



**Haringey Council**

<b>Report for:</b>	Corporate Committee 27 June 2012	<b>Item number</b>	
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<b>Title:</b>	<b>Annual Internal Audit Report and Assurance Statement 2012/13</b>
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<b>Report authorised by :</b>	Director of Corporate Resources <i>J. Parker 12/6/13</i>
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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 2012/13 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 and Risk Management's annual audit report and assurance statement for 2012/13.



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#### 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 Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013, state:

- The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The annual report must incorporate:
  - the opinion;
  - a summary of the work that supports the opinion; and
  - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

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 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.

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.'*



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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 is part of the framework contract which was awarded to the London Borough of Croydon from 1 April 2012, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget.

6.2 The in-house Corporate Anti-Fraud Team and HB Fraud Investigation Team undertake investigations into financial irregularities and reactive and pro-active 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 Council's Head of Legal Services has been consulted in the preparation of this report, and advises that the Committee has the Constitutional power to adopt the recommendations sought.

7.2. The Head of Legal Services further 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, improving governance, internal controls and risk management practices, reducing the opportunity for fraud to take place in the first place and taking appropriate action to detect and



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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 2012/13**

**12. Basis of Assurance**

12.1 The Head of Audit and Risk Management's opinion is derived from work completed during 2012/13 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 2012/13 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. Due regard has been given to the requirements of the new PSIAS to ensure that these standards can be met from 1 April 2013.

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 2012/13**

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; the 2011 Accounts and Audit (Amendment) (England) Regulations; and the PSIAS. 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.

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 2013 accords with proper practice and is fundamentally sound. The opinion relates only to the systems and areas reviewed during the year



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and any details of significant control issues identified are included in the report.

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

- 14.1 During 2012/13, Internal Audit undertook 55 planned system reviews and 21 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. Six of the system reviews and 12 of the schools received a 'limited' assurance rating; one school received a 'nil' assurance rating; with the remaining reviews which were completed receiving 'substantial' or 'full' assurance ratings. Eleven out of twelve key financial systems were assessed as having substantial assurance ratings, with one receiving a 'full' assurance rating.
- 14.2 Internal Audit were satisfied with management responses in those areas which had received a 'limited' assurance rating and undertook prompt follow up work in some high risk cases to ensure that appropriate controls were in place and operating effectively.
- 14.3 In addition, detailed monitoring was undertaken during 2012/13 on all high priority (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 2013, three 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 2012/13 and were satisfied with the responses from management on this area of follow up work.
- 14.4 A detailed report on the work of Internal Audit in 2012/13 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 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 2012/13, the Council implemented the requirements of the Localism Act effectively and no challenges were made to its arrangements.



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). Its approval and publication with the authority's statement of accounts represents the end process of the annual review of internal control. During 2012/13, the increased incidence of limited and nil assurance ratings for schools was highlighted as an issue by the Head of Audit and Risk Management. In response to this, internal audit have begun a series of training and briefing sessions for school governors and clerk to governors, with planned workshop sessions for school staff and head teachers to address areas of control weakness.

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 previous year's (2011/12) AGS were addressed during the year. Three significant governance issues were included in the draft 2012/13 AGS and the Council has implemented action plans to address these areas.



**16. Assurance on Risk Management Activities**

- 16.1 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 2012/13 monitored the management of departments' highest risk areas.
- 16.2 Regular reports to the Directors Group and the Corporate Committee during 2012/13 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 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 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 2011/12 was reported to the Corporate Committee on 29 November 2012. The letter reported that although a higher than usual number of errors were found in the Council's draft accounts, the auditors were able to sign off the accounts by the statutory deadline; and the Council received an unqualified opinion on its accounts which gave a true and fair view of the Council's affairs as at 31 March 2012. Grant Thornton also issued their annual Value for Money conclusion which confirmed that the Council made proper arrangements to secure economy efficiency and effectiveness in its use of resources for the year ending 31 March 2012.
- 17.3 Grant Thornton also commented that the Council had appropriate arrangements in place for securing financial resilience over the medium



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term and effective arrangements to ensure future savings requirements were delivered.

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

- 18.1 In May 2012, a self assessment of the effectiveness of the Council's internal audit arrangements was completed by the Head of Audit and Risk Management. The self assessment used the CIPFA Code of Practice, and the Council's compliance with the standards required of it, as its basis and concluded that Haringey had complied with the Code of Practice and that Internal Audit arrangements were effective. The Head of Audit monitors compliance with the Code of Practice (now PSIAS) 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 2012/13

## 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 2012/13 76 projects, including schools, formed the annual audit plan which was approved by the Corporate Committee on 25 March 2012. 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 2012/13, 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 94% of the planned audit programme by 31 March 2013, which is slightly lower than the agreed performance indicator which specifies a 95% completion rate. However, the completion rate had risen above this target by 30 April 2013.

1.5 One project (10 days) was deferred until April 2013 and one school audit (5 days) was cancelled following their conversion to academy status during 2012/13 and prior to the audit visit taking place. A summary of the outputs of the remaining project work completed by 31 March 2013 against the planned work is shown at Table 2 below.

**Table 2 – Planned project work vs. completion rates at 31 March 2013**

	Number of projects planned	Number of final reports issued	Number of draft reports issued	Work in Progress	% draft/ final complete
Key systems	12	8	3	1	92%
Other systems	43	30	7	6	86%
Schools	21	16	4	1	95%
Additional projects	11	11	0	0	100%
<b>Total</b>	<b>87</b>	<b>65</b>	<b>14</b>	<b>8</b>	<b>90%</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 2012/13 is shown in Table 3 below. For comparison purposes, the assurance levels for 2010/11 and 2011/12 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	2010/11	2011/12	2012/13
Full	2	0	1
Substantial	10	11	11
Limited	0	1	0
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 2012/13 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 2012/13 was 3.8, on a scale where 1 is low and 5 is high.

**Table 4 – Local performance measures**

<b>Performance Indicator</b>	<b>Actual</b>	<b>Target</b>
Audit work – Days Completed vs. Planned programme	94%	95%
Priority 1 recommendations implemented at follow up	85%	95%
Benefit fraud cases completed and accepted for prosecution	35	30
Benefit overpayments recovered (including POCA and confiscation awards)	£67.2k	£150k

- 1.11 This level of audit coverage is satisfactory and complies with the 2006 CIPFA Code of Practice for Internal Audit (and the Public Sector Internal Audit Standards which came into effect on 12 April 2013).

## **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 2012/13, 18 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 18 cases investigated were concluded within the 2012/13 financial year.

**Table 5 – Investigations by department**

<b>Department</b>	<b>Investigations 2010/11</b>	<b>Investigations 2011/12</b>	<b>Investigations 2012/13</b>
Chief Executive	1	1	0
Corporate Resources	5	3	2
Children's Service	7	11	5
Adults & Housing Services	4	3	6
Place & Sustainability	3	4	5
<b>Total</b>	<b>20</b>	<b>22</b>	<b>18</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 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. 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 newsletters reminding everyone of the Council's expected standards of behaviour and how to report any concerns regarding fraud and corruption.

2.5 During 2012/13, the Corporate Anti-Fraud team continued their work on investigating tenancy fraud. 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 148 referrals during 2012/13.

2.6 As a result of the referrals received in 2012/13, 30 Haringey properties 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, seven Registered Providers' properties were also recovered.

2.7 Investigations in 57 cases will be continued in 2013/14. No further action was taken in 56 cases which were referred to the team in 2012/13. 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 2012/13, the Housing Benefit Fraud Investigation Team completed 35 prosecution cases. In 2011/12, 30 cases were heard in court and all decisions made in favour of the Council and three custodial sentences were handed down.

3.2 In 2012/11, the 35 prosecution cases identified a total of £747k in overpaid and fraudulent benefits, of which £67.2k has been recovered and repayment plans are in place for the remaining amounts. 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.

3.3 The Housing Benefit Investigation team has established an information sharing protocol and risk based process with the Housing Benefit processing and

housing teams to review cases where Right to Buy applications have been submitted and the applicants have housing and council tax benefit claims in payment. As a result of the review processes, 15 applicants have withdrawn from the process, 26 benefit claims have been suspended, and a notice to quit has been issued in one case during 2012/13. The teams will continue to work together to ensure benefit and right to buy processes are applied correctly. The value of this work was approximately £1m based on the discounts applied for by applicants.

#### **4. Looking Forward**

- 4.1 The Council underwent some significant organisational and staffing changes in 2012/13 and, as budget pressures continue, departments are continuing to seek ways of delivering services with reduced resources. In periods of change, there are risks that management and control processes will be reduced, avoided, or stopped which increase the opportunity for fraud.
- 4.2 Internal Audit operates a risk-based approach to its audit coverage and, as a result, focused their activity for 2013/14 on those areas where management or organisational change had already occurred, or was planned, in order to provide assurance to Directors that operational risks were being managed appropriately. Internal Audit will continue to work with Directors and service managers in 2013/14 where concerns are raised in order to address any potential breakdown in the control environment.
- 4.3 In addition, the Head of Audit and Risk Management is part of the risk and governance review group, reporting to the Chief Executive, which will focus on ensuring appropriate management responses to audit recommendations, identifying common themes in control assurance or weakness and highlighting any areas for future audit focus. This process should complement the existing assurance processes and assist in focusing audit resources on the highest risk areas.

