



Haverling
LONDON BOROUGH

**INTERNAL AUDIT ANNUAL
REPORT
Including
ANNUAL ASSURANCE
STATEMENT
2013 / 2014**

1. INTRODUCTION

- 1.1 The purpose of this report is to:
- (i) document and communicate internal audit's overall opinion on the overall adequacy and effectiveness of the Council's control environment, commenting on significant matters and key themes;
 - (ii) summarise the audit work from which the opinion is derived;
 - (iii) summarise the performance of the internal audit service.
- 1.2 The Accounts and Audit Regulations 2011 require local authorities 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.
- 1.3 The Code requires the Internal Audit and Corporate Risk Manager 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.
- 1.3 Reporting the work of internal audit to the Audit Committee provides the Committee with an opportunity to review and monitor its activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance.
- 1.4 Our opinion is based on the work of the audit service during the 2013/14 financial year. We are grateful for the co-operation and support we have received from all those who have engaged with and supported the audit process.

2. ANNUAL ASSURANCE STATEMENT

Control Environment

- 2.1 The management of the Council is responsible for ensuring that the organisation operates in accordance with the law and proper standards, that public funds are safeguarded, properly accounted for, and used economically, efficiently and effectively.
- 2.2 The management of the Council is also responsible for ensuring that there is a sound system of internal control, which includes arrangements for managing risk. The three key elements of the Council's control environment comprise: internal control, governance, and risk management arrangements. The three elements help ensure that the Council's strategies, plans, priorities and objectives are met and that policies and procedures are complied with in order to minimise risk to a reasonable level.

Internal Audit Effectiveness

- 2.3 As a pre-requisite for giving an assurance opinion on the overall adequacy and effectiveness of the Council's control environment, the Internal Audit and Corporate Risk Manager is required to confirm the effectiveness of the internal audit service and its resultant fitness for purpose to carry out work that informs the annual opinion statement.
- 2.4 In order to confirm the effectiveness of internal audit the Internal Audit and Corporate Risk Manager undertook an exercise to compare the internal audit function to the new Public Sector Internal Audit Standards which came into effect on 1 April 2013. The new standards were issued by CIPFA and are based on the Institute of Internal Auditors' International Standards and are mandatory. They are designed to underpin the Internal Audit arrangements within the Council and set standards for good practice.
- 2.5 The Internal Audit and Corporate Risk Manager is able to report a significant level of compliance with the Public Sector Internal Audit Standards and considers the internal audit service to be effective. No significant deviations from the Public Sector Internal Audit Standards were identified which warrant inclusion in the Council's Annual Governance Statement.

Internal Audit Independence

- 2.6 The Internal Audit and Corporate Risk Manager confirms that there have been no matters arising which have threatened the independence of the internal audit function during 2013/14.
- 2.7 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.

Basis of assurance opinion

- 2.8 Our assurance opinion is based on the work carried out by Internal Audit during the year which was planned to give sufficient assurance on the management of risks within Havering Council.
- 2.9 The 2013/14 Internal Audit Plan, of 1435 days, was approved by the Audit Committee in February 2013. Progress reports from the Internal Audit and Corporate Risk Manager are presented to the Committee at quarterly meetings.
- 2.10 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.

Communication of the Annual Assurance Statement

- 2.11 The provision of an annual assurance statement is a key duty of the Internal Audit and Corporate Risk Manager and is timed to support the production of the Council's Annual Governance Statement.
- 2.12 It will be communicated internally, prior to its presentation to Committee and also available on the Council's website from April 2013, within the 8th April Audit Committee Agenda.

3. ANNUAL ASSURANCE STATEMENT FOR 2013/14

- 3.1 In the Internal Audit & Corporate Risk Manager's opinion, the system of internal control is satisfactory and processes to identify and manage risks are in place. The system of internal control has been weakened in recent years, as has previously been reported and reasons are reiterated in section five. The Council faces significant challenges in future years, however the Corporate Management Team clearly understands these challenges and their continued impact on Corporate Governance and there are systems and processes in place to manage risk. In some areas audited in 2013/14 weaknesses have been identified; however action has been taken or is planned by management to address this.
- 3.2 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.
- 3.3 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.
- 3.4 Section 4 of this report details the work completed by the team and the key issues arising.

Inherent qualifications to the assurance opinion

- 3.5 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and

objectives and can therefore only provide reasonable, not absolute, assurance of effectiveness.

4. WORK THAT SUPPORTS THE OPINION

4.1 Systems Audit & Computer Audit

4.1.1 Appendix A contains details of the audit plan with status and outcome of the audits.

4.2 Fraud Work

Reactive Work and Special Investigations:

4.2.1 At the commencement of the financial year a contingency of 275 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 340 days were delivered in year.

Pro-active:

4.2.2 Appendix B details the status of the pro-active fraud plan.

4.2.3 Work to support Management in the prevention of Fraud has continued throughout 2013/14 both based on risk analysis and in areas identified through reactive and proactive work. A number of fraud awareness training sessions were provided and a Fraud Response Plan produced.

4.2.4 Approximately £190k of savings were identified through Corporate Fraud activity during 2013/14.

4.3 Follow Ups

4.3.1 The audit team track the completion of all audit recommendations. Information regarding outstanding recommendations is reported as part of the quarterly report to Audit Committee. Annually the Audit Committee receive a full list of all outstanding recommendations.

4.3.2 There were six 'limited assurance' reports in 2012/2013. Follow up work was undertaken on one of these during 2013/14 and on further reports at the request of the Audit Committee. One of the remaining five reports was completed during 2012/13 and the remaining four reports were not followed up during 2013/14 due to recommendations being dependent on the implementation of One Oracle.

4.4 Schools

4.4.1 17 schools were audited in 2013/14 of which three were given Full Assurance and fourteen were Substantial Assurance

4.4.2 In 2013/14 the schools audit programme was transferred onto an iPad to improve the efficiency in carrying out the schools audits. The programme has been adapted to follow a more risk-based approach and is now being issued to schools as the detailed findings of the audit. This is accompanied by a summary internal audit report and is being well received by the schools.

4.5 Other Outside Assurances

4.5.1 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.

4.6 Risk Management Arrangements

4.6.1 Work to implement a new approach to Risk Management took place throughout 2013/14. An Operational Risk Management Group met periodically to discuss risk issues and report back to Corporate Leadership Team as appropriate. Volunteers was an on-going topic during the year. The Group also reviewed the Corporate Risk Register and Service Risk Registers.

4.7 Review of Other Strategies

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

5. KEY MESSAGES

5.1 Organisational Change

5.1.1 As was concluded for 2011/12 and 2012/13, 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. The Self Service model has led to changes in the control environment and gaining assurance regarding compliance continues to be a challenge and often an ad hoc task rather than part of the system of internal control. Compliance work undertaken by audit has indicated non-compliance within systems & processes.

5.1.2 Audit work and investigations into suspected fraud often conclude that basic controls are lacking from processes including lack of segregation of duties or quality checks by management. This issue will be picked up as part of our fraud awareness and training plan.

5.2 One Oracle

5.2.1 Various recommendations pertinent to Oracle were made in years prior to 2013/2014; some of which have been implemented by management, the majority, often relating to policy, procedure or system enhancements,

were deferred for consideration as part of the One Oracle implementation. Management have therefore chosen to accept the risks identified in the interim period. The delays to the implementation of One Oracle means further delays to the actions required to strengthen the system of internal control. Go live for the new system is currently scheduled for summer 2014.

- 5.2.2 One Oracle and OneSource implementations in 2014/15 both provide opportunities to strengthen the system of internal control; collaborative working with other organisations reduces the input required to updating and maintaining the Governance Framework and encourages sharing of best practice. The Council's Governance Group have identified the importance and set actions relating to ensuring, going forward, the Governance Framework remains fit for purpose.

5.3 Conclusion

- 5.3.1 The issues detailed above have been considered as part of the process to produce the 2013/14 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 2014/15.

6. INTERNAL AUDIT QUALITY ASSURANCE

6.1 Liaison with Other Boroughs

6.1.1 The Internal Audit and Corporate Risk Manager or an audit team member, attends a London Audit Group and other relevant training and networking events in order 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 due to oneSource links with the London Borough of Newham have been strengthened.

6.2 Delivery of Planned Audit Work

6.2.1 71% of the 2013/14 Internal Audit Plan was delivered as at 18th March 2014. The plan was flexible to accommodate the needs of management. Six audits have been deferred to the 2014/15 plan due to timing issues and the delay of the One Oracle implementation. The remainder of the plan is expected to be delivered in the first quarter of 2014/15.

6.2.2 The Audit Committee and Corporate Management Team receive performance reporting quarterly.

6.3 Internal Audit Reports & Assurance Levels Given in 2013/14

Assurance Opinion	Number of Audits	%
Full	3	8
Substantial	19	49
Limited	9	23
Nil	1	3
N/A	7	17
Totals	39	100

6.4 Audit Recommendations raised in 2013/14

Recommendations	Number of Recs	%
High	12	19
Medium	48	75
Low	4	6
Totals	64	100

6.5 Feedback from Auditees

Rating	Number of replies	%
5 (Very Good)	153	57
4 (Good)	81	30
3 (Satisfactory)	28	10
2 (Poor)	5	2
1 (Very Poor)	1	0

Totals	268	100
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Following every audit, the managers receiving the audit report were also sent a feedback survey form. 98% 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.

APPENDIX A: POSITION OF THE 2013/14 INTERNAL AUDIT PLAN

AS AT 18/02/2014

	Audit Title	Status End Qtr3	Report Assurance
Corporate	IG - Service Area Control & Compliance	Consolidated FINAL Report Issued	Limited
	IG - Provider Compliance		
	Grants	FINAL	Substantial
	Compliance with Corporate Fees & Charges Policy	FINAL	Substantial
	Fees & Charges	FINAL	Limited
	Information Governance - FOI	FINAL	Limited
	PDR Assurance	FINAL	n/a
	Project Management	Removed	n/a
	Use of Volunteers	Planning	
	Corporate Governance	Removed	
	Risk Management	Removed	
	Petty Cash/Pre Paid Cards	Planning	
	Use of Consultants	Removed	
	Safeguarding	Planning	
	Compliance with Corporate Sickness Absence Policy	FINAL	Limited
Culture, Community & Economic Development	Housing Capital	Fieldwork Commenced	
	Tenancy Management	FINAL	Limited
	Housing Rents	Fieldwork Commenced	
	Carbon Reduction Commitment Scheme	FINAL	n/a
	Council Tax Support Administration	Fieldwork Commenced	
	Housing Allocations	Fieldwork Commenced	
	Housing Benefits	Fieldwork Commenced	
	Youth Service	Planning	
	Council Tax	Fieldwork Commenced	
	Business Rates Administration	Fieldwork Commenced	
Resources (Finance & Commerce)	Agency Worker Contract	FINAL	Substantial
	Main Accounting (Pre One Oracle Implementation)	Fieldwork Commenced	
	Creditors (Pre One Oracle Implementation)	Fieldwork Commenced	
	Debtors (Pre One Oracle Implementation)	Fieldwork Commenced	
	Payroll (Pre One Oracle Implementation)	Fieldwork Commenced	
	Pensions (Pre One Oracle Implementation)	Fieldwork	

	Audit Title	Status End Qtr3	Report Assurance
		Commenced	
	Bankers Automated Clearing System	Planning	
	Budgetary Control incl Collaborative Planning	Fieldwork Commenced	
	Main Accounting (Post One Oracle Implementation)	Moved to 14/15 Plan	
	Creditors (Post One Oracle Implementation)	Moved to 14/15 Plan	
	Debtors (Post One Oracle Implementation)	Moved to 14/15 Plan	
	Payroll (Post One Oracle Implementation)	Moved to 14/15 Plan	
	Pensions (Post One Oracle Implementation)	Moved to 14/15 Plan	
Children, Adults & Housing	Looked After Children Placements	FINAL	Limited
	Troubled Families Programme	FINAL	n/a
	Local Welfare Assistance	FINAL	Limited
	ASC Income Work	FINAL	n/a
	Public Health Grants	FINAL	n/a
	Tenancy Management Organisations	Planning	
	Self-Directed Support	Removed	n/a
	Contracts and Procurement	Planning	
	School Allocations (forensic)	FINAL	n/a
Schools	Branfil Primary	FINAL	Substantial
	Gidea Park Primary	FINAL	Full
	Squirrels Heath Junior	FINAL	Substantial
	St.Albans Catholic Primary	FINAL	Substantial
	Wykeham Primary	FINAL	Substantial
	Crownfield Junior	FINAL	Substantial
	Mead Primary	FINAL	Full
	St.Marys Catholic Primary	FINAL	Substantial
	Benhurst Primary	Fieldwork Complete	
	Brookside Infant	FINAL	Substantial
	Engayne Primary	FINAL	Substantial
	Harold Court Primary	FINAL	Full
	Towers Junior	Fieldwork Completed	
	Whybridge Junior	FINAL	Substantial
	Broadford Primary	FINAL	Substantial
	Crownfield Infant	FINAL	Substantial
	Scargill Infant	FINAL	Substantial
Squirrels Heath Infant	Fieldwork Completed		
St.Edwards CE Primary	Moved to 14/15 Plan		

	Audit Title	Status End Qtr3	Report Assurance
	Dycorts School	FINAL	Substantial
IT Audits	Mayrise	FINAL	Limited
	AXISe Pension System	FINAL	None
	JCAD LACHS	FINAL	Substantial
	Follow Ups - Network Permissions Follow-Up	FINAL	Substantial
	Service / Support Desk	Draft	Limited
	Security Over Spreadsheets (Replaces Backups)	Removed	n/a
	ICT Inventory Controls	Removed	n/a
	Tranman	Removed	n/a
	Data Handling	Removed	n/a
Follow Ups	Traded Services	FINAL	Substantial
	Education Computer Centre	FINAL	Limited
	Audit Recommendations	On-going	n/a
	Traffic & Parking Control - Cancellation of PCN's	FINAL	Substantial
	One Oracle Contingency	Removed	n/a
	i-Expenses	FINAL	Limited
	CRC Scheme Follow Up & Sign Off	FINAL	n/a

DEFINITIONS OF ASSURANCE LEVELS

For each risk based 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:

Full: There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

Substantial: While there is a basically sound system, there are limitations that may 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: Limitations in the systems of control 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 noncompliance with basic controls leaves the system open to error or abuse.

PRIORITY OF RECOMMENDATIONS

Recommendations are made to mitigate weaknesses identified in the system of control. Recommendations are categorised into three levels of priority to ensure that those addressing areas of significant risk are implemented as a priority. The three categories comprise:

- High:** Fundamental control requiring implementation as soon as possible.
- Medium:** Important control that should be implemented.
- Low:** Pertaining to best practice.

Appendix B: Corporate Fraud Proactive Audit Plan Progress 2013/14

Description	Risks	Plan days	Qtr 3 Status
Expenses	This includes, but is not limited to: false declarations of mileage; false documentation to support allowances; breaches of authorisation and payment procedures	30	Draft Report
Redundancy - Agency - reemployment	Dual analysis will be undertaken to ensure that the Council has complied with its current redundancy policy and to ensure that the Council's reputation is not at risk via re-employment with Beeline of officers previously dismissed.	0	In progress
Grants	Identification of grants provided to charity organisations to inspect and confirm that supporting documentation for expenditure is valid and used for the purpose intended in the original application or as stipulated by the Council on approval of the grant. Review formal acceptance documentation and payment and bank records to ensure payments are accounted for.	20	In progress
Home Ownership	Review entitlement to RTB & records completed as per procedures	10	Draft Report
Direct payments	Personalised budgets for the purchase of care; failing to declare capital and assets; care provision by contractors or a non-governmental organisation which are not for the benefit of the person being cared for.	10	Completed
Payment of Election expenses	Review appointment of staff, entitlement, and payment of fees/arrangements including postal votes and counting. Completion of claims and receipt.	10	Scheduled 31 March 2014
Learning & Physical Disability Residents	Review bank accounts, building society accounts, income and expenditure records and receipts.	20	Scheduled for Jan/Feb 2014
Internet Abuse - Review of blocked sites	Bluecoat reporting to ascertain if employees are attempting to access blocked internet sites.	10	Scheduled for March 2014
	TOTAL	120	