	<p style="text-align: center;">Audit Committee 27 June 2012</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Services</p>
	<p style="text-align: right;">Wards Affected: ALL</p>
<p>Internal Audit Annual Report 2011/12</p>	

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 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 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 2012 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.*

Qualifications to the Opinion

- 3.1. *My opinion is qualified in relation to the effectiveness of financial and other controls in schools. Although it is hard to generalise, given the existence of some 80 establishments, which are not all audited on an annual basis, I have identified a significant number of schools where material issues have been detected through my audit work. I raised this issue in my opinion report last year and the number of limited and nil assurance reports has increased markedly this year. Although a number of steps were taken by the Children and Families Department, to try to address my concerns, these have not in all cases been sufficiently effective. This reflects in part on the Children and Families Department but also reflects an inappropriate attitude towards compliance and regulation of some head teachers and chairs of governors. I consider that, in many cases, internal audit recommendations and instructions from the Director of Children and Families and Director of Finance and Corporate Services have not been given due weight by schools and I have found that in some cases, valid recommendations made in previous audit reports have not been implemented. There are three main areas, although there are others, over which I have concern:*
- 3.2. *Despite explicitly raising concerns previously there remain significant issues with adherence to procurement rules. Value for money has not been obtained, or evidenced, for large sums of expenditure. This is not limited to leasing problems, which I have raised as a specific issue in a number of schools, but also to general procurement of supplies and services.*
- 3.3. *A number of schools have failed to adhere to the national legal requirements concerning teacher's pay, specifically in relation to the Headteacher's pay being outside the prescribed bandings determined by the school size. Whilst head teachers are being paid on the leadership scale, there are a significant number who are paid above the natural cap for the school size. Although, in certain circumstances schools are permitted to pay above this cap, I consider that in a number of cases these circumstances are unlikely to apply and were not considered or evidenced when decisions were taken to increase pay. I consider it likely that some governing bodies have used the full scale as a method of facilitating annual pay increases once the natural pay cap has been*

reached. Although the Children and Families Department and Director of Finance and Corporate Services have begun a programme of regularising any anomalies, it remains the responsibility of the head and governing bodies to comply with the law and the Financial Regulations for Schools will need to be strengthened to ensure compliance.

- 3.4. *I am concerned about the number of allegations I have received concerning the appointment of relatives of the head teacher. Whilst there are currently a small number of ongoing investigations into these allegations, the relevant Head's appear oblivious to the reputational risk, inherent unfairness and inevitable conflict of interest which exists in such appointments. Even if there is a formal recruitment process, the interest is declared and the Head is not directly involved in the process, I am not content that the conflicts which such appointments cause can be properly managed. Much clearer guidance needs to be issued in this regard."*

Summary of Work Undertaken - Audit






- 3.5. The 2011/12 Audit Plan was approved by the Audit Committee on 15th June 2011³. The plan allocated 1200 audit days across all areas of the council's operation, including 135 within Brent Housing Partnership.
- 3.6. At the end of March 2012, 1182 days had been delivered representing 99% of the audit plan. The outstanding 13 days, representing the 1% shortfall in delivery was due to the planned audit work for the Safeguarding Adults Audit not going ahead due to the appointment of a new manager to oversee that area which resulted in the audit start date being postponed. The 99% delivery rate represents a minor improvement on the 2010/11 audit plan for which 98% 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. There has been a significant change in the balance of assurance opinions as set out in the following table. However, the increase in limited and nil assurance reports is primarily due to the high numbers of those opinions across schools.

Assurance Opinions

	Full  	Substantial 	Limited 	None 
2009/10	-	61% (25)	39% (16)	-
2010/11	-	71% (29)	29% (12)	-
2011/12	-	43% (23)	49% (26)	7% (4)

- 3.9. The following table indicates the audits completed and relevant levels of assurance during the 2011-12 financial year.

Ref	Audit Area	Level of Assurance
1.	Council Tax	Substantial
2.	Payroll	Substantial
3.	NNDR (Business Rates)	Substantial
4.	Prepaid Cards (Service Users)	Substantial
5.	Financial Planning	Substantial
6.	Housing & Council Tax Benefits	Substantial
7.	Accounts Payable	Substantial
8.	Gladstone Park Primary School	Substantial
9.	Uxendon Manor Primary School	Substantial
10.	Kilburn Park Junior School	Substantial
11.	St Mary's RC Infant School	Substantial
12.	St Robert Southwell	Substantial
13.	Waste Management	Substantial
14.	Land Charges	Substantial
15.	Members Expenses & Allowances	Substantial
16.	Ward Working	Substantial
17.	Conflict of Interests (Members)	Substantial
18.	Resilience of Exchange/Outlook and Email	Substantial
19.	Bankline Payments	Substantial
20.	IDEAR – Pupil Management Application	Substantial
21.	Software Licencing	Substantial
22.	Carlton Vale Infants	Substantial
23.	Park Lane Primary	Substantial
24.	Lyon Park Infants	Substantial
25.	Pension Fund Investments	Substantial
26.	Accounts Receivable	Limited
27.	General Ledger	Limited
28.	Brentfield Primary School	Limited
29.	Wykeham Primary School	Limited
30.	Kensal Rise	Limited
31.	Stag Lane PRU	Limited
32.	Wembley Primary School	Limited
33.	Church Lane PRU	Limited
34.	Children Leaving Care	Limited

35.	Prepaid Cards (Staff)	Limited
36.	Business Continuity Planning	Limited
37.	Conflict Interests (Employees) – CCE	Limited
38.	Conflict of Interest (Employees) – L & P	Limited
39.	Conflict of Interest (Employees) – R &MP	Limited
40.	Conflict of Interests (Employees) – SPI	Limited
41.	Northwest London Jewish Primary School	Limited
42.	Mitchell Brook Primary School	Limited
43.	John Keble CE Primary School	Limited
44.	Princess Frederica Primary	Limited
45.	Mora Primary School	Limited
46.	BETS PRU	Limited
47.	Poplar Grove PRU	Limited
48.	Brent Transport Services	Limited
49.	Financial Assessments of Service Users	Limited
50.	School Health & Safety	Limited
51.	Domestic Violence	Limited
52.	Programme & Project Management Effectiveness	Limited
53.	Frameworkki Application	Limited
54.	Conflict of Interests (Employees) F & CS	Limited
55.	Conflicts of Interests (Employees) – ASS	Limited
56.	Conflicts of Interests (Employees) – E &N	Limited
57.	Conflicts of Interests (Employees) – C & F	Limited
58.	IT Governance	Limited
59.	Non Stop Gov (iCasework)	Limited
60.	Curzon Crescent Children Centre	Nil
61.	Malorees Junior School	Nil
62.	Leopold Primary School	Nil
63.	Islamia Primary School	Nil
64.	Salisbury Primary School	Nil
65.	Risk & Health Assessment Program for AD	Non Assurance Work
66.	Civic Centre Projects	Non Assurance Work
67.	Capital Project – Application of PM Framework	Non Assurance Work
68.	Project Management Framework	Non Assurance Work
69.	CRC Readiness	Non Assurance Work

70.	Oracle Security	Non Assurance Work
71.	School Thematic Report – Common Weaknesses	Non Assurance Work
72.	Curzon Crescent Major Works Lessons Learnt	Non Assurance Work
73.	Gas Servicing	BHP
74.	Leasehold Management	BHP
75.	Housing Rents	BHP
76.	Treasury Management	BHP
77.	Repairs and Voids - Accuserv	BHP
78.	Repairs and Voids – Stock Module IT	BHP
79.	Contract Audit – Chapter Road and Ander Close	BHP
80.	Conflicts of Interests (Employees)	BHP
81.	Internal Financial Control	BHP
82.	Settled Homes Initiative (Systems Audit)	BHP
83.	Responsive Repairs and Maintenance	BHP

Table 1 - List of completed audits for 2011/12 and levels of assurance

Summary of Work Undertaken - Fraud

- 3.10. In addition to internal audit work, the Audit and Investigations Team has responsibility for fraud and other investigation across the council. Fraud can impact upon the council's finances and may have implications for the systems of internal control.
- 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.
- 3.12. The fraud case load is split over seven main areas. The 2011/12 case load statistics are shown in table 2 below.

Fraud Area	New Cases	Cases Closed	Cases Investigated	Fraud Identified
Housing Benefit*	612	597	258	102
Housing Tenancy Related	189	185	172	48
Blue Badge	27	36	26	23
Direct Payments	2	3	3	2
Council Tax	2	6	6	5
Other external / third party	19	15	14	8
Internal	58	62	57	33
Totals	906	916	544	219

Table 2 – Fraud Case Load 2011/12

- 3.13. In relation to housing benefit fraud the team completed investigations into 258 cases with fraud proven in 102 cases. The value of fraudulent overpayments (including DWP benefits) created as a result of investigations in 2011/12 was £1.74 million. Of this amount, £1.44 million relates to housing or council tax benefit.
- 3.14. 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.
- 3.15. 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 61 sanctions were applied to cases closed during 2011/12. These are summarised below:

Sanction	2011/12	2010/11
Prosecutions	3	50
Administrative Penalties	28	20
Cautions	30	1
Total	61	71

Table 3 – Housing Benefit Sanctions 2011/12 & 2010/11

- 3.16. In relation to housing tenancy fraud the team received 189 new referrals and completed investigations into 185 cases. As a result of these investigations the team recovered 47 properties. Including 5 managed by housing associations. The team conducts investigations into social housing fraud for five housing associations as part of a government funded initiative to identify social housing fraud. These recoveries have a significant financial impact on the housing revenue account and temporary accommodation budget.
- 3.17. Blue Badge fraud continues to be an issue for the council and, although is a relatively low value offence, it has a high profile with members of the public. 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 3 successful proactive exercises during 2011/12 which resulted in a number of badges being seized for misuse.
- 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. The team completed 26 investigations during the year resulting in 18 warnings. There were four cases involving staff, three of who were dismissed or resigned pending disciplinary, one was given a warning.
- 3.19. In relation to internal fraud there were 57 investigations completed during the year. Fraud or irregularity was established in 33 of these cases resulting in 11 dismissals at disciplinary, 16 resignations and 5 warnings.
- 3.20. During the previous four 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 removal of five staff.

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 leadership pay.
- 3.22. A number of significant procurement issues have arisen during routine audits of schools and specific investigations. Primarily these concern the procurement of photocopying, whiteboard and associated equipment and laptops through finance leases. The leases are possibly ultra vires in that they have not been approved by the Director of Finance and Corporate Services or Secretary of State. Furthermore, no proper alternative quotes have been obtained for individual procurements valued in excess of £20,000 and in some cases up to £500,000. The equipment leased could have been sourced

through government framework agreements at a fraction of the cost incurred by individual schools.

- 3.23. In addition to leasing arrangements there are examples of procurement where there is no evidence of quotes or tendering as required by the financial regulations for schools.
- 3.24. A review of leadership pay across all schools has indicated that there are a significant number who are paying above the correct point on the leadership scale according to the school size. Although there are provisions permitting this in certain circumstances, it is unclear whether those circumstances have been properly considered by the governing body or whether additional points are being awarded in ignorance of the conditions.

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

- 3.25. The CIPFA Code of Practice² is a non-statutory code. However, 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 CIPFA code. Internal Audit is, therefore, required to comply with the code.
- 3.26. The elements of the code are reflected in the Terms of Reference for Internal Audit which have previously been approved by this committee at its meeting on 29th September 2010⁴. 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.

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. 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 2011-12, *Audit Committee – 15th June 2011.*

4. Report from the Director of Finance and Corporate Resources – Internal Audit Terms of Reference and Strategy, *Audit Committee – 29th September 2010.*

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