



Haringey Council

Agenda item:

[No.]

Audit Committee

On 2 June 2009

Report Title: **Annual Audit Report and Assurance Statement 2008/09**

Report authorised by: **Chief Financial Officer**

Report of and Contact Officer: Anne Woods, Head of Audit and Risk Management

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Wards(s) affected: **All**

Report for: **Non-key decision**

1. Purpose of the report

1.1 To inform Members of the overall adequacy and effectiveness of the system of internal control and risk management operating throughout 2008/09 and present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other bodies.

1.2 This report also fulfils the requirements of the Audit Committee terms of reference.

2. State link(s) with Council Plan Priorities and actions and/or other Strategies:

2.1 Audit and Risk Management contribute to the Council priority to deliver excellent, customer focused, cost effective services by reviewing key services and making recommendations for improvement where appropriate. Follow up work is undertaken to ensure that managers implement agreed recommendations and improvements.

2.2 Internal audit forms a key element within the revised Use of Resources assessment and will continue to be part of the CAA from 2009 onwards. The reports to both managers and the Audit Committee on progress against the agreed audit plan and the implementation of audit recommendations ensure that the requirements of the CAA assessment are fulfilled.

3. Recommendations

3.1 That the Audit Committee notes the content of the annual audit report and assurance statement for 2008/09.

3.2 That the annual audit report and assurance statement is referred to the next available Full Council meeting for information.

4. Reason for recommendation(s)

4.1 The Audit Committee is responsible for receiving the annual internal audit report as part of its Terms of Reference. In order to facilitate this, the Head of Audit's annual report and assurance statement is provided for review by the Audit Committee.

5. Other options considered

5.1 Not applicable

6. Summary

6.1 The internal audit service makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the authority. This report looks at the sources of assurance and results of internal audit work completed during 2008/09.

6.2 The information has been compiled from information held within Audit & Risk Management and from records held by business units across the Council.

7. Head of Legal Services Comments

7.1 The Annual Audit Report and Assurance Statement for 2008/09 summarises the extensive number of reviews and audits undertaken within the Council and re-confirms that, as a Council, in 2008/09, we worked within the Terms of Reference as previously agreed by committee. In action points as a result of audits have been duly identified and action plans set in place together with monitoring of adherence to action plans by the Head of Audit. All other legal comments are contained within the body of this Report.

8. Chief Financial Officer Comments

8.1 The Chief Financial Officer notes the contents of this report and has no additional comments to make.

9. Head of Procurement Comments

9.1 Not applicable

10. Equalities and Community Cohesion Comments

10.1 This report deals with how risks to service delivery are managed across all areas of the council, which have an impact on various parts of the community. Improvements in managing risks and controls will therefore improve services the Council provides to all sections of the community.

11. Consultation

11.1 No external consultation was required or undertaken in the production of this report. Consultation has been undertaken with respective service managers, Assistant Directors and Directors in the production of internal audit reports which form part of the sources of assurance for this report.

12. Service Financial Comments

12.1 There are no direct financial implications arising from this report. The work completed by Deloitte and Touche in 2008/09 is part of the five year contract which was awarded following a competitive tendering exercise in compliance with EU regulations from 1 April 2007. The costs of this contract, along with all other costs to provide an internal audit service, are contained and managed within the Audit and Risk Management revenue budget.

13. Use of appendices

13.1 Appendix A – Internal audit summary of work 2008/09

14. Local Government (Access to Information) Act 1985

14.1 List of background documents. The following background documents were used in production of this report:

- Accounts and Audit (amendment) (England) Regulations 2006.
- CIPFA Code of Practice for Internal Audit 2006
- CIPFA guidance on the Annual Governance Statement

15. Background

15.1 One of the terms of reference for the Audit Committee is *'to consider the Head of Audit and Risk Management's annual report and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can provide about the Council's corporate governance arrangements.'*

15.2 In addition, the 2006 CIPFA Code of Practice for Internal Audit sets out annual reporting requirements for the Head of Audit and Risk Management. In order to satisfy the requirements of the CIPFA Code of Practice, the Head of Audit and Risk Management issues a formal annual report which:

- Includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- Discloses any qualifications to that opinion, together with the reasons for the qualification;
- Presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- Draws attention to any issues that the Head of Audit and Risk Management considers particularly relevant to the preparation of the Annual Governance Statement (AGS); and
- Compares the work actually undertaken with the work that was planned and summarises the performance of the Internal Audit function against its locally set performance targets.

- 15.3 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. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Haringey Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.
- 15.4 The CIPFA Code of Practice for Internal Audit states that the internal control environment comprises three key areas: internal control; corporate governance; and risk management processes. The opinion on the effectiveness of the internal control environment is based on an assessment of these key areas.
- 15.5 The Accounts and Audit (Amendment) (England) Regulations 2006, which came into effect on 1st April 2006, require that 'the relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish.'
- 15.6 As part of the 2006 Regulations, the Council is required to review, at least annually, the effectiveness of its system of internal control. The review of effectiveness of the system of internal control is informed by the work of internal audit and the council's senior managers who have responsibility for the development and maintenance of the internal control environment. The review of effectiveness is also informed by comments made by the Council's external auditors in their annual letter and other review agencies and inspectorates in their reports.

16. Basis of assurance

- 16.1 The Head of Audit and Risk Management's opinion is derived from work completed during 2008/09 as part of the agreed annual audit plan, and any investigations into breaches of financial irregularity. Where relevant, any assessment of the council's corporate governance arrangements and risk management processes are also taken into account.
- 16.2 The internal audit plan for 2008/09 was developed to provide management with independent assurance on the adequacy and effectiveness of the systems of internal control. The plan was designed to ensure adequate coverage over the year of the Council's accounting and operational systems.
- 16.3 Internal audit work has been conducted in accordance with mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit and additionally from internal audit's own quality assurance systems.
- 16.4 The opinion is limited to the work carried out by Internal Audit based on the annual internal audit plan. Wherever possible, the work of other assurance providers, including external audit, has been taken into account.

17. Overall Audit Opinion 2008/09

- 17.1 The Internal Audit work, using a risk based approach, included reviews of those systems, projects, and establishments sufficient to discharge the Chief Financial

Officer's responsibilities under s151 of the Local Government Act 1972; the 2006 CIPFA Code of Practice for Internal Audit and the 2006 Accounts and Audit (Amendment) (England) Regulations. The opinion is based on the work undertaken. Work was planned and performed in order to obtain the information necessary to provide sufficient evidence to give reasonable assurance of the internal control systems tested.

17.2 Based upon the work of Internal Audit and other sources of assurance outlined in this report, the Head of Audit and Risk Management can provide an opinion that the system of internal control in operation during the year to 31 March 2009 accords with proper practice and is fundamentally sound. The opinion relates only to the systems and areas reviewed during the year and any details of significant control issues identified are included in the report.

18. Assurance from the work of Internal Audit

18.1 During 2008/09, Internal Audit undertook 115 planned reviews including school and establishment visits, using a risk based approach. The outcome of the reviews indicated that generally the overall adequacy and effectiveness of the system of internal control is satisfactory.

18.2 Internal Audit were satisfied with management responses in those areas which had received a 'limited' assurance rating. In addition, detailed monitoring was undertaken during 2008/09 on all Priority 1 recommendations to ensure that appropriate action was undertaken to address the risks identified during the course of the original audit. As at the 31 March 2009, 95% of all Priority 1 recommendations had been fully addressed and action was being taken to address the remaining 5%. Internal Audit were satisfied with the responses from management on this area of follow up work.

18.3 A detailed report on the work of Internal Audit is attached at Appendix A to this report.

19. Assurance on Corporate Governance

19.1 The Council's corporate governance arrangements provide effective direction and control of its functions, and how the Council relates effectively to the local community. These arrangements are underpinned by the Council's Local Code of Corporate Governance which has been developed to comply with the CIPFA/SOLACE recommended framework and guidance on corporate governance. The Council's Local Code of Corporate Governance, which codifies the Council's governance arrangements, was reported to the Audit Committee in May 2008 and approved by Full Council in July 2008. The arrangements which support the Local Code of Corporate Governance have been in place and operating effectively for a number of years.

19.2 Corporate controls are in place to help ensure that policy setting and decision making is carried out in accordance with the Council's Constitution and also that the actions of Members and officers comply with established policies, procedures, relevant laws and regulations.

19.3 The annual assurance report should draw attention to any issues that the Head of Audit and Risk Management considers particularly relevant to the preparation of the council's Annual Governance Statement (AGS). CIPFA guidance dictates the form and basic content of the AGS and its approval and publication with the authority's statement of accounts represents the end process of the annual review of internal control.

19.4 As part of the process to compile the AGS, all Directors and Assistant Chief Executives were required to provide an assessment of the governance arrangements operating within their area of responsibility. The assessments covered the key areas of corporate governance including:

- Risk Management;
- Performance Management
- Financial Management;
- Corporate Governance;
- Procurement and contract management;
- Information Management;
- Project Management;
- Partnerships;
- Business Continuity Plans; and
- Internal audit recommendations.

19.6 These self assessment statements underpin the AGS. The completed assessments identified that all significant governance issues which had been brought to the attention of Directors and Assistant Chief Executives had been appropriately dealt with, or had been included in the AGS.

19.7 Corporate governance is effective in most areas across the Council. The main areas for action were included within the AGS and relate to:

- Ensuring that the recommendations in the Joint Area Review (JAR) action plan are addressed and implemented;
- Ensuring that the recommendations in relation to the independent review of Treasury Management arrangements and revised CIPFA guidance are implemented;
- Ensuring that data quality arrangements are robust.

20. Assurance on Risk Management

4.2 A substantial amount of work has been undertaken to implement and further embed risk management arrangements throughout the organisation and in key business processes. During 2008/09, the Council's corporate risk management strategy was reviewed and updated to reflect the progress made to date in embedding risk management. The revised risk management strategy draws together all key areas into a cohesive framework to ensure that the Council manages its risks in the most appropriate way. During 2008/09, work began on implementing an electronic performance management system which will further improve links between performance management information and risk management.

4.3 Regular reports to managers and members during 2008/09 by Internal Audit provided updates on the management of key business risks. Risk registers and the processes to keep these updated are fully embedded at business unit, departmental and corporate levels.

4.4 In addition, Internal Audit reviewed a number of business unit risk registers and tested the key controls which management had stated were in place to ensure the controls were in place and effective in managing the identified risks. Based on the testing

completed, where no risk registers were assessed as providing 'limited', or 'no' assurance, the risks identified within business units were being managed appropriately.

- 4.5 Risk management is contained within all the key business and project management processes of the Council. It is a specific requirement of all business plans that all key risks are identified, together with the management controls in place. This ensures that any resource implications are considered at the business planning stage. The Council's project management framework has risk identification and management as one of its core objectives, therefore allowing any key risks to the success of the project to be appropriately managed from the beginning of the project.
- 4.6 During 2008/09, a formal risk management strategy was approved and implemented by the Haringey Strategic Partnership (HSP). Internal Audit worked with the Thematic Boards and the Performance Management Group to provide advice and guidance on risk management. As a result, all HSP Thematic Boards have developed risk registers which are aligned to the Local Area Agreement's key performance indicators and output measures.
- 4.7 Feedback from the CPA recognises the development of this area and the systems put in place ensure that risks are considered at the most appropriate level. Risk management arrangements comply with the corporate policy and strategy: all business units and directorates have risk registers in place; corporate project management arrangements are in place, although internal audit has highlighted some areas of non-compliance as part of the annual internal audit programme of work and made recommendations to improve systems and processes; corporate health and safety policies are in place which have been subject to review during 2008/09 and action plans put in place where gaps in compliance were identified to ensure all departments fully comply with requirements; and business continuity plans are in place across all departments. A corporate steering group has been put in place to ensure that risk management continues to improve.

10. Assurance from External Inspections

- 10.1 The CIPFA guidance states that in practice councils are likely to take assurance from the work of Internal Audit when discharging their responsibility for maintaining and reviewing the system of internal control and that external audit and other review agencies and inspectorates are also potential sources of assurance. In formulating the overall opinion on internal control, the Head of Audit and Risk Management took into account the work undertaken by external inspectors.
- 10.2 In 2008/09 the Council's external auditors, Grant Thornton, completed their annual assessment for the Use of Resources, including financial standing, financial reporting, financial management and internal control. Their conclusion was that the Use of Resources assessment reflected improvement in several areas, including an overall score increase from 2 to 3 for the Financial Reporting theme. A number of improvement opportunities were highlighted and an action plan was put in place to ensure that these are being addressed.
- 10.3 The Audit Commission's Annual Audit and Inspection letter for 2008/09 reflects the serious problems identified within the Children and Young People's Service in November 2008 which, given the additional weighting in the overall scoring this service has, gives the Council an overall star rating of 1 under the Comprehensive

Performance Assessment (CPA) framework. Within the CPA scorecard it is recognised that other services are performing well, with 3 out of 4 ratings for: value for money; environmental services; adult social care; benefits; and housing. Cultural Services received a rating of 4 out of 4.

10.4 During 2008/09 a separate review of probity and propriety arrangements across the Council was completed by Grant Thornton and reported to the Audit Committee in February 2009. No serious weaknesses in the Council's processes or systems were identified, although a number of 'best practice' recommendations were made. An agreed action plan is in place to ensure that these are addressed.

10.5 The Office of the Surveillance Commissioners (OSC) also inspected the council's policies and procedures relating to Part 1, Chapter 2 of the Regulation of Investigatory Powers Act 2000 (RIPA) in March 2009. The OSC concluded that the council's arrangements were lawful and in accordance with the regulations. A number of recommendations were made to further improve processes, and these were reported to the Audit Committee, together with the agreed action plan to address the recommendations, all of which have been completed.

11. Assurance on the Effectiveness of Internal Audit

11.1 In April 2009, a review of the effectiveness of the Council's internal audit arrangements in place during 2008/09 was completed by the London Borough of Havering. The review used the CIPFA Code of Practice, and the council's compliance with the standards required of it, as its basis. The review concluded that Haringey had complied with the Code of Practice and that Internal Audit arrangements were effective. The full report, including areas for improvement and the resulting action plan to address these, has been submitted to the Audit Committee for approval.

12. Qualifications to the Head of Audit Opinion

12.1 Internal Audit has unrestricted access to all areas and systems across the council, a right which is explicit within the Council's Constitution, and has received appropriate co-operation from officers and members.

Annual Report on Internal Audit Activity 2008/09

1. Summary of Internal Audit work

- 1.1 Internal Audit services, excluding the investigation of allegations of fraud and corruption, are provided by Deloitte & Touche. A full report is issued for every planned project in the annual audit plan. The report provides an overall audit opinion according to the seriousness of the findings. In addition, each recommendation is given a priority rating, to assist service management in prioritising their work to address agreed recommendations. The overall classification given was that applying at the completion of the audit work. In each case, recommendations are agreed with the client for the work and an action plan completed, showing responsible officer and timescales to address the weaknesses identified.
- 1.2 The recommendations made should be sufficient to address all the control weaknesses identified. As long as the recommendations have been implemented as agreed in the action plan, the risks presented should be addressed, and the residual risk would fall. A definition of the overall classification is shown in Table 1 below:

Table 1

Assurance Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives.
Substantial Assurance	There is a basically sound system, but there are weaknesses which put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk.
No Assurance	Control is generally weak leaving the system open to significant error or abuse.

- 1.3 For 2008/09 a total of 114 projects, including schools and social services establishment visits, formed the annual audit plan. Resources to assist departments with the development and implementation of Financial Management Standards in Schools, corporate anti-fraud, risk management and project management arrangements were also delivered, although no reports are issued in these areas. Resources to complete follow up work are also included in the annual audit plan. The results of the follow up reviews are reported separately to the Audit Committee, although no individual reports are issued.
- 1.4 In addition, requests for additional audit work were made during 2008/09 and a further project was completed. Including follow up work completed and resources to support work which did not result in a formal report, Deloitte delivered 95% (1092 days) of the planned audit programme of 1150 audit days by 31 March 2009, which is in accordance with the contract and the local performance indicators agreed.

1.5 Four projects (40 days) were deferred until 2009/10 by agreement with service management. A summary of the outputs of the remaining project work completed by 31 March 2009, against the planned work is shown at Table 2 below. Of the 114 projects, 100 had been completed to draft or final report stage by 31 March. Fourteen projects were either in progress at 31 March, or deferred by agreement with service management.

Table 2 – Planned project work vs. actual completion rates

	Number of projects planned	Number of final reports issued	Number of draft reports issued	%
Key systems	12	8	4	100%
Other systems	55	30	12	76%
Establishments – including spot checks	13	13	0	100%
Schools	33	28	4	85%
Additional projects	1	1	0	100%
Total	114	80	20	88%

1.6 Internal Audit performs reviews of the Council's key systems on an annual basis. This is completed in agreement with Grant Thornton, the council's external auditors as part of the managed audit approach to ensure that audit resources are used effectively and duplication of work between internal and external audit is minimised.

1.7 The assurance levels provided for the key systems work is shown in Table 3 below. Four reports are still to be finalised for 2008/09 although it is anticipated that a substantial assurance rating will be provided. For comparison purposes, the assurance levels for 2005/06 and 2006/07 are also included.

Table 3 – key systems assurance ratings

Assurance level	2006/07	2007/08	2008/09
Full	1	1	2
Substantial	10	11	10
Limited	1	0	0
Nil	0	0	0
Total	12	12	12

1.8 All general systems work is followed up to ensure recommendations have been implemented. The results of the follow up programme are reported separately. The timing and nature of each follow up depends on the risk assessment of the area at the end of the original audit project.

- 1.9 There are no national or Best Value performance indicators for internal audit work. However, three local performance indicators are reported to the Audit Committee on a quarterly basis. These are in line with current best practice targets across the public sector. Performance of the whole service for 2008/09 is recorded in Table 4 below.
- 1.10 Internal Audit issues questionnaires on the completion of all key systems and general systems work in order to obtain feedback from the identified client. The average satisfaction rating from the customer evaluation questionnaires received during 2008/09 was 3.88, on a scale where 1 is low and 5 is high.

Table 4 – Local performance measures

Performance indicator	Actual	Target
Audit work completed against the planned programme (Deloitte)	95%	95%
Time taken to complete investigations by in-house staff (2008/09 referrals)	14.5 weeks	12 weeks
Priority 1 recommendations implemented at follow up	95%	95%
User satisfaction (1 low, to 5 high)	3.88	3.75

- 1.11 This level of audit coverage is satisfactory and complies with the 2006 CIPFA Code of Practice for Internal Audit.

2. In-house team – fraud and irregularities

2.1 In accordance with the Council's Constitution, Internal Audit investigates all cases that fall outside the remit of the Housing Benefit Fraud Investigation Team and the Council's Information Security Policy.

2.2 During 2008/09, a total of 25 investigations were undertaken involving Council employees. The allegations covered a number of issues including misuse of blue badges, working whilst off sick and council tax and housing benefit fraud. Table 5 below summarises the investigations completed by department.

2.3 For comparison purposes, figures for 2006/07 and 2007/08 are included. Cases from previous years have been included in the current organisational structure, e.g. Library Services investigations are now included within ACCS. The table below excludes investigations completed for Homes for Haringey. Of the 25 cases investigated, 20 were concluded within the 2008/09 financial year and 5 were carried forward into 2009/10.

Table 5 – Investigations by department

Department	Investigations 2006/07	Investigations 2007/08	Investigations 2008/09
Chief Executive – POD	0	0	0
Chief Executive – PPC	3	0	1
Corporate Resources	9	4	4
Children and Young People's Service	7	7	7
Adults, Culture and Community Services	5	6	6
Urban Environment	7	8	7
Total	31	26	25

2.4 The Council's anti-fraud and corruption arrangements are robust, with a clear strategy and detailed fraud response plan in place. Regular reminders regarding expected standards of behaviour and how to report suspected fraud are provided via staff and other newsletters and the council's intranet and website. All referrals are investigated and the investigation team is adequately resourced and trained. Investigations are managed according to all relevant statutory requirements, including Data Protection, Regulation of Investigatory Powers and Police and Criminal Evidence Acts, which are supported by agreed internal procedure manuals.

2.5 Operational arrangements are supported by Codes of Conduct, the Employees Disciplinary Code and the Whistle-blowing Policy, which was reviewed and updated in 2008/09. All of these are available via the Council's intranet and website. In addition, the council has a dedicated email address and telephone number, which is advertised on the Council website, by which members of the public can report instances of suspected fraud or irregularity.

2.6 During 2008/09, 43 referrals were made via the Council's email reporting facility. Of these, 19 were not fraud related and were referred on to the relevant department in order for the issue to be dealt with; 4 related to Complaints rather than fraud and were passed on to the relevant department for further action; 1 related to data protection subject access request and was passed on to the relevant department for further action; 12 were in relation to housing benefit/council tax issues; 1 related to planning and enforcement issues; 4 related to tenancy/occupancy fraud; and 2 were requests for information from other agencies.