Team for action and the Audit and Standards Advisory Committee for information.

Schools

3.17 A programme of school audits has been completed during 2018/19 with a focus on financial processes and the accompanying back office resources. There were 13 schools scheduled where we worked with school staff in order to provide assurance to Governing Boards and the Council that appropriate controls and processes are in place or that work is being done to reach the required standards.

3.18 Testing was carried out to ensure that schools were operating within a robust governance, risk management and control framework, ensuring that their resources are managed and used appropriately and effectively in order to enable the education of the pupils. In most of the schools reviewed, standards were 'reasonable' or higher. Although issues were raised at all schools visited, many were quite minor in nature.

3.19 Re-occurring themes identified across school audits were:
- Governance

o   Policies and Procedures -including those missing, or out of date;

o   Declarations of Interest - incomplete or missing.

- Purchasing and Expenditure
  o   Insufficient quotations obtained for high value purchases, and
  o   Purchase Orders not being raised and goods and services not being correctly receipted.

- HR and Payroll
  o   Inadequate process and procedures for starters and leavers, and
  o   Absence of sufficient checks on outside payroll providers.

Information on the key issues raised and overall conclusions are detailed in Appendix D.

3.20   For the two audit reviews which resulted in 'No Assurance' outcomes, management have developed action plans based on the recommendations which include responsible officers and timescales. Extended follow-up audits will be undertaken in these areas and the outcomes reported to the Committee.

3.21   Internal Audit are also attending Teachers' Panel and School Information Exchange meetings to discuss the audit process, key risk areas and any other concerns raised by schools.

Internal Audit Performance

3.22   While we ensured that the priority audits and associated key risks were addressed during the year, there were a small number of reviews in the audit plan that could not be completed during 2018/19 due to recruitment issues within the in-house team. These remaining audits have been reassessed based on the ongoing risk situation and a number have been rescheduled to be completed during 2019/20.

3.23   The ongoing recruitment of new staff during 2018/19 has brought increased stability and will provide greater assurance on plan completion during 2019/20.

Customer Satisfaction

3.24   Management have provided feedback on individual audits which has been incorporated into the continuous improvement of the service where relevant.

3.25   A total of seven questionnaires were returned (a return rate of 15%). The questionnaires ask the auditees to provide feedback on areas including usefulness of the audit, quality of the report and usefulness of any recommendations made. All responses were positive with either a satisfied or very satisfied opinion, although the sample size is too small to provide any reliable data. Efforts will be increased next year to obtain a higher return rate in order to provide a more comprehensive opinion.

Quality Assurance and Improvement Programme

3.26   The Public Sector Internal Audit Standards (PSIAS) state that an external assessment must be conducted at least once every five years by a qualified, independent assessor. This was due during 2018/19. The newly appointed Internal Audit Manager undertook the review and the result was reported to the Audit and Standards Advisory Committee in December 2018.

3.27   The conclusion of the review was that the Brent Internal Audit Service conformed with the PSIAS. The outcome reflected a professional and successful Internal Audit service. The service commands a good level of respect and credibility across the Council and is seen as a key part in supporting and developing good governance within the Council.

3.28   Some areas for improvement were identified but these do not impact on meeting the PSIAS and the overall conclusion of conformance. These have now been addressed.

4.   Diversity Implications
        None

5.   Background Papers
        None

6.   Contact Officer Details

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Appendix A

Key Findings from 2018/19 Audits with 'Limited' or 'No' Assurance

Audit Title	Audit Scope	Findings
Income Management	Suspense accounts Income receipts Refunds Reconciliations Management Information Policies and Procedures	We raised one high priority finding: • Completeness and oversight of income and refunds. And three medium findings: • Policies and procedures; • System access review, and • Key Performance Indicators. There were two low priority findings in relation to suspense accounts and bank reconciliations.
Supplier Registration	Policies and Procedures; Roles and Responsibilities; Registration of suppliers; Amendment of suppliers details; Supplier cleansing, and Access to systems.	We raised three high, two medium and one low risk finding. The three high rated findings were: Procedure documents; Supplier Checks, and Supplier Cleansing.
Health and Safety	Governance Policies and Procedures Monitoring and Reporting Risk Management Third Party Providers	The report outlined four key findings Internal assurance; Gaps in contractor management; Limited monitoring of mandatory training, and Absence of leading indicators reported to senior management

Licensing	Policies and Procedures; Licence applications and decisions; Fees; Inspections; Breach of licence conditions; Licence register; and Management Information.	There were four high risk findings, four medium and three low. The four high risk findings were: Procedure documents; Renewals and annual fees; Licensing income, and Issuing of licences.
Northgate Housing Application	Governance Access Management Change Management Backups Password Controls KPI's	Three high priority findings: • Leavers Process; • Periodic user access reviews, and • Monitoring of privileged user activity. Two medium priority findings: • Segregation of Duties Conflict Checks, and • Disaster Recovery Plan.
Mosaic	Governance Access Management Change Management Backups Password Controls KPI's	Two high risk findings: • Ineffective Leavers Process, and • Monitoring of privileged user. Two medium risk findings: •Periodic user access reviews, and •Disaster Recovery Plan. .

Property Asset Register	Policies and Procedures Roles and Responsibilities Recording of property asset register Updating property asset register Reconciliations Asset verification Access and use of the property asset register	We raised five high risk findings which were: • Reconciliation of systems; • Formal policies and procedures; • Review and approval of data input and changes; • Use of management, and • Segregation of duties.

Appendix B

High Risk Findings from 2018/19 Audits with 'Reasonable' Assurance

Audit Title	High Risk Findings
Insurance	Contract with the service provider.
Gifts and Hospitality/ Declarations of Interest	Completion of compulsory sections of the DoI form. This finding was raised in the 2015/16 audit.
Risk Based Verifications (RBV) - Benefits	GDPR Compliance
Unaccompanied Asylum Seeking Children	Recording of statutory information and updates on Mosaic
Children In Need	Monitoring and management of NHS recharges by the Council.
Brent Direct Leasing	Leasing Strategy

Appendix C

Follow Up Reviews

Audit Title	Management Actions				Assurance Rating	
	Implemented	Partially Implemented	Not implemented	No Longer relevant	Original	Revised
Cross Cutting						
Business Continuity Management	20	0	5	0	Limited	Reasonable
Contract Management	0	0	10	0	Limited	Limited
RIPA/Social Networking	1	0	0	0	Reasonable	Substantial
CWB						
Homelessness	4	2	0	1	Limited	Reasonable
Direct Payments	12	4	0	1	Reasonable	Reasonable
Public Health - Service User Development	6	0	0	1	Reasonable	Reasonable
Public Health - Payments to GPs	5	0	0	1	Reasonable	Reasonable
S117 Mental Health Act (Aftercare Services)	22	0	0	0	Reasonable	Reasonable
Temporary Accommodation	4	1	0	0	Reasonable	Reasonable
Voids Contract Management	4	1	0	0	Limited	Reasonable
CYP						
NRPF	4	0	0	0	Reasonable	Reasonable
Troubled Families	2	2	0	0	Reasonable	Reasonable
I4B/BHP						
i4B Fraud Risk	1	0	0	0	N/A	n/a
i4B Governance RM and Financial Mgt.	12	2	0	0	Reasonable	Reasonable
i4B Benefits Realisation	6	0	0	0	Reasonable	Reasonable
Management of BHP Owned Properties	0	0	0	8	Limited	N/a
Gas Servicing	2	1	2	0	Reasonable	Reasonable
Rent Arrears Management	15	0	0	0	Reasonable	Substantial

Leasehold Management and Service charge	3	0	0	0	Reasonable	Reasonable
PPP						
Grants to Voluntary Organisations	4	0	0	0	Reasonable	Reasonable
Performance Management	2	3	0	0	Reasonable	Reasonable
R&ES						
Schools Expansion Programme	6	10	0	0	Limited	Limited
S106/Community Infrastructure Levy	7	0	0	0	Reasonable	Substantial
South Kilburn Regeneration	12	2	0	5	Limited	Reasonable
Contract Mgmt - Environmental Services	0	0	0	18	Consultancy	n/a
Transport Shared Services	6	0	0	0	Limited	Reasonable
Building Control	1	0	4	0	Reasonable	Reasonable
Resources						
Income Generation	3	0	0	13	Reasonable	Reasonable
IT Governance and Third Party Management	2	1	2	0	Reasonable	Reasonable
Pensions Administration	5	0	0	11	Limited	Reasonable
Appointeeship/Deputyship	15	0	0	0	n/a	n/a
BACS Payments	6	2	0	0	Reasonable	Reasonable
Asset Management (Commercial Property)	9	3	0	0	Limited	Reasonable
IT Disaster Recovery	18	3	0	0	Limited	Reasonable
Payroll*	3	6*	3*	0	Limited	Limited
PCI DSS	3	1	0	0	Reasonable	Reasonable
GDPR	27	1	0	0	Consultancy	Consultancy
HR - Contract Administration	2	1	0	0	Limited	Reasonable
Treasury Management	3	2	0	0	Limited	Reasonable
Use of Temporary Workers	7	0	0	0	Reasonable	Reasonable
IT Security and Access Management	1	1	5	0	Reasonable	Reasonable
Insurance	4	0	1	0	Reasonable	Reasonable

* The Payroll review followed up on the findings in the audit carried out in December 2017. As this had been awarded a Limited assurance this review included further testing of the controls in key areas. Of the twelve agreed management actions from the original audit three have been satisfactorily implemented, six not fully implemented and three not implemented.

The risk areas where actions were not implemented:
- Policy, procedures and responsibility (priority – Medium);
- Amendments of data and segregation of duties (priority – Medium) and
- Risk management (priority – Medium).

The risk areas where actions were not fully implemented:
- Acting up honoraria payments (priority – High);
- Overtime (priority – High);
- Over payments (priority – High);
- 'Off-cycle' payments (priority – Medium);
- Authorised signatory list (priority – Medium), and
- Leavers (priority – Low).

There was evidence that progress is being made to improve the control environment. Elements of the majority of each risk area have been addressed and the service has fully engaged with the audit process. A further full audit of Payroll is included in the 2019/20 Audit Plan.

Appendix D

Issues Raised in School Audits 2018/19

School	Governance	Financial Management	Purchasing & Expenditure	Asset Management	HR & Payroll	Income Charging and Banking	Data Protection	Contracts & Leases	Lettings	Audit Conclusion
Leopold Primary	✔ (High)	✔ (High)	✔ (High)	✔ (High)	✔ (High)	✔ (High)	✔ (Medium)			No Assurance
Princess Frederica Primary	✔ (Medium)	✔ (High)	✔ (High)	✔ (Medium)	✔ (High)	✔ (High)		✔ (Medium)	✔ (Medium)	Limited
Mora Primary	✔ (Medium)		✔ (Medium)	✔ (Medium)	✔ (Medium)			✔ (Low)		Reasonable
Uxendon Manor Primary	✔ (Medium)		✔ (Medium)		✔ (Low)			✔ (Low)		Reasonable
St Mary's RC Primary	✔ (Medium)				✔ (Low)					Reasonable
Preston Park Primary	✔ (Medium)				✔ (Medium)	✔ (Low)			✔ (Medium)	Reasonable
Salisbury Primary		✔ (Medium)	✔ (Medium)	✔ (Medium)	✔ (Medium)	✔ (Low)			✔ (Low)	Reasonable
Brentfield Primary		✔ (Medium)	✔ (Medium)		✔ (Low)	✔ (High)		✔ (Medium)		Reasonable
JFS	✔ (Medium)		✔ (Medium)		✔ (Medium)					Reasonable
Malorees Infants/Juniors	✔ (Medium)				✔ (Medium)			✔ (Medium)		Reasonable
Islamia Primary	✔ (Low)					✔ (Low)				Substantial
Convent of Jesus & Mary Infants	✔ (Low)		✔ (Low)							Substantial

Risk

✔ (red)	High	✔ (yellow)	Medium	✔ (green)	Low