



**Havering**  
LONDON BOROUGH

# **INTERNAL AUDIT ANNUAL REPORT**

**2012 / 2013**

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## **1. INTRODUCTION**

- 1.1** In accordance with the Accounts and Audit Regulations 2011, a local authority is required to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices. Proper practice is defined as the CIPFA Code of Practice for Internal Audit in Local Government 2006. In accordance with this Code the Head of Internal Audit is required to provide a written report to those charged with governance, to support the Annual Governance Statement, which should include an opinion of the overall adequacy and effectiveness of the Council's control environment.
- 1.2** The purpose of this report, therefore, is to provide Members and Senior Management with a formal opinion as to the adequacy and effectiveness of the Council's internal control environment and to report on the performance of the internal audit service for the year. It will be communicated internally, prior to its presentation to Committee and also available on the Council's website from mid June 2012, within the 25<sup>th</sup> June Audit Committee Agenda.
- 1.3** In accordance with proper practice the report is one of the sources of assurance used in the process to compile the Annual Governance Statement which is also a statutory requirement.
- 1.4** The 2012/13 Internal Audit Plan, of 1576 days, was approved by the Audit Committee in February 2012. Progress reports from the Internal Audit and Corporate Risk Manager are presented to the Committee at quarterly meetings.
- 1.5** During the year there is some flexibility needed to react to changes in risk, accommodate changes in the needs of management; the focus of audits may be changed or new audits included in the programme. The plan also makes provision for Internal Audit to accommodate requests for advice and guidance on specific issues or investigation of specific issues. Before any tasks are undertaken risks are considered to ensure that resources continue to be used in an efficient and effective manner and tasks that provide the greatest added value to the organisation are prioritised.
- 1.6** Whilst remaining an independent assurance function the Internal Audit team seek to maintain strong relationships with management to ensure that appropriate actions are agreed and implemented in a timely fashion. Protocols exist to outline the roles and responsibilities of both the Internal Audit team and management.

## **2. INTERNAL AUDIT ASSURANCE STATEMENT**

- 2.1** In the Internal Audit & Corporate Risk Manager's opinion, the system of internal control is adequate and effective and processes to identify and manage risks are in place. In some areas weaknesses have been identified in 2012/13; however action has been taken or is planned by management to address this.
- 2.2** This opinion is based on a programme of audit work which was delivered:
- In accordance with the approved Internal Audit plan;
  - By suitably experienced and qualified auditors;
  - In accordance with the CIPFA Code of Practice for Internal Audit in Local Government; and
  - To standards accepted by the Council's External Auditors.
- 2.3** The following has also been considered:
- The acceptance of audit recommendations and progress noted in year to implement required changes;
  - The results of follow up work on limited assurance audit areas; and
  - Whether any fundamental or significant recommendations have not been accepted or implemented by management and the consequent risk.
- 2.4** Section 3 of this report details the work completed by the team and the key issues arising.

## **3. WORK THAT SUPPORTS THE OPINION**

### **3.1 Systems and Contract Audit**

- 3.1.1** 680 days of the approved plan were allocated to systems and contract audit. This plan was based on a full complement of staff in the team; however one full time team member reduced their working hours which impacted on delivery.
- 3.1.2** 493 days of the original systems plan were delivered. 31 audits were completed; two audits were moved to 2013/14 due to timing issues. A further 20 days were moved to follow up work, 55 to special projects and 46 to fraud investigations.

### **3.2 Computer Audit**

- 3.2.1** 125 days of the plan was allocated to computer audit. Seven audits were completed. One audit was moved to 2013/14 due to timing issues so in total 116 days were delivered.

### **3.3 Fraud Work**

- 3.3.1 Reactive Work and Special Investigations - At the commencement of the financial year a contingency of 300 days was provided to carry out investigations into suspected fraud issues reported by management or via the fraud or whistle blowing hotline. Due to a larger than anticipated case load 420 days were delivered in year.
- 3.3.2 Pro-active – A budget of 130 days were assigned to pro-active audits. A risk based pro-active audit plan had been devised. Due to the additional reactive work 56 days were delivered by the end of the year. Three audits were completed.
- 3.3.3 Work to support Management in the prevention of Fraud has continued throughout 2012/13 both based on risk analysis and in areas identified through reactive and proactive work. The Fraud Strategy was reviewed and Corporate Management Team and Members reconfirmed their commitment to a zero tolerance to fraud.

### **3.4 Follow Ups**

- 3.4.1 Information regarding outstanding recommendations is reported as part of the quarterly report to Corporate Management Team and Audit Committee. At the June meeting the Audit Committee will receive a full list of all outstanding recommendations.
- 3.4.2 There were five 'limited assurance' reports in 2011/2012. Follow up work has been undertaken on these and on further reports at the request of the Audit Committee.
- 3.4.3 In 2012/13 a new approach to monitoring audit recommendations was undertaken. This process will be further developed in 2013/14 to further develop the proactive efforts of the team to work with managers after the audit to ensure risks are mitigated.

### **3.5 Schools**

- 3.5.1 In 2012/13 24 schools were audited of which 22 were Substantial Assurance and two were Limited Assurance.
- 3.5.2 In 2012/13 the schools audit programme was updated to focus in on risk and also to account for the new Schools Financial Value Standard which replaced the Financial Management Standard in Schools.

### **3.6 Other Outside Assurances**

- 3.6.1 The team provided an Audit Service to Homes in Havering up until 1<sup>st</sup> October 2012 when the housing function was brought back in-house. Five Audits were completed; some focussed Housing work has been completed to conclude the annual plan since October 2012 to assist with the reintegration of the service.

3.6.2 Reports produced by other inspection bodies or assurance providers are also reviewed. Planned work is taken into account when the plan is produced and for unplanned inspections the plan is revised to avoid duplication in scope of work.

### **3.7 Risk Management Arrangements**

3.7.1 Work to implement a new approach to Risk Management took place throughout 2012/13. An Operational Risk Management Group met periodically to discuss risk issues and report back to Corporate Leadership Team as appropriate. Two key topics for 2012/13 were volunteers and car pooling. The Group also reviewed the Corporate Risk Register and Service Risk Registers.

### **3.6 Review of Other Strategies**

3.7.1 Other corporate arrangements and strategies such as the Internal Audit Strategy are reviewed annually and approved by Audit Committee.

## **4. KEY MESSAGES**

### **4.1 Organisational Change**

4.1.1 As was concluded for 2011/12 many of the control weaknesses identified this year can be attributed to the pace of organisational change that has been required to achieve the savings targets.

4.1.2 The pace of change has been fast in some areas and although this has brought a number of benefits to the organisation the changes have impacted on the system of internal control. Significant savings have been achieved in 'back office' or Corporate Teams where control activity historically occurred.

4.1.3 In implementing a Self Service Model the organisation has increased its reliance on its Managers to implement controls and ensure compliance is consistent within their team or service area. From an audit perspective assurances regarding compliance are often harder to acquire because control is now spread across the organisation.

4.1.4 While more reliance is being put on Managers to ensure controls are adequate and compliance is being adhered to there is a reasonable expectation that managers can, in turn, rely on a solid infrastructure of information to guide them in the right direction. However due to the pace of change in the organisation this has often meant that this infrastructure is out of date and / or difficult to navigate. A number of audit recommendations have been raised in this regard in 2012/13.

For example;

- The Intranet is not always as up to date or the information required can be difficult to locate;

- Policies, procedures and guidance in some areas are out of date and reference to processes that are no longer relevant;
- Corporate expectations are not always clear, outlined or enforced and consequences for non-compliance are not made explicit or acted upon;
- Where there are corporate expectations these are not always supported by enforcing mandatory training;
- Lack of clarity surrounding roles and responsibilities; and
- The move to self-service and the reduction in resources as a result of restructures/savings has led to quality checks being removed that were previously considered key controls.

## **4.2 Oracle**

4.2.1 Various recommendations pertinent to Oracle were made during 2012/2013; some of which have been implemented during the year. However a number of these recommendations have not been implemented due to the One Oracle programme. As One Oracle covers a number of the key financial systems, which are material to the Statement of Accounts, management were advised that there are risks within the current control environment and management have accepted these risks.

4.2.2 Efficiency of the control environment has been a focus for 2012/13 for the team as reduced capacity means that efficiency will be key to maintaining a robust system of internal control. The One Oracle programme has provided some opportunities to develop system controls within modules as well as via a new module called Governance Risk Control Compliance. Although the implementation of new systems in 2013/14 will impact the systems of internal control in the short term this should be outweighed by longer term benefits.

## **4.3 Conclusion**

4.3.1 The issues detailed above have been considered as part of the process to produce the 2012/13 Annual Governance Statement. These issues have been considered during the Annual Audit Planning Process and will also be picked up within individual audits as applicable during 2013/14.

## **5. INTERNAL AUDIT QUALITY ASSURANCE**

### **5.1 Liaison with Other Boroughs**

5.1.1 The Internal Audit & Corporate Risk Manager, or an audit team member, also attends a London Audit Group, and other relevant training and networking events, to benefit from presentations and discussions on new emerging risk areas and again shares issues arising and best practice. The team also have informal links with teams in neighbouring boroughs.

### **5.2 Delivery of Planned Audit Work**

- 5.2.1 94% of the 2012/13 Internal Audit Plan was delivered by 31<sup>st</sup> March 2013. The plan was flexible to accommodate the needs of management in a year of significant change. Three audits were deferred to the 2013/14 plan due to timing issues. The remainder of the plan was delivered in the first quarter of 2013/14.
- 5.2.2 The Audit Committee and Corporate Management Team receive performance reporting quarterly.

### 5.3 Internal Audit Reports & Assurance Levels Given

Assurance Opinion	Number of Audits	%
Full	3	5
Substantial	44	69
Limited	17	26
Nil	0	0
Totals	64	100

### 5.4 Audit Recommendations Made

Recommendations	Number of Recs	%
High	57	19
Medium	185	60
Low	64	21
Totals	306	100

### 5.5 Feedback from Auditees

Rating	Number of Recs	%
5 (Very Good)	194	51
4 (Good)	144	38
3 (Satisfactory)	40	10
2 (Poor)	3	1
1 (Very Poor)	1	
Totals	382	100

Following every audit, the managers receiving the audit report were also sent a feedback survey form. 99% of the feedback received rated the service satisfactory or above. All comments received from managers are reviewed monthly and fed into the team's one to one meetings and the new Performance Development Review process.