



**Audit and Standards Advisory  
Committee**  
26 July 2018

**Report from the Chief Finance  
Officer**

**Internal Audit Annual Report – 2017/18**

|  |   |
|--|---|
| <b>Wards Affected:</b>   | All   |
| <b>Key or Non-Key Decision:</b>  | N/A   |
| <b>Open or Part/Fully Exempt:</b><br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open  |
| <b>No. of Appendices:</b>  | One :<br><ul style="list-style-type: none"> <li>Key Findings from 2017-18 Audits</li> </ul>   |
| <b>Background Papers:</b>  | N/A   |
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## 1.0 Purpose of the Report

- 1.1. This report is the annual report from the Head of Audit and Investigations. The 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.

## 2.0 Recommendation

- 2.1. The Audit and Standards Advisory Committee is asked to note the content of the report.

## 3.0 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<sup>2</sup> (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 2017/18. 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 2018.

In my opinion, with the exception of those areas in which limited 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 had oversight of the risk management process and conclude that the usual range of significant risks for a local authority have been identified although a review of the Risk Management framework has identified areas for further improvement.

### **Summary of Work Undertaken**

- 3.3. The 2017/18 Audit Plan was approved by the Audit Committee on 20 March 2017. The plan had a total of 62 audits (excluding follow up and advisory work). The plan has been delivered via an in-house team also 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 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 and made to the plan during the year, with some audits added or deleted. The total number of projects completed in 2017/18 was 29. A number of the remaining smaller audits were amalgamated while in other cases scoping work showed that the risks were not significant.
- 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:

|                    |  |
|--------------------|--|
| <b>Substantial</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>Reasonable</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>No</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.  |

- 3.7 There has been a slight improvement on 2016/17 in the percentage of 'substantial' opinions given. The proportion of systems receiving 'limited' has remained reasonably consistent with previous years. 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 picture.

The 'reasonable' category appears lower than previous years. We have, however, increased the amount of 'consultancy' work undertaken. This is part of our revised approach intended to provide Internal Audit input when systems and processes are changing rather than after implementation.

|         | Substantial | Reasonable | Limited | Consultancy |
|---------|-------------|------------|---------|-------------|
| 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 audits completed and relevant levels of assurance (where applicable) during the 2017/18 financial year. Key themes are captured below. A 'limited' assurance level indicates that there were risk exposures which hadn't previously been identified in that service. The audit function is intended to identify these and then assist management in identifying cost-effective mitigation actions to address these issues. For the set of audits, listed below management have engaged fully with audit in identifying these areas in the first instance and then in undertaking and concluding the work.

| <b>Audit</b>                                   | <b>Assurance Opinion</b> |
|--|--------------------------|
| <b>Key Financials</b>                          |                          |
| Treasury Management                            | Limited                  |
| Payroll  | Limited                  |
| <b>Community and Wellbeing</b>                 |                          |
| Temporary Accommodation                        | Reasonable               |
| Single Pathway                                 | Consultancy              |
| Safeguarding Adults                            | Substantial              |
| Introductory Tenancies/Tenancy Management      | Limited                  |
| Voids Contract Management                      | Limited                  |
| Leasehold Management                           | Reasonable               |
| <b>Children and Young People</b>               |                          |
| Troubled Families (see also below)             | Reasonable               |
| <b>Regeneration and Environmental Services</b> |                          |
| Contract Management – Waste Contract           | Consultancy              |
| Barham Trust Accounts                          | Consultancy              |
| Transport Shared Service                       | Limited                  |
| <b>Resources</b>                               |                          |
| Continuous Audit and Monitoring                | Reasonable               |
| Pensions Administration                        | Limited                  |

|                                     |             |
|-------------------------------------|-------------|
| Asset Management                    | Limited     |
| BACS Payments                       | Reasonable  |
| PCI Requirements                    | Reasonable  |
| IT Disaster Recovery                | Limited     |
| IT Security and Access Management   | Reasonable  |
| HR Contract Management              | Consultancy |
| Temporary Workers                   | Reasonable  |
| <b>Corporate/Cross Cutting</b>      |             |
| Use of Interims/Consultants         | Reasonable  |
| Contract Management                 | Limited     |
| GDPR Readiness                      | Consultancy |
| Management of the Capital Programme | Reasonable  |
| Risk Management                     | Consultancy |
| <b>I4B</b>                          |             |
| Benefits Realisation                | Reasonable  |
| Governance                          | Reasonable  |
| Fraud Risk Assessment               | Consultancy |

3.9 Further details on the audits resulting in a 'Limited' opinion can be found in the appendix to this report. Audits where the opinion is shown as 'Consultancy' were reviews conducted as a result of management request for advice or assistance on developing systems and processes.

3.10 Key themes identified across audits were:

- Contract Management including recording of contracts, managing of contractors and managing of contracts;
- Policies and Procedures including missing or out of date processes and procedures;
- Operational risk management in services including the escalation of risks;
- Maintain a management trail of evidence for decision making.

- 3.11 Internal Audit also completed a number of grant claim certifications for the Troubled Families Programme.
- 3.12 The organisation is faced with developing an increasingly efficient system of internal control that is risk-focused. Internal Audit have a key role in ensuring management are supported in achieving this and to respond to requests for assistance where new processes are being developed.

### **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 2017/18 and is ongoing.
- 3.14 The current status is as follows:

| <b>Follow Up Reviews</b> |    | <b>Recommendations</b> |      |        |     |          |
|--------------------------|----|------------------------|------|--------|-----|----------|
|                          |    | Critical               | High | Medium | Low | Advisory |
| Completed                | 6  | 0                      | 4    | 18     | 8   | 3        |
| In Progress              | 25 | 0                      | 21   | 82     | 36  | 6        |
| Not Yet Due              | 13 | 0                      | 16   | 36     | 9   | 4        |

- 3.15 Of the six completed, five have had their assurance level raised following completion of the agreed recommendations. This included one Limited raised to a Reasonable.
- 3.16 Many of those in progress are awaiting responses from the business. Work continues in ensuring the status of all outstanding recommendations is reported appropriately to the Corporate Management team for action and the Audit and Standards Advisory Committee for information.

### **Schools**

- 3.17 During the year, a number of follow up reviews were carried out to ensure that agreed actions from previous school reviews had been appropriately implemented. Nearly all actions had been completed.
- 3.18 A new programme of school audits has been put in place for 2018/19 with a focus on financial processes and the accompanying back office resources. There are 10 schools identified in the plan where we will work with the staff in order to provide assurance to Governing Bodies and the Council that appropriate controls and processes are in place or work is being done to reach the required standards.

### **Internal Audit Performance**

- 3.19 While we ensured that the priority audits and associated key risks were addressed during the year, there were some parts of the audit plan that could not be completed during 2017/18 due to a lack of resource 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 2018/19.

- 3.20 The restructure of the team and the ongoing recruitment of new staff towards the end of 2017/18 and the beginning of 2018/19 has brought increased stability and will enable improved performance and service developments to be implemented in 2018/19.

### **Customer Satisfaction**

- 3.21 A revised process of seeking formal feedback was developed and implemented for 2017/18. Management have provided feedback on individual audits completed and this feedback has been incorporated into the continuous improvement of the service.
- 3.22 A total of four questionnaires were returned (a return rate of 14%). 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, but 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. Alternatively, or as well as, audit will look for other ways to gain customer satisfaction feedback.

### **Quality Assurance and Improvement Programme**

- 3.23 A self-assessment against the Public Sector Internal Audit Standards was completed in 2016 and reviewed 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 were taken to address this in 2016/17 and further work has been carried out during 2017/18.
- 3.24 The standards state that an external assessment must be conducted at least once every five years by a qualified, independent assessor. This is due during 2018/19. The peer review process administered by Croydon Council has not been successful in identifying another London Authority to undertake the peer review at Brent. We are proposing that the newly appointed Internal Audit Manager undertakes this review.

## **4.0 Financial Implications**

- 4.1 None.

## **5.0 Legal Implications**

- 5.1 None.

## **6.0 Equality Implications**

- 6.1 None

## **7.0 Consultation with Ward Members and Stakeholders**

- 7.1 None.

**Report sign off:**

**CONRAD HALL**

Chief Finance Officer