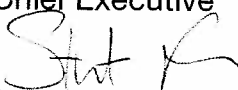


**Haringey** Council

<b>Report for:</b>	Corporate Committee 28 June 2012	<b>Item number</b>	
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<b>Title:</b>	<b>Annual Internal Audit Report and Assurance Statement 2011/12</b>
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<b>Report authorised by :</b>	Assistant Chief Executive 
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<b>Lead Officer:</b>	Anne Woods, Head of Audit and Risk Management Tel: 020 8489 5973 Email: <a href="mailto:anne.woods@haringey.gov.uk">anne.woods@haringey.gov.uk</a>
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<b>Ward(s) affected: ALL</b>	<b>Report for: Information</b>
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### 1. Describe the issue under consideration

1.1 To inform Members of the overall adequacy and effectiveness of the system of internal control and risk management operating throughout 2011/12 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 Corporate Committee's terms of reference.

### 2. Cabinet Member Introduction

2.1 Not applicable

### 3. Recommendations

3.1 That the Corporate Committee notes the content of the Head of Audit's annual audit report and assurance statement for 2011/12.



#### 4. Other options considered

4.1 Not applicable.

#### 5. Background information

5.1 One of the terms of reference for the Corporate 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.'*

5.2 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.

5.3 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.

5.4 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.



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5.5 The Accounts and Audit (Amendment) (England) Regulations 2011 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 an annual governance statement, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish.'

5.6 As part of the 2011 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.

### **6. Comments of the Chief Financial Officer and Financial Implications**

6.1 There are no direct financial implications arising from this report. The work completed by Deloitte and Touche in 2011/12 is part of the five year contract which was awarded following a competitive tendering exercise in compliance with EU regulations from 1 April 2007.

6.2 The in-house Corporate Anti-Fraud Team and HB Fraud Investigation Team undertake investigations into financial irregularities and reactive and proactive counter-fraud work. The costs of the teams and the Deloitte and Touche contract, along with all other costs to provide an internal audit service, are contained and managed within the Audit and Risk Management revenue budget.

### **7. Legal Implications**

7.1 The Head of Legal Services has been consulted in the preparation of this report, and in noting that the internal audit work detailed in the report complies with industry best practice and legislation, advises that there are no direct legal implications arising out of the report.

### **8. Equalities and Community Cohesion Comments**

8.1 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.

### **9. Head of Procurement Comments**

9.1 Not applicable.



## **10. Policy Implications**

- 10.1 There are no direct implications for the Council's existing policies, priorities and strategies. However, reducing the opportunity for fraud to take place in the first place, and taking appropriate action to detect and investigate identified fraud will assist the Council to use its available resources more effectively.

## **11. Use of Appendices**

- 11.1 Appendix A – Internal Audit Summary of Work 2011/12

## **12. Basis of Assurance**

- 12.1 The Head of Audit and Risk Management's opinion is derived from work completed during 2011/12 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.
- 12.2 The internal audit plan for 2011/12 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.
- 12.3 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.
- 12.4 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.

## **13. Overall Audit Opinion 2011/12**

- 13.1 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 2011 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



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evidence to give reasonable assurance of the internal control systems tested.

13.2 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 2012 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.

### **14. Assurance from the work of Internal Audit**

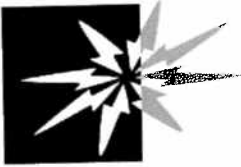
14.1 During 2011/12, Internal Audit undertook 60 planned system reviews and 22 school and visits, using a risk based approach, plus an additional 11 reviews at the request of managers. The outcome of the reviews indicated that generally the overall adequacy and effectiveness of the system of internal control is satisfactory. Seven of the system reviews and ten of the schools received a 'limited' assurance rating, with the remaining reviews which were completed receiving 'substantial' assurance ratings. Eleven out of twelve key financial systems were assessed as having substantial assurance ratings, with one receiving an indicative rating of 'limited' assurance.

14.2 Internal Audit were satisfied with management responses in those areas which had received a 'limited' assurance rating. In addition, detailed monitoring was undertaken during 2011/12 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 2012, only one Priority 1 recommendation remained as 'partly implemented' but Internal Audit were satisfied with the alternative controls put in place to mitigate the risks while a permanent solution is implemented. The Corporate Committee monitored the implementation of all recommendations during 2011/12 and were satisfied with the responses from management on this area of follow up work.

14.3 A detailed report on the work of Internal Audit in 2011/12 is attached at Appendix A to this report.

### **15. Assurance on Corporate Governance arrangements**

15.1 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



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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. During 2011/12, preparation for the implementation of the Localism Act started and arrangements will continue during 2012/13.

15.2 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.

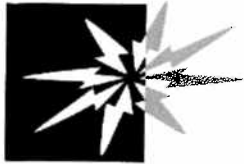
15.3 The annual assurance report should draw attention to any issues that the Head of Audit and Risk Management considers particularly relevant to the preparation of the council's Annual Governance Statement (AGS). CIPFA guidance dictates the form and basic content of the AGS and its approval and publication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

15.4 As part of the process to compile the AGS, all Directors and the Assistant Chief Executive 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/external audit recommendations.

15.5 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 the Assistant Chief Executive had been appropriately dealt with, or had been included in the AGS.

15.6 Corporate governance is effective in most areas across the Council. The main areas for action included within the 2010/11 AGS were addressed during the year, with additional work planned for 2012/13 to continue to improve governance arrangements. No significant governance issues were included in the draft 2011/12 AGS, although the Council has identified a number of key areas for continuing action during 2012/13 where preparation and planning had started during 2011/12.



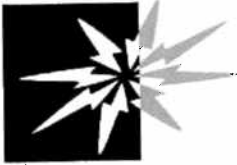
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## **16. Assurance on Risk Management Activities**

- 16.1 During 2011/12, the Council's corporate risk management strategy was reviewed and updated to reflect the progress made to date in embedding risk management. The updated risk management policy and strategy was approved by the Corporate Committee on 21 July 2011. 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 2011/12 the Council responded effectively to specific issues including the riots of August 2011.
- 16.2 Regular reports to the Chief Executive's Management Board and the Corporate Committee during 2011/12 by Internal Audit provided updates on the management of key business risks, including a review of the corporate risk register. 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.
- 16.3 Risk management is contained within all the key business and project management processes of the Council. This ensures that any resource implications are considered at the 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.

## **17. Assurance from External Inspections**

- 17.1 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.
- 17.2 The Annual Audit and Inspection letter issued by the Council's external auditors, Grant Thornton, for the year 2010/11 was reported to the Corporate Committee on 23 January 2012. The letter reported that the Council had received an unqualified opinion on its accounts which gave a true and fair view of the Council's affairs as at 31 March 2011. Grant Thornton also issued their annual Value for Money conclusion which confirmed that the Council made proper arrangements to secure economy



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efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

17.3 Grant Thornton also commented that the Council had appropriate arrangements in place for securing financial resilience over the medium term and effective arrangements to ensure future savings requirements were delivered. Grant Thornton highlighted some areas where the Council should continue to focus on, namely:

- The monitoring of its Medium Term Financial Plan delivery;
- Planning for future changes to financial reporting;
- Working closely with Alexandra Park & Palace to ensure accounts closedown timetables are aligned;
- Managing changes brought about by Localism Act, distribution of business rates, localisation of Council Tax benefits, and changes to the funding of the Housing Revenue Account; and
- Assessing the impact of the Olympics on the borough.

17.4 During 2011/12, the Corporate Committee also reviewed progress against the agreed action plan following the external audit review of the Council's arrangements for the personalisation of adult social care. No significant issues were reported.

## **18. Assurance on the Effectiveness of Internal Audit**

18.1 In May 2011, a peer review of the effectiveness of the Council's internal audit arrangements was completed by the London Borough of Camden. 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. No recommendations were made. The Head of Audit monitors compliance with the Code of Practice on an ongoing basis to ensure the Council's arrangements for internal audit are in accordance with recommended practice.

## **19. Qualifications to the Head of Audit Opinion**

19.1 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 2011/12

## 1. Summary of Internal Audit work

- 1.1 Internal Audit services for Haringey Council, 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 basically a 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 2011/12, 86 projects including schools and social services establishment visits, formed the annual audit plan which was approved by the Audit Committee on 19 April 2011. Resources to complete follow up work are also included in the annual audit plan. The results of the follow up reviews were reported separately to the Corporate Committee throughout 2011/12, although no individual reports were issued for the majority of this work.
- 1.4 In addition, requests for additional audit work were made during 2011/12 and a further 11 projects were completed. Including follow up work completed and resources to support work which did not result in a formal report, Deloitte delivered 84% of the planned audit programme by 31 March 2012, which is lower than the contract specification and the agreed local performance indicators which specify a 95% completion rate. However, the completion rate had risen to 94% by 30 April 2012.

1.5 One project (15 days) was deferred until April 2012 and three school audits (15 days) were cancelled following their conversion to academy status during 2011/12 and prior to the audit visit taking place. A summary of the outputs of the remaining project work completed by 31 March 2012 against the planned work is shown at Table 2 below. Of the 93 projects comprising the final audit programme of work for 2011/12, 80 had been completed to draft or final report stage by 31 March (86%). Thirteen projects were in progress as at 31 March and no draft reports had been issued for these by the year end.

**Table 2 – Planned project work vs. completion rates at 31 March 2012**

	Number of projects planned	Number of final reports issued	Number of draft reports issued	Work in Progress	% draft/ final complete
Key systems	12	8	1	3	75%
Other systems	48	35	3	10	79%
Schools	22	19	3	0	100%
Additional projects	11	11	0	0	100%
<b>Total</b>	<b>93</b>	<b>73</b>	<b>7</b>	<b>13</b>	<b>86%</b>

1.6 Internal Audit performs reviews of the Council's key financial systems on an annual basis. This work 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 in 2011/12 is shown in Table 3 below. For comparison purposes, the assurance levels for 2009/10 and 2010/11 are also included. Where the final report had not been issued by 31 March 2012, the indicative assurance level has been included in the table below for information.

**Table 3 – key systems assurance ratings**

Assurance level	2009/10	2010/11	2011/12
Full	1	2	0
Substantial	11	10	11
Limited	0	0	1
Nil	0	0	0
<b>Total</b>	<b>12</b>	<b>12</b>	<b>12</b>

1.8 All audit work is followed up to ensure the agreed recommendations have been implemented. The results of the follow up programme are reported separately to managers and members. 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, local performance indicators are reported to the Corporate

Committee on a quarterly basis. These are in line with current best practice targets across the public sector. Performance of the whole service for 2011/12 is shown 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 2011/12 was 3.6, on a scale where 1 is low and 5 is high.

**Table 4 – Local performance measures**

Performance Indicator	Actual	Target
Audit work – Days Completed vs. Planned programme	84%	95%
Priority 1 recommendations implemented at follow up	93%	95%
Benefit fraud cases completed and accepted for prosecution	45	50
Benefit overpayments recovered (including POCA and confiscation awards)	£265.8k	£250k

- 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 2011/12, 22 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 2009/10 and 2010/11 are included. The table below excludes investigations completed for Homes for Haringey. The 22 cases investigated were concluded within the 2011/12 financial year.

**Table 5 – Investigations by department**

Department	Investigations 2009/10	Investigations 2010/11	Investigations 2011/12
Chief Executive – P&OD	3	1	1
Corporate Resources	4	5	3
Children and Young People's Service	6	7	11
Adults & Housing Services	6	4	3
Place & Sustainability	5	3	4
<b>Total</b>	<b>24</b>	<b>20</b>	<b>22</b>

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. Regular articles are included in the Council's staff and corporate newsletters reminding everyone of the Council's expected standards of behaviour and how to report any concerns regarding fraud and corruption.

2.5 During 2011/12, a corporate anti-fraud resource was created within Audit and Risk Management to expand the work of the in-house team and enable additional counter-fraud work to take place. During 2011/12, the team focused on investigating tenancy fraud, with a project, which started in October 2011. Fraud awareness and training sessions were run with Council and Homes for Haringey staff and the Council's key Registered Providers were engaged to improve cross-sector working. Referral processes for suspected tenancy fraud were put in place and the corporate team received 108 referrals during 2011/12.

2.6 As a result of the referrals received in 2011/12, 11 Haringey properties, including two fraudulent tenancy succession applications, have been recovered and the keys returned, so the tenancies can be allocated to tenants in accordance with the Council's lettings policy. In addition, two Registered Providers' properties were also recovered. Advice on succession applications has been given in four cases and recommendations for further action have been made by the Corporate Anti-Fraud Team to the Tenancy Management Teams in nine further cases.

2.7 Investigations in 54 cases will be continued in 2012/13. No further action was taken in 28 cases which were referred to the team in 2011/12. Feedback on the outcomes of cases is provided on a regular basis to Council and Homes for Haringey staff to show the positive outcomes resulting from their referrals.

### **3. Housing Benefit Counter-fraud Work**

3.1 In total, during 2011/12, the Housing Benefit Fraud Investigation Team completed 45 prosecution cases, compared to 21 in 2010/11. In 2011/12, 33 cases were heard in court and all decisions made in favour of the Council. Of

the twelve cases outstanding, five have court dates already booked for 2012/13, one is awaiting a court date, four have outstanding Bench Warrants, and two cases are awaiting information from other agencies.

3.2 In 2010/11, the 45 prosecution cases identified a total of £783.4k in overpaid and fraudulent benefits, of which £265.8k (34%) has already been recovered and repayment plans are in place for the remaining amounts. The Housing Benefit Fraud Investigation Team secured a successful Proceeds of Crime recovery for one case (£39k in total, £4k Proceeds of Crime Act recovery). The team will be working with all Council departments and Legal Services to ensure that all options for recovery are considered when fraud has been proven.

