



**Internal Audit**  
**Final Internal Audit & Counter Fraud**  
**Progress Report – 2015/16**  
**London Borough of Brent**  
**June 2016**

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## Executive Summary

### Introduction

This report sets out a summary of the work completed against the 2015/16 Internal Audit Plan, including the assurance opinions awarded and any high priority recommendations raised.

Those audits reported on at previous Audit Committee meetings are not included, but reference can be made to the full list of assurance opinions in the cover report.




### Summary of Work Undertaken





The Final Reports in respect of the 2015/16 period and issued since the last meeting relate to the following areas, with further details of these provided in the remainder of this report:

- Financial Assessments & Charging
- START
- Direct Payments & Short Breaks
- Byron Court School Expansion – Phase 3
- South Kilburn Regeneration – Cambridge Wells & Ely Court
- Public Health – Contract Monitoring
- Housing Benefits
- Wykeham Primary School
- Ashley College
- Responsive Repairs & Maintenance (BHP)
- Major Contract – Communal Water (BHP)
- Major Contract – Fire Servicing Maintenance & Responsive Repairs (BHP)
- BHP Safeguarding Review
- Avigdor Hirsh Torah Temimah Primary School

## Detailed summary of work undertaken

### FULL / SUBSTANTIAL ASSURANCE REPORTS: 2015/16

Audit	Assurance Opinion and Direction of Travel
<b>General Audits</b>	
Financial Assessments & Charging	
Direct Payments & Short Breaks	
Byron Court School Expansion – Phase 3	

Audit	Assurance Opinion and Direction of Travel
Public Health – Contract Monitoring	
Housing Benefits	
<b>Schools</b>	
Wykeham Primary School	
Ashley College	

## LIMITED ASSURANCE REPORTS – General Audits

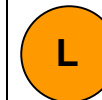
### START

Brent Start (START) offers a wide range of long and short term courses to help residents develop their skills further and gain new qualifications. Courses include English for Speakers of Other Languages (ESOL), mathematics, English, beauty, health and social care, business and ICT and languages.

It also provides free jobs search support and employability training. START is developing a 'Traineeship offer', which is effectively a pre-apprenticeship training programme for 19 to 24 year old Brent residents with little or no work experience who are interested in a career in childcare, construction, adult social care and/or business administration.

Dependent on your circumstances and benefits, you may be entitled to full funding for some of the courses.

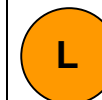
**Three priority 1, six priority 2 and one priority 3 recommendations were raised as a result of this audit. The three priority 1 recommendations are set out below.**



Recommendation	Management Response
<p>A fee policy for courses provided by STARTS should be put in place which outlines the calculation and determination of course fees. The policy should be finalised and approved by cabinet. The policy should be reviewed and updated on a yearly basis.</p> <p>The STARTS Debt Management policy should be reviewed, updated where appropriate and finalised by the Quality Manager. The policy should be reviewed and updated on a yearly basis.</p> <p>A copy of the attendance policy should be incorporated into all learner handbooks. The attendance policy available to tutors should be revised and updated to include the correct information.</p>	<p>Agreed.</p> <p>The Brent Start management team will review current procedures in discussion with Brent Council.</p> <p>Policy to be reviewed by the Employment &amp; Skills Management Team (ESMT) and incorporated into all learner handbooks.</p>
<p>The Management Information System's Team should ensure that only individuals who are owing outstanding fees are included on the report generated by EBS system. The team should also ensure that data is accurately populated onto the system and that the correct fee code is applied. The Customer Support Team should ensure that once individuals have been flagged as having money outstanding that the recovery process is initiated immediately.</p> <p>The Management Information Systems team should ensure that all data populated into the system is accurate and correct and that the correct fee code is applied.</p>	<p>Agreed.</p> <p>The current report on outstanding fees looks at the link between learner and course, if the fee is not matched against the course, for validation reasons that learner record is displayed on the report as a safety check. A review of <u>all</u> Brent Start fee payers (approx. 250), is in progress.</p>
<p>Managers should ensure that warning and withdrawal letters are being sent to learners as per the attendance policy. Tutors should ensure that where a learner has been withdrawn this is correctly changed on the EBS system in a timely manner to ensure that there is no adverse impact on the funding received from the Skills Funding Agency</p>	<p>Agreed.</p> <p>Processes will be clarified with all managers in order to improve consistency.</p> <p>Problems due to the introduction of the new EBS system will be resolved for 2016/17.</p>

## South Kilburn Regeneration – Cambridge Wells and Ely Court

**Two priority 1 and two priority 2 recommendations were raised as a result of this audit. The two priority 1 recommendations are set out below.**



Definitive signed copies of agreements should be retained.  
The Borough Solicitor should verify and obtain evidence that the contracts listed in this report exist and are available from the external solicitors.

The Borough Solicitor should verify with the external solicitors the process for sealing contracts, providing these to the Council, and archiving contracts to confirm whether these procedures are robust enough to protect the Council's interests.

The Borough Solicitor should also ascertain whether this may be a Council wide issue or an isolated issue in respect of the contracts listed in this report.

Where the Council has paid for external archiving services, it should investigate the possibility of clawing-back monies if the archiving service is deemed inadequate

Agreed.

Consideration should be given to including a provision for remedies, penalties and/or liquidated and ascertained damages where it is appropriate to do so taking into account the level of risk, value and complexity of development agreements.


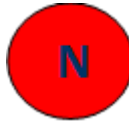

Where such remedies are specified these should be estimated using different calculation options where available. The most suitable result taking into account commercial and market factors amongst others should be selected.

The consideration of the above should be undertaken prior to entering into contracts/agreements.

Agreed.



## BHP

<b>Responsive Repairs &amp; Maintenance</b> Details reported separately to BHP Audit Committee	
<b>Major Contract – Communal Water</b> Details reported separately to BHP Audit Committee	
<b>Major Contract – Fire Servicing Maintenance &amp; Responsive Repairs</b> Details reported separately to BHP Audit Committee	

## Non-Assurance Work

<b>BHP – Safeguarding Review</b> Details reported separately to BHP Audit Committee	Non - Assurance
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## LIMITED/NIL ASSURANCE REPORTS – Schools

### Torah Temimah

#### Avigdor Hirsh Torah Temimah Primary School

Eleven priority 1, sixteen priority 2 and five priority 3 recommendations were raised as result of this audit. The eleven priority 1 recommendations are set out below.



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p>The Governing Body and Head teacher should ensure the following:</p> <ul style="list-style-type: none"><li>• That responsibility for review and approval of the draft budget is formally delegated to the Finance Committee (this should be set out in the terms of reference of the Committee);</li><li>• That the draft budget is prepared on a timely basis (ideally before the start of the relevant financial year). Where final income figures are yet to be provided by the Council the school should use best estimates;</li><li>• That the draft budget is in future reviewed and discussed by all members of the Finance Committee prior to being approved;</li><li>• That the timing of the Finance Committee and Governing Body meetings are scheduled to allow sufficient time for the review and approval of both the draft and final budgets for submission to the Council and within the specified timeframes;</li></ul> <p>That the final budget and the carry forward surplus and its intended use is formally approved by the full governing body.</p>	<p>Responses from the School are still outstanding.</p>

<p>The Head teacher and School Business Manager should ensure the following:</p> <ul style="list-style-type: none"> <li>• That the formulae used to calculate percentage variances on the budget monitoring spreadsheets are checked to ensure that they are correct;</li> <li>• That payroll costs and income from donations are being promptly and correctly posted on SIMS and in a timely manner;</li> <li>• Where any significant variances are identified between the budget and the position to date or between the budget and year-end forecast, explanations should be recorded for these together with any relevant actions to be taken to address these variances and these should be presented for discussions at scheduled Finance Committee meetings;</li> <li>• That all expenditure and income is properly and correctly accrued for at the year-end; and</li> <li>• That the budget monitoring reports are being signed off and dated by the Head teacher as evidence of review.</li> </ul>	<p>Responses from the School are still outstanding.</p>
<p>The Governing Body and Head teacher should ensure;</p> <ul style="list-style-type: none"> <li>• That the school complies with the Council's Contract Standing Orders, Finance Regulations and EU Procurement Regulations when procuring goods and services.</li> <li>• More specifically, at least three written quotes should be sought and obtained where the estimated value of a contract or procurement falls between £25k and £172,514. For supply and services contracts where the estimated value exceeds £172,514 over the life of the contract, a formal competitive tendering process should be undertaken;</li> <li>• In future the School should liaise with the Council's Procurement Team prior to rolling any of these contracts forward to ensure that appropriate checks are undertaken, that Schools are achieving value for money in the procurement of</li> </ul>	<p>Responses from the School are still outstanding.</p>

<p>goods and services and that they are not in breach of Financial Regulations and EU procurement regulations; and</p> <ul style="list-style-type: none"> <li>• That all contracts of between £5,000 and £9,999 are approved by the Finance Committee and contracts over £10,000 by the Governing Body, in accordance with the School's Scheme of Delegation</li> </ul>	
<p>The Head teacher and the School Business Manager should ensure the following:</p> <ul style="list-style-type: none"> <li>• That income registers are sufficiently detailed and include at least the following information: date income received; officer receiving payment; amount received; payee details; payment method; receipt reference; paying in slip reference; and date banked;</li> <li>• That pre-numbered receipts should ideally be issued where practical for all monies collected on behalf of the School;</li> <li>• That a reconciliation of income collected to income records is undertaken prior to banking and evidence of this is maintained; details of all income received is recorded on SIMS when income is received rather than when it appears on the bank statement;</li> <li>• That a proper audit trail is in place for all income streams and that all income is posted to the correct ledger code;</li> <li>• Review the responsibilities of the School Administrator and Secretary so that proper segregation of duties is being achieved within the income recording, processing and banking functions.</li> </ul>	<p>Responses from the School are still outstanding.</p>

<p>The Head teacher and School Business Manager should ensure the following:</p> <ul style="list-style-type: none"> <li>• That all of the school's bank accounts are being reconciled monthly and on a timely basis; and</li> <li>• That all bank reconciliations are being properly and correctly undertaken and the relevant documentary evidence (such as balances and reserves report) should be printed off the School's accounting system and attached to the reconciliation.</li> <li>• That when the bank reconciliation is being undertaken, the bank balance is compared to the cashbook balance from the school's accounting system at the date of the reconciliation and all differences identified are checked to ensure that they relate to genuine timing differences rather than to errors. Only outstanding receipts or unpresented cheques as at the reconciliation date should form part of the reconciliation;</li> <li>• That all bank reconciliations are reviewed and signed off by the Head teacher as evidence of review;</li> <li>• That assistance is sought from the School's Finance Team in order to correct the recurring errors in the School's budget share bank account reconciliations without delay;</li> <li>• That the reasons for any long outstanding unreconciled transactions should be promptly investigated and appropriate action taken to clear them. The School Business Manager should liaise with the Council's School's Finance Team in order to correct the general ledger transactions that are currently included in the unreconciled items listing.</li> </ul>	<p>Responses from the School are still outstanding.</p>
<p>The Governing Body should ensure that the School is complying with the requirements of the STPCD in respect of leadership pay (in respect of the Principal). Consideration should be given to the advice provided by the Council's HR Team and a decision should be taken without further delay so that this matter can be resolved once and for all.</p>	<p>Responses from the School are still outstanding.</p>

<p>The Governing Body should expedite the implementation of pay structure for non-teaching staff and the development of employment contracts.</p>	<p>Responses from the School are still outstanding.</p>
<p>The Head teacher and School Business Manager should ensure;</p> <ul style="list-style-type: none"> <li>• That payroll costs are being correctly and promptly posted to the SIMS system (this should be done monthly).</li> <li>• That no adjustments / deductions should be made to the payroll costs for teaching assistants except where are directly related to those costs. That any adjustments required should be processed as journals to ensure a proper audit trail.</li> <li>• That evidence of review of the final payroll reports sent to the payroll administrator by the head teacher are being retained.</li> </ul>	<p>Responses from the School are still outstanding.</p>
<p>The Governing Body and the Head teacher should ensure that all outstanding recommendations arising from the last review by Internal Audit are implemented. The School's Governing Body should monitor the progress of recommendations arising from audit reports to ensure that they are being promptly implemented.</p>	<p>Responses from the School are still outstanding.</p>
<p>The Governing Body and Finance Committee should ensure the following:</p> <ul style="list-style-type: none"> <li>• That minutes of meetings of the Governing Body and Finance Committee includes more detailed narrative information of discussions about financial matters such as the budget;</li> <li>• That meetings are properly minuted to explicitly record decisions of the governing body including for example the adoption of the Council's Financial Regulations; and</li> <li>• That the clerking of both meetings are ideally undertaken by an independent clerk.</li> </ul>	<p>Responses from the School are still outstanding.</p>

## Counter Fraud Summary

### Internal Fraud

Internal fraud refers to fraud committed by employees, agency staff and staff in maintained Schools. For the purposes of this report, “fraud” includes instances of theft, fraud, misappropriation, falsification of documents, undisclosed conflicts of interest and serious breach of financial regulations. Activity for the first quarter of year to date is shown in table 1 below:

**Table 1 – Internal Fraud 2015/16**

Internal	2015/16	2014/15
Open Cases b/f	21	21
New Referrals	42	41
Closed Cases	31	51
Fraud / Irregularity identified	9	17
Dismissal	3	5
Resignation/Officer Left	5	7
Warning	1	5
Open cases carried c/f	22	11

It should be noted that there has been an increase in internal fraud cases specifically identified via the National Fraud Initiative (NFI) data matching exercise. These relate to matches which suggest that staff are claiming housing benefit which they may not be entitled to. These cases are currently being subject to further assessment by the Department of Works & Pensions (DWP) to confirm whether they are due to fraud or error.

## **Housing Tenancy Fraud**

Recovery of social housing properties has a significant impact upon the temporary accommodation budget. The Audit Commission has previously estimated that the average value, nationally, of each recovered tenancy is £18,000. Caseload information is set out in table six below.

**Table 2 – Housing Fraud 2015/16**

<b>Housing Fraud</b>	<b>2015/16</b>	<b>2014/15</b>
Open cases b/f	174	77
New Referrals	250	380
Closed Cases	314	307
Fraud Found	73	61
Recovered Properties Brent	63	51
Applications Refused	2	4
Property Size Reduced (Rehousing)	5	5
Right to Buy Stopped	3	0
<b>Value of properties recovered*</b>	£1,134,000	£918,000
<b>Value of Right to Buy Discount prevented**</b>	£90,000	0
<b>Value of Property Size Reduced</b>	£281,600	£90,000
Open cases c/f	121	150
Cases with Legal for Possession	18	25



\*Notional value of recovered properties is £18,000

\*\* Actual amount of discount stopped

**Actual value of housing fraud identified for the year is £1,505,600**

### **Other External Fraud**

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

**Table 3 – Other External Fraud 2015/16**

Other External Fraud	2015/16	2014/15
Open cases b/f	56	24
New Referrals	99	65
Closed Cases	62	71
Fraud / Irregularity	10	22
Prosecution	0	1
Warning / Caution	3	2
Overpayment Identified	7	19
Open cases carried c/f	57	18

There has been an increase in new referrals due to the start of a new Service Level Agreement (SLA) with Revenues and Benefits Service with regards to council tax reduction referrals. Fifty plus referrals are in respect of Council Tax Reduction Scheme (CTRS) and are awaiting Revenues & Benefits approval.

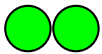



A blue badge fraud operation was carried out in partnership with the Police and Parking Enforcement in February 2016. Two blue badges were seized for being misused and two vehicles were lifted due to the use of counterfeit badges operation.

As a result of NFI data matching 272 blue badges were cancelled and records updated. The notional value of these cancellations is £136,000 (£500 per badge).

## Appendix A – Definitions

### Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	<b>Full</b>	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	<b>Substantial</b>	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.
	<b>Limited</b>	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.
	<b>None</b>	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.

The assurance grading provided are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

### Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

## Recommendation Priorities

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

<b>Priority 1</b>	Major issues for the attention of senior management and the Audit Committee.
<b>Priority 2</b>	Important issues to be addressed by management in their areas of responsibility.
<b>Priority 3</b>	Minor issues resolved on site with local management.

## Appendix B – Audit Team and Contact Details

London Borough of Brent	Contact Details
Steve Tinkler – Head of Audit & Investigations	II <a href="mailto:steve.tinkler@brent.gov.uk">steve.tinkler@brent.gov.uk</a>
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	II <a href="mailto:dave.verma@brent.gov.uk">dave.verma@brent.gov.uk</a>
	020 8937 1262

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Harish Shah – Computer Audit Sector Manager	§