

	<p style="text-align: center;">Audit Committee 20th June 2007</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
For Information	Wards Affected ALL
Internal Audit Annual Report 2006/7	

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 Account 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 Statement on Internal Control (SIC)
- 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, Deloitte and Touche Public sector Internal Audit Ltd and investigation staff for the year ended 31st March 2007 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, 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.*

In addition, I have had oversight of the process by which the Statement on Internal Control has been completed and 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 Statement on Internal Control have been included."

Qualifications to the Opinion

- 3.3. The audit plan for each year is based upon a number of factors: Knowledge of functions and services of the authority, the risk environment, previous audit experience and new developments. Resourcing shortages during the year inevitably result in audits being delayed or postponed. The team achieved 80% of its planned work and, obviously, 20% is deferred into the next year. This accumulated slippage over time will impact upon the ability to cover all areas in the desired three year period. Some areas may, therefore, not get audited for significant periods of time. However, the new contractual arrangements with Deloitte require 100% completion of the audit plan and the plan for 2007 / 08 has been drawn up with input from Deloitte senior staff.
- 3.4. Other than the resource issues experienced in 2006/07, there are no other qualifications.

Summary of work undertaken

- 3.5. The 2006/07 Audit Plan was approved by the Performance & Finance Select Committee on 21 March 2006². The plan allocated some 1423 audit days across three distinct areas: Risk Based Operational Systems audits (including IT audits and Brent Housing Partnership audits) and Schools.
- 3.6. Our 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. Internal Audit continued to be subject to a shortage of permanent staffing resources during 2006-07 financial year mainly as a result of a general shortage of appropriately skilled staff across London Authorities. The majority of audit work during this period was thus carried out with the assistance of agency staff and Deloitte. The shortage of appropriately skilled staff had an impact on the number of systems audit projects completed. Internal Audit also carried out a number of systems audits for the Brent Housing Partnership (BHP) which formed part of the 2006/07 audit plan, and reported to the BHP Finance Sub-Committee.
- 3.8. In spite of the difficulties indicated above, the team achieved 80% of the 2006-07 audit plan.
- 3.9. Deloitte were contracted in 2006 / 07 to undertake the review of the Authority's main IT systems. They completed this work in accordance with the audit plan. Deloitte also provided support towards the end of the year to complete other elements of the plan, including some operational audits.
- 3.10. For each audit where controls have been analysed, we issue an assurance statement. 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 system objectives and the controls are being consistently applied.
Satisfactory Assurance	While there is a basically sound system, there are weaknesses which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

- 3.11. The following table indicates the audits completed during the 2006-07 financial year:

Ref	Systems Audits	Level of Assurance
1	SX 3 (Northgate) Unix Operating System	Satisfactory
2	Council Tax Application	Satisfactory
3	BankLine Application	Satisfactory
4	Northgate SX3 Housing Application	Satisfactory
5	IT Procurement	Satisfactory
6	IT Software Licensing	Satisfactory
7	Leasehold Management & Service Charges – Follow-Up (BHP)	Satisfactory
8	Voided & Disrepair – Follow – Up (BHP)	Satisfactory
9	Contract Procurement Arrangements – Follow-Up (BHP)	Satisfactory
10	Partnership Arrangements (BHP)	Satisfactory
11	Main Accounting System (BHP)	Satisfactory
12	Treasury Management & Investments (BHP)	Satisfactory
13	Right to Buy (BHP)	Satisfactory
14	Insurance (BHP)	Satisfactory
15	Housing Benefits – Follow-Up Review	Satisfactory
16	Council Tax – Follow-Up Review	Satisfactory
17	NNDR	Satisfactory
18	Members' Allowances	Satisfactory
19	Cashiers	Satisfactory
20	Treasury Management & Investments	Satisfactory
21	Manhattan Property Management Application Review	Satisfactory
22	Waste Management	N/A follow up
23	Local Public Service Agreements (LPSAs')	N/A Certification of grant claim
24	Temporary Accommodation – Follow-Up	N/A
25	Library Services	Limited
26	Pensions Payments – Implementation Review	Limited
27	Disaster Recovery	Limited
28	Rent Arrears Management (Follow-Up)	Limited
29	CRB Checks (Corporate; Children & Families; Environment & Culture; Finance & Corporate Resources; Housing & Community Care)	Limited
30	Receiverships & Appointeeships	Limited
31	Income Collection In Registrars Service	Limited
32	Direct Payments	Limited
33	Parking Enforcement Contract	Limited
	Schools	
34	Key Stage 4 – Pupil Referral Unit	Satisfactory
35	Wembley Manor Infants	Satisfactory
36	Wykeham Primary	Satisfactory
37	Our Lady of Lourdes Primary	Satisfactory
38	Kensal Rise Primary	Satisfactory
39	Fryent Primary	Satisfactory
40	Chalkhill Primary	Satisfactory
41	Christchurch Primary	Satisfactory

Ref	Systems Audits	Level of Assurance
42	Braincroft Primary	Satisfactory
43	Anson Primary	Satisfactory
44	Brent Education Tuition Service – Pupil Referral Unit (PRU)	Limited
45	Sudbury Primary	Limited
46	Mora Primary	Limited
47	Harlesden Primary	Limited
48	Grove Park	Limited
49	Wembley Manor Juniors	No Assurance

Table 1 - List of completed audits for 2006/07 and levels of assurance

- 3.12. A summary of the key findings from each of these reviews is attached at appendix 1.
- 3.13. Members should note that there are a number of control improvements being implemented within schools. Firstly, the DFES has introduced the Financial Management Standard In Schools. This is compulsory for all secondary schools for 2006/07 and is being rolled out to other schools over the next three years in a phased approach. The Standard requires a self assessment by schools against a series of criteria concerning governance and financial control arrangements. The self assessment is then externally verified by accredited auditors and the results are provided to the Director of Finance and Corporate Resources.
- 3.14. In addition, the Internal Audit Team is in the process of issuing new guidance for Foundation Schools, most of whom have their own internal audit arrangements. This will strengthen audit coverage in those schools.

Issues relevant to the Statement on Internal Control

- 3.13 The Statement on Internal Control (SIC) is a statutory declaration regarding the adequacy of the Council's internal control environment. The SIC is published each year with the Council's Accounts. Details of the SIC are reported to the Audit Committee and to the General Purposes Committee with the Accounts. The work of Internal Audit during 2006/07 informed the development of the SIC and the Certificates of Assurance for each Service and Corporate area.

Comparison of work undertaken against the Audit Plan and performance issues

3.14 The Audit Plan for 2006/7 were agreed by the Performance and Finance Committee at its meeting on 21st March 2006³. Completion against the plan is shown in table 3 below. The shortfall on the completion of system reviews is of some concern and is mainly due to staff shortages. The % completion figure is shown in table 3 below.

Audit Type	Planned Audits	Completed Audits	% Completion
Systems Audits	31	21	68%
Schools Audits	17	15	88%
BHP	6	6	100%
Follow up	7	6	86%
Total	61	49	82%

Table 2 – Audit Plan Completion 2006/07

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

3.15 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.

3.16 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.

3.17 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." No guidance has yet been published with regard to how this review is to be undertaken, and whether or not it should be an independent review, by Committee or otherwise.

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 and Corporate Resources – Internal Audit Plan; Joint Audit and Inspection Plan for 2006/07 and Statement of Internal Control for 2005/06, *Performance and Finance Select Committee – 21st March 2006.*

DUNCAN McLEOD
Director of Finance and Corporate Resources