



Haringey Council

Agenda item:

[No.]**Audit Committee****On 24 June 2010**Report Title: **Annual Audit Report and Assurance Statement 2009/10**Report authorised by: **Director of Corporate Resources**

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

Tel: 020 8489 5973**Email:** anne.woods@haringey.gov.ukWards(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 2009/10 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.

3. Recommendations

3.1 That the Audit Committee notes the content of the annual audit report and assurance statement for 2009/10.

3.2 That the Audit Committee agree that the annual audit report and assurance statement is presented 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 and Risk Management'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 2009/10.

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 Head of Legal Services has been consulted in the preparation of this report, and in noting the opinion expressed by the Head of Audit and Risk Management formed against established best practice guidance and work undertaken by external inspectors, confirms that there are no legal implications which arise out of the report or its recommendations.

8. Chief Financial Officer Comments

8.1 The Chief Financial Officer notes the contents of the report and concurs that the costs of providing the internal audit service can be fully met from within the Audit and Risk Management revenue budget.

8.2 It is further noted that from the information compiled, the internal audit service makes a significant contribution to ensuring the adequacy and effectiveness of internal control. The Chief Financial Officer also places reliance on corporate systems and processes and the work undertaken by other managers across the Council to manage the internal control environment.

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, Directors and Assistant Chief Executives 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 2009/10 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 2009/10
Appendix B – Feedback summary from senior managers

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
- Internal audit files and monitoring reports

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 2009/10 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 2009/10 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 2009/10

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 2010 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 2009/10, Internal Audit undertook 103 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 2009/10 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 2010, 95% of all Priority 1 recommendations had been fully addressed and action was being taken to address the remaining 5%. Internal Audit and the Audit Committee 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 in 2009/10 is attached at Appendix A to this report.

19. Assurance on Corporate Governance

19.1 The Council's corporate governance arrangements provide direction and control of its functions, and how the Council relates 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 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 2009/10 AGS and relate to ensuring that:

- the recommendations in the JAR action plan are fully implemented and that governance and control issues are fully incorporated and embedded into operational working practices.
- the agreed Housing Improvement Board action plan is fully implemented and that any recommendations arising out of the Audit Commission inspection of the Strategic and Community Housing Services in May 2010 are fully addressed; and
- the Council's processes to ensure robust data quality are embedded across all departments.

20. Assurance on Risk Management Activities

20.1 During 2009/10, the Council's corporate risk management strategy was reviewed and updated to reflect the progress made to date in embedding risk management. The Council's 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. The Council's Risk and Emergency Planning Steering Group reviews the Council's implementation of the risk management strategy and in 2009/10 responded effectively to specific issues relating to the flu pandemic and severe weather.

- 20.2 Regular reports to the Chief Executive's Management Board and the Audit Committee during 2009/10 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, using the Covalent electronic system to manage, review and report risk registers on a quarterly basis. In 2009/10, all the Haringey Strategic Partnership risk registers were incorporated onto Covalent and will now be managed and reported to the relevant Thematic Boards using the electronic system.
- 20.3 Internal Audit reviewed the Council's overall arrangements for risk management in 2009/10 and provided a 'substantial' assurance rating. In addition, Internal Audit reviewed five business unit risk registers as part of the agreed 2009/10 annual audit plan 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.
- 20.4 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.

21. Assurance from External Inspections

- 21.1 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.
- 21.2 The Annual Audit and Inspection letter issued by the Council's external auditors, Grant Thornton, for the year 2008/09 reported that the Council had retained its overall Use of Resources rating of three (out of four) and identified areas of strength for the organisation in integrated financial and service planning, financial reporting and stakeholder consultation. Grant Thornton identified five high priority areas where action by the Council was required, namely:
- Continuing to demonstrate outcomes across key areas of activity in order to retain its 'performing well' assessment for managing finances; and
 - That the Council is able to clearly articulate and quantify the financial and non-financial benefits arising out of the Haringey forward and core efficiency programmes;
 - That the Council can demonstrate that arrangements for inter-agency child protection practice are improving in line with the action plan submitted to Ofsted;
 - Addressing weaknesses in data quality management and reporting in relation to child protection; and
 - Continuing to develop data quality checking mechanisms for housing and council tax benefit claims.
- 21.3 During 2009/10 a follow up audit of the probity and propriety arrangements across the Council was completed by Grant Thornton and reported to the Audit Committee in

March 2010 as part of the Annual Audit and Inspection report. Grant Thornton reported that the Council's arrangements were robust and that good progress had been made in implementing the good practice recommendations made.

21.4 During 2009/10, the Audit Committee also reviewed progress against agreed action plans for Safeguarding (JAR action plan) and data quality.

22. Assurance on the Effectiveness of Internal Audit

22.1 In April 2010, a review of the effectiveness of the Council's internal audit arrangements in place during 2009/10 was completed by the Royal Borough of Kensington and Chelsea. 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 the one recommendation made and resulting action plan to address this, has been submitted to the Audit Committee separately.

22.2 In December 2009, an independent survey was undertaken of Senior Managers across the Council to ascertain their views and perception of the effectiveness of the internal audit service as a whole. A standard questionnaire was used to provide the framework for the review. The results of the survey are contained in Appendix B which reported that 86% of managers rated the service as a whole as effective or higher. However, managers raised some specific concerns in relation to some of the work completed by Deloitte and Touche. The feedback was discussed with Deloitte and Touche and in-house staff and an action plan is in place to ensure that improvements in key areas of the audit service are delivered during 2010/11.

23. Qualifications to the Head of Audit Opinion

23.1 Internal Audit has unrestricted access to all officers, information, buildings 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 2009/10

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 2009/10 a total of 100 projects, including schools and social services establishment visits, formed the annual audit plan which was approved by the Audit Committee. 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 2009/10 and a further three projects were completed. Including follow up work completed and resources to support work which did not result in a formal report, Deloitte delivered 95.4% (1098 days) of the planned audit programme (1150 days) by 31 March 2010, which is in accordance with the contract specification and the agreed local performance indicators.

1.5 One project (10 days) was deferred until 2010/11 by agreement with service management and one project (10 days) was cancelled following discussions with service management. A summary of the outputs of the remaining project work completed by 31 March 2010 against the planned work is shown at Table 2 below. Of the 103 projects, 100 had been completed to draft or final report stage by 31 March. Three projects were either in progress as 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	6	6	100%
Other systems	45	33	10	95.5%
Establishments – including spot checks	10	10	0	100%
Schools	33	30	3	100%
Additional projects	3	3	0	100%
Total	103	82	19	98%

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. Six reports are still to be issued as final for 2009/10 although it is anticipated that a substantial assurance rating will be provided, based on the findings in the draft reports which have all been issued. For comparison purposes, the assurance levels for 2007/08 and 2008/09 are also included.

Table 3 – key systems assurance ratings

Assurance level	2007/08	2008/09	2009/10
Full	1	2	1
Substantial	11	10	11
Limited	0	0	0
Nil	0	0	0
Total	12	12	12

1.8 All audit 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 2009/10 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 2009/10 was 3.5, on a scale where 1 is low and 5 is high.

Table 4 – Local performance measures

Performance indicator	Actual	Target
Audit work delivered against the planned programme of 1150 days (Deloitte)	95.4%	95%
Time taken to complete investigations by in-house staff (2009/10 referrals)	15.5 weeks	12 weeks
Priority 1 recommendations (2008/09 projects) implemented at follow up	95%	95%
User satisfaction (1 low, to 5 high)	3.5	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 2009/10, a total of 24 investigations were undertaken involving Council employees. The allegations covered a number of issues including fraudulent overtime claims, working whilst off sick and council tax fraud. Table 5 below summarises the investigations completed by department. For comparison purposes, figures for 2007/08 and 2008/09 are included. The table below excludes investigations completed for Homes for Haringey. Of the 24 cases investigated, 21 were concluded within the 2009/10 financial year and 3 were carried forward into 2010/11.

Table 5 – Investigations by department

Department	Investigations 2007/08	Investigations 2008/09	Investigations 2009/10
Chief Executive – P&OD	0	0	2
Chief Executive – PPP&C	0	1	1
Corporate Resources	4	4	4
Children and Young People’s Service	7	7	6
Adults, Culture and Community Services	6	6	6
Urban Environment	8	7	5
Total	26	25	24

2.3 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.

2.4 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. Members of the public can report instances of suspected fraud or irregularity, which can be done anonymously if required. In addition to regular articles in the Council’s staff and corporate newsletters, in July 2009 the Chief Executive issued a letter to all current staff, members and people receiving a pension from the Council reminding everyone of the Council’s expected standards of behaviour and how to report any concerns regarding fraud and corruption.

2.5 During 2009/10, 68 referrals were made via the Council’s email reporting facility. Of these, 6 were phishing/scam emails; 5 were not fraud related and were referred on to the relevant department in order for the issue to be dealt with; 3 related to Complaints rather than fraud and were passed on to the relevant department for further action; 39 were in relation to housing benefit/council tax issues; 3 related to other benefit fraud; 4 related to housing/sub-letting fraud; 4 related to credit card/cheque fraud; 2 related to Freedom Pass fraud; 1 related to identity/visa fraud; and 2 referrals did not contain enough information to progress any enquiries.

Appendix B

Review of the effectiveness of the Internal Audit Service - feedback from senior managers

Overall opinion of the Internal Audit Service (Deloitte and in-house staff)

Excellent	Highly effective	Effective/satisfactory	Improvement needed	Unacceptable
7%	29%	50%	14%	0

As customers of Internal Audit, how do you rate our service (Deloitte and in-house staff) in the following areas?

Ref	Criteria	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
a	There is an appropriate level of interaction with your service by audit management	33%	50%	17%		
b	Requests for additional audits are dealt with appropriately	23%	62%	15%		
c	Requests for general advice and support are dealt with appropriately	55%	27%	18%		
d	Internal audit keeps your service advised of key issues during the year	25%	33%	17%	17%	8%
e	Internal audit meets the needs of your service		50%	40%	10%	

Based on your contact with internal audit staff (Deloitte and in-house staff) in the past year, how well do you rate them in the following areas?

Ref	Criteria	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
A	Professional approach	34%	50%	8%	8%	
B	Positive and helpful attitude	55%	45%			
C	Unbiased and objective	42%	50%	8%		
D	Ability to establish positive working relationships	55%	36%		9%	
E	Ability to gain consensus for the final report	25%	42%	25%	8%	
F	Had appropriate knowledge of the risks facing your area/service	15%	23%	54%	8%	
G	Had appropriate knowledge of the organisation	17%	58%	25%		
H	Had appropriate knowledge of the IT systems	25%	42%	25%	8%	

The final product of an audit is the report. How do you rate our reporting process?

Ref	Criteria	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
A	Reports are well written and easily understood	25%	58%	17%		
B	Reports are provided in a timely manner	25%	58%	8%		8%
C	Conclusions are appropriate and supported by adequate evidence	17%	33%	33%	17%	
D	Recommendations are constructive, practical and cost effective	8%	42%	42%	8%	
E	Responses to issues raised are appropriately reflected in the final report	25%	59%	8%	8%	

