



Havering
LONDON BOROUGH

INTERNAL AUDIT ANNUAL REPORT

2011 / 2012

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1. INTRODUCTION

- 1.1** Under the Accounts and Audit Regulations 2011, the Council is required to conduct a review at least once per year of its systems of internal control.
- 1.2** The purpose of this report 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 available on the Council's internet site from mid June 2011, within the 25th 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 2011/12 Internal Audit Plan, of 1576 days, was approved by the Audit Committee in March 2011. 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 significant weaknesses have been identified in 2011/12, however action has been taken 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** The next section of the 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

- 3.1.1 620 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.
- 3.1.2 675 days of the systems plan were delivered. 45 audits were completed.
- 3.1.3 The assurance ratings on reports have changed during 2011/12 from Qualified and Unqualified to Nil, Limited, Substantial and Full Assurance. The aim of this change was to make the assurance more meaningful for management.

3.2 Computer Audit

- 3.2.1 112 days of the plan is allocated to computer audit. 7 audits were completed. Two audits were moved to 2012/13 due to timing issues so in total 87 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 315 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 333 days were delivered in year.

- 3.3.2 Pro-active – A budget of 105 days were assigned to pro-active audits. A risk based pro-active audit plan had been devised. Due to the additional reactive work 95 days were delivered by the end of the year. 10 audits were completed.

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 September meeting the Audit Committee receive a full list of all outstanding recommendations.
- 3.4.2 In 2010/11 there were no 'qualified' reports. Follow up work has been undertaken on reports at the request of the Audit Committee. In 2012/13 a complete overhaul of the approach to monitoring audit recommendations is planned.

3.5 Schools

- 3.5.1 In 2011/12 24 schools were audited.
- 3.5.2 Due to a number of schools moving to Academy Status the three year audit plan for schools has reduced.

3.6 Other Outside Assurances

- 3.6.1 The National Non Domestic Rates administrative processes are undertaken by a third party on behalf of London Borough of Barking & Dagenham. Audit reports and assurances are reviewed by the Internal Audit & Corporate Risk Manager.
- 3.6.2 During 2011/12 the team provided an Audit Service to Homes in Havering.
- 3.6.3 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 During 2011/12 a Corporate Leadership Team Working Group reviewed the arrangements and have proposed some recommendations for improvement. The new approach will be implemented and embedded during 2012/13.

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. A number of policies are being reviewed at the time of drafting this report.

4. KEY MESSAGES

4.1 Organisational Change

4.1.1 Many of the significant control weaknesses identified during 2011/12 link back to the pace of organisational change. To achieve the savings required significant transformation activity has taken place during the last two years. Change is taking place both within Service areas and corporately at the same time. The workforce has reduced and many who have gone had a great deal of knowledge and experience.

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 often occurred. Although responsibility always sat with management there were often control mechanisms that had evolved over time to manage risk. These were often costly and could not guarantee that the risk was managed efficiently.

4.1.3 The organisation increases its reliance on its Managers to implement controls and ensure compliance is consistent within their team or service area. To be successful this requires culture change within the organisation and this has always been part of Transformation 2014. From an audit perspective assurances regarding compliance are often harder to acquire because there is a reduction in corporate controls.

4.2 Oracle

4.2.1 A Computer audit of the new Oracle system relating to Payroll, Accounts Payable and Accounts Receivable was completed and 24 recommendations raised for management consideration. There was also systems audit work and proactive fraud work undertaken in year. As the three areas are considered to be key financial systems, they are material to the Statement of Accounts, management were advised that the control environment is not considered to be sufficient to mitigate risks. Control

Working Groups were established to identify recommendations and these have been agreed by Management and will be implemented in 2012/13.

4.3 Fraud

- 4.3.1 In 2011/12 the Council was targeted by fraudsters and an invoice was paid into a fraudulent bank account. An internal investigation took place and a Police investigation is on-going. The fraud is not directly a result of the new system and could have been prevented by compliance with the procedures implemented by management. To support Management in the prevention of Fraud a programme of training and awareness has been identified and approved based on a risk analysis of the organisation. As part of this programme the team will not only seek to ensure managers have identified risks but also remind employees and agency workers that approved procedures are there to manage risk.

4.4 Conclusion

- 4.4.1 The issues detailed above have been considered as part of the process to produce the 2011/12 Annual Governance Statement and have been identified as issues for monitoring by Senior Management. These issues have been considered during the Annual Audit Planning Process and will also be picked up within individual audits as applicable during 2012/13.

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 90% of the 2011/12 Internal Audit Plan was delivered by 31st March 2012. The plan was flexible to accommodate the needs of management in a year of significant change. Three audits were deferred to the 2012/13 plan due to timing issues. The remainder of the plan was delivered in the first quarter of 2012/13.
- 5.2.2 The Audit Committee and Corporate Management Team receive performance reporting quarterly.

5.3 Feedback from Auditees

- 5.3.1 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 PDR process.