



Havering
LONDON BOROUGH

INTERNAL AUDIT ANNUAL REPORT

2010 / 2011

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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 2010, within the 21st 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 2010/11 Internal Audit Plan, of 1540 days, was approved by the Audit Committee in March 2010. 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.
- 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 previously qualified 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** 850 days of the approved plan were allocated to systems and contract audit. This plan was based on a full compliment of staff in the team. The original plan was significantly revised in response to changes within the organisation during the financial year.
- 3.1.2** In response to the transformation agenda and the imminent changes in the organisation the scope of some audits was scaled back as the value of in depth reviews was reduced, however sufficient work was completed to provide assurances to management; Senior Management required audit to provide assurance with regards some transformation work; Management relied on Internal Audit to investigate specific concerns and provide assurance where there were insufficient resources locally to complete this work. These unplanned assignments were only taken on by the team where they were deemed an appropriate use of the Council's audit resources and where there was no impact on the team being able to provide independent assurances in the future.

3.1.3 Subsequent to the approval of the audit plan it was decided that the responsibility for auditing the boroughs schools should be given to the in house team, previously this work was undertaken by the private sector. The systems audit team had one vacant post; this resource was covered in part by a project post that took on specific tasks to support the team in achieving its objectives for the year. Due to the pace of change in the organisation it was not deemed cost effective to use agency workers boost the resources of the team therefore in total 610 days were delivered. The results of systems audit work is reported quarterly to Audit Committee of the 35 deliverables where audit opinions were issued all were unqualified.

3.2 Computer Audit

3.2.1 100 days of the plan is allocated to computer audit. The plan for 2010/11 was reduced to 82 days due to the significant changes that transformation will have on the systems and control environment. Some of the planned days were used for attendance at the ICT Transformation Board. Seven audits were completed in year with one of these, relating to the Tranman systems, being qualified. One audit was moved to 2011/12 due to timing issues so in total 72 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 325 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 365 days were delivered in year.

3.3.2 Pro-active – A budget of 190 days were assigned to pro-active audits. A risk based pro-active audit plan had been devised. Due to the additional reactive work 150 days were delivered by the end of the year. The plan was revised to match the resources available and at the end of March all but two audits had been finalised.

3.3.3 Annual review of anti fraud and corruption arrangements - During the year the anti fraud and corruption arrangements were reviewed, no issues arose, and the corporate strategy to prevent fraud and corruption was refreshed. Audit Committee approved the updated strategy and noted the results of the review in May 2011. The Audit Committee receive half yearly reports about the activity and performance of the fraud team.

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 For each of the qualified reports from 2009/10 a follow up audit was undertaken and the results reported to Audit Committee. In all cases sufficient progress had been noted to provide an unqualified opinion to Management.

3.5 Schools

- 3.5.1 In 2009/10 the schools audit programme was completed by the in house audit team. 15 schools were audited, one was given full assurance, one limited assurance and for the other 13 substantial assurance was provided.
- 3.5.2 The main areas where there were recurring issues -
- Differences in working practices to that authorised by Governors via Scheme of Delegation;
 - Lack of security of cash and members of staff whilst transferring cash from school to bank;
 - Not obtaining adequate quotes/cost comparisons to ensure value for money;
 - Lack of appropriate use of official orders.
 - Incomplete Inventories and Equipment Loan Registers.
 - Inadequate maintenance of the Single Central Record.

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 with whom the Council has entered into a shared service agreement. Audit reports and assurances are reviewed by the Internal Audit & Corporate Risk Manager.
- 3.6.2 The Internal Audit Service for Homes in Havering for 10/11 was provided by RSM Tenon and links have been established to gain assurances regarding the controls within that organisation as shared risks are present. Meetings take place at least twice a year to discuss audit findings.
- 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 An annual review of risk management arrangements and the Council's strategy was undertaken in October 2010. The review noted that Risk Management processes are included within the Council's transformation programmes. It also noted that the pace of change and changes in structures had impacted on the operation of processes during the year.
- 3.7.2 The key challenges the organisation faces is ensuring that managers and officers across the organisation have a sufficient understanding of risk to make sound business decisions and that the organisation's risk tolerance is appropriate for the level of resources available going forward. In the past corporate policies and procedures have sought to manage risk but as resources reduce and the environment the council operate in becomes more complex relying on policies and procedures will not facilitate an efficient system of internal control and bureaucracy will impact on business. A strong culture of risk management and embedded risk management principles is the only way efficiency in control can be achieved.
- 3.7.3 Corporate Management Team will consider an options paper on the future of risk management in June 2011.

3.6 Review of Other Strategies

- 3.7.1 Other corporate arrangements and strategies such as the Internal Audit Strategy, Whistle Blowing were also reviewed in year. The annual review of Money Laundering has been delayed to summer 2011.

4. KEY MESSAGES

4.1 Project Management

- 4.1.1 Project Management is an area where issues have arisen and audit work has been completed. The organisation has procedures to follow but often with changes in scope, pressurised deadlines and projects involving multiple services or organisations, the control environment becomes increasingly complex. Given the scale of change the organisation is facing; the need for financial constraint; and the reliance on successful delivery of projects to achieve the organisation's goals and objectives robust project management controls have become even more important.

4.2 Contracts and Supply Chain Resilience

- 4.2.1 Robust and well managed contracts are critical to excellent service delivery and achievement of value for money. Pressure on resources means that the organisation needs to identify savings in contract spend. Contractors may in turn be seeking cost saving opportunities, which can lead to reductions in the quality of services. Weaknesses in controls over management of contractual relationships may lead to risks materialising.

- 4.2.2 Weaknesses in contract management is a theme coming out of audit work. There are also inconsistencies in skills across the organisation. In the future contractual relationships will become more complex and this brings challenges to the organisation.
- 4.2.3 The personalisation agenda means that often the services public money is procuring are not necessarily through a direct relationship between the supplier and the Council. Risks are not transferred out of the organisation, but the system of internal control needs to adapt and become increasingly flexible to ensure that the objectives of the agenda are achieved whilst the duty of care to the individual is met.
- 4.2.4 Where the Council commissions services from other organisations in the private, public or voluntary sector or from there is an increased reliance on the financial stability, or continuation of funding streams, of those organisations and their own processes to manage risks. The Council in many areas no longer retains the resources to provide services itself and for many services changing to an alternative supplier could cause significant impact on the continuity of service provision. As mentioned above management of contractual relationships and strong risk management skills particularly with regards quality of care and business continuity will be needed.

4.3 Information Governance

- 4.3.1 This risk area appears on the Corporate Risk Register and encompasses how manual and electronic data are protected as well as compliance to legislation relating to freedom of information and IT security. It was a key theme in the 2009/10 Annual Audit Report and also appeared as an issue on the Annual Governance Statement, where it will remain in 2010/11 for monitoring by the Officer Governance Group in 2011/12.

4.4 Access to systems and Data

- 4.4.1 This issue is linked to information governance above within some audits controls regarding appropriateness of access rights and lack of periodic reviews were noted. As the Council holds a wide variety of data in numerous forms controls must continue to be strengthened and consistency of application achieved across the organisation.

4.5 Management Information

- 4.5.1 Quality of data and resulting management information produced within the organisation has in previous years been a theme of audit reports. In some audits this year it has been noted that information needed by management to make decisions and manage risks can not be efficiently or effectively produced. Management Information is often not available, reliable or robust enough for manager to gain assurance and manage risks. Manager's are also not always identifying and using the information

that is available to them in a proactive manner. This finding is often as a result of systems not “talking” to each other, manual systems being open to human error or a lack of consideration about where reliable assurances could be sought. Significant effort to strengthen the availability of accurate management information has been made during the year and as the organisation continues to rationalise its systems and streamline its processes the improvements will continue.

4.6 Resource Pressures & Loss of Knowledge and Experience

- 4.6.1 The pressure on resources that has been experienced in 2010/11 resulting from having to maintain business as usual activity as well as participation in the various transformation work streams will continue into 2011/12. The requirement to make savings has meant that in many areas the reduction in resources has occurred as part of the transformation process. This means that the organisation has lost the knowledge and experience of officers before the transformed services are fully operational. Some risks are increased while the new structures and implemented, this will continue into 2011/12 and is a risk area that is being monitored as it can be mitigated by managed hand over processes.

4.7 Conclusion

- 4.7.1 The majority of the issues detailed above have been considered as part of the process to produce the 2010/11 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 2011/12.

5. INTERNAL AUDIT QUALITY ASSURANCE

5.1 Peer Review

- 5.1.1 Annually the audit service undertakes a self assessment against the CIPFA Code. This self assessment is then peer reviewed by a neighbouring borough and a report received. At the time of the 2010/11 review there were nine minor issues against 175 criteria for compliance.

5.2 Liaison with Other Boroughs

- 5.2.1 Periodic meetings with other East London Solutions Boroughs have taken place throughout 2010/11 to share good practice and investigate how the Council's can work together to identify and explore opportunities to decrease costs and increase efficiency.
- 5.2.2 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.

5.3 Delivery of Planned Audit Work

- 5.3.1 89% of the 2010/11 Internal Audit Plan was delivered by 31st March 2011. The plan was flexible to accommodate the needs of management in a year of significant change. Three audits were deferred to the 2011/12 plan due to timing issues. The remainder of the plan was delivered in the first quarter of 2011/12.
- 5.3.2 The Audit Committee and Corporate Management Team receive performance reporting quarterly.

5.4 Feedback from Auditees

- 5.4.1 Following every audit, the managers receiving the audit report was also sent a feedback survey form. 45 surveys were returned for 2010/11 audits. 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 Personal Development and Performance Appraisal meetings.
- 5.4.2 A network of Audit Representatives exists across the Council; these officers are responsible for ensuring that strong relationships between the audit team and management exist. These officers provide feedback on the audit service and also on planned work and issues that are emerging in service areas that may require audit work in future.