

**Audit Committee****On 26<sup>th</sup> June 2007**Report Title: **Annual audit report and assurance statement 2006/07**Report of: **Head of Audit & Risk Management**Wards(s) affected: **All**Report for: **Information****1. Purpose**

1.1 To inform Members of the overall adequacy and effectiveness of the system of internal control and risk management operating throughout 2006/07 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. Recommendations**

2.1 That the Audit Committee notes the content of the annual audit report and assurance statement for 2006/07.

2.2 That the annual audit report is referred to the next available full Council meeting for information.

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**3. Executive Summary**

3.1 Internal Audit has reviewed the effectiveness of the Council's systems of internal control for 2006/07 and has taken account of any relevant assurances obtained from other internal and external sources.

3.2 Overall, the Council's system of internal control is effective. Corporate governance is

effective with a locally approved Code. Budgetary control is effective, with no unexpected variances expected to be reported for 2006/07. Performance management is well established and monitored and there are appropriate action plans in place to address any areas of service provision which need improvement in order to meet the Council's own expectations for service delivery.

3.3 Improvements have been made to the overall performance management processes in place in order to evidence a cohesive approach to business planning and budget and performance management. Improvements in project management arrangements have been embedded during 2006/07 and ensure a robust framework for individual projects and a consistent corporate approach.

3.4 Internal controls are in place to maintain the highest levels of conduct by Council members, employees and external and partner organisations. The Council's anti-fraud and corruption policy and fraud response arrangements have proved effective in investigating allegations of financial and other irregularity.

3.5 Departmental arrangements for internal controls are generally effective. No internal audit reports have been issued with a 'no assurance' rating. Where reports have been issued with 'limited assurance', agreed action plans have been put in place and internal audit undertakes follow up reviews of all projects to ensure compliance. Effective actions have been taken in response to Internal Audit recommendations, or agreement has been reached with local management on an action plan to address any areas still outstanding.

#### **4. Reasons for any change in policy or for new policy development (if applicable)**

4.1 None

#### **5. Local Government (Access to Information) Act 1985**

5.1 List of background documents:

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

- Accounts and Audit Regulations 2003
- CIPFA Code of Practice for Internal Audit 2006
- CIPFA guidance on the statement on internal control

#### **6. Background**

6.1 One of the terms of reference for the Audit Committee is '*to receive the annual assurance report from the Director of Finance*'. In order to satisfy this requirement, 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 statement on internal control (SIC); 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.

6.2 The main issues raised as a result of Internal Audit activity during 2006/07 are included in this report, thereby providing an overview of the effectiveness of internal control across the Council.

6.3 The Accounts and Audit Regulations 2003, which came into effect on 1<sup>st</sup> April 2003, required 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.'

6.4 As part of the 2003 Regulations, the Council is required to review, at least annually, the effectiveness of its system of internal control and to include an annual statement on internal control within the Council's published accounts. This report fulfils the first part of these requirements and any issues which require inclusion in the Statement on Internal Control (SIC) will be highlighted.

6.5 Assurance on the adequacy and effectiveness of the council's internal control environment can be drawn from various internally produced reports. During 2006/07 this includes the quarterly Internal Audit progress reports, the regular budget and performance management reports, the risk management strategy and business unit, departmental and corporate risk registers and the SIC for the 2006/07 financial year. This report draws together the key elements from each of these sources to provide the overall opinion on internal control

## **7. Overall Audit Opinion**

7.1 Internal Audit's work for the 2006/07 year has been completed in accordance with the plan agreed by the Audit Committee. The plan was designed to ensure adequate coverage over the year of the Council's accounting and operational systems.

7.2 The Internal Audit work, using a risk based approach, included reviews of those systems, projects, and establishments sufficient to discharge the Director of Finance's responsibilities under s151 of the Local Government Act 1972; the CIPFA Code of Practice for Internal Audit and the 2003 Accounts and Audit Regulations. The opinion is based on the work undertaken. Work as planned and performed in order to obtain the information necessary to provide sufficient evidence to give reasonable assurance of the internal control systems tested.

7.3 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 internal controls in operation are effective. The opinion relates only to the systems and areas reviewed during the year.

## **8. Corporate Governance**

- 8.1 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 was developed to comply with the CIPFA/SOLACE recommended framework and guidance on corporate governance. These arrangements have been in place and operating effectively for a number of years and no issues of non-compliance were noted during 2006/07.
- 8.2 The Council's key priorities, which support the Community Strategy, are based on a wide-ranging and effective consultation programme to reflect the issues, concerns and aims of residents, local businesses and community groups. The Council's key priorities were reviewed and updated during 2006/07 to reflect the requirements of the Community Strategy going forward.
- 8.3 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.

## **9. Financial Management and Budgetary Control**

- 9.1 Financial management across the Council is effective, with corporate and other financial systems and controls operated by the Finance Department and with devolved financial arrangements operated within the service departments. The Council's Financial Procedure Rules and Standing Orders are supported by management and central controls which are designed to maintain effective management across all departments.
- 9.2 Council tax setting is well managed and in accordance with relevant statutory requirements. Overall financial standing is sound, having received a score of three out of four for the 'use of resources' block in 2006. The Council's accounting arrangements are effective overall, although some issues required further action as noted in the Audit Commission's Annual Opinion Report. An agreed action plan is in place to ensure that these are addressed.
- 9.3 Budgetary control across the Council has been maintained during 2006/07. The annual accounts are still in the process of being closed and finalised. Final outturn figures are available which show no unexpected variances have been raised or reported by any department to date during the closing of accounts processes.

## **10. Performance Management**

- 10.1 The Council's arrangements for performance management are well established and contribute to the achievement of the Council's aims and objectives. The key national and local indicators and targets, and individual performance against each of these are monitored and reported on a monthly basis via the Finance and Performance reports. Actions plans to address any areas not meeting the targets, or requiring corrective action to be taken, are in place and are also reported as part of the Finance and Performance reports. The CPA reported that nearly three quarters of the national indicators measuring the council's performance had been maintained or improved. The Council also uses a 'balanced scorecard' to report overall performance.

- 10.2 Improvements in the Council's arrangements for managing projects have been maintained during 2006/07. The Council's Project Management Office (PMO) provides administration support and an oversight role for all council projects, ensuring agreed guidelines and procedures are followed in a more consistent manner. In addition, Internal Audit provide resources as part of the annual audit plan to assist in providing assurance that individual projects are complying with procedures as well as providing advice and guidance on an ongoing basis.
- 10.3 Performance on a wide range of financial and non-financial issues is also regularly monitored within departments. This is done as part of regular Departmental Management Team meetings as well as the corporate budget management and review meetings and Finance and Performance reports.

## **11. Risk Management**

- 11.1 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 2006/07, regular reports to managers and members by Internal Audit provided updates on the management of key business risks. In addition, risk registers were maintained by business units and departments and updated in conjunction with Internal Audit.
- 11.2 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. Of the risk registers tested, no 'red' assurance ratings were given, 1 received 'green' assurance and 7 received 'amber' assurance. Based on the testing completed, the risks identified within business units were being managed appropriately.
- 11.3 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.
- 11.4 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. The Council's risk management arrangements are generally effective and work will continue to ensure that this area continues to improve.

## **12. Summary of Internal Audit work**

- 12.1 Internal Audit services, excluding the investigation 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.

12.2 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**

<b>Assurance Level</b>	<b>Definition</b>
Full Assurance	There is a sound system of control designed to achieve the system objectives.
Substantial Assurance	While there is a basically sound system, 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.

12.3 For 2006/07 a total of 70 projects, including schools and social services establishment visits, formed the 2006/07 annual audit plan. Resources to assist departments with risk management and project management arrangements were also delivered, although no reports are issued in these areas. In addition, requests for additional audit work were made during 2006/07 and a further 10 projects were completed. A summary of the work completed, by 31 March 2007, against the planned work is shown at Table 2 below. Including additional projects, a completion rate of 91% was achieved by 31 March 2007.

**Table 2 – Planned work vs. actual completion rates**

	<b>Number of projects planned</b>	<b>Number of final reports issued</b>	<b>Number of draft reports issued</b>	<b>%</b>
Key systems	15	11	2	87
Other systems	30	23	5	93
Establishments	2	2	0	100
Schools	23	14	6	87
Additional projects	0	10	0	100
<b>Total</b>	<b>70</b>	<b>60</b>	<b>13</b>	<b>90</b>

12.4 Internal Audit performs reviews of the Council's key systems on an annual basis. This is completed in agreement with the Audit Commission 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. The assurance levels provided for the key systems work is shown in Table 3 below (3 reports are still to be finalised for 2006/07). For comparison purposes, the assurance levels for 2005/06 are also included.

**Table 3 – key systems assurance ratings**

<b>Assurance level</b>	<b>2005/06</b>	<b>2006/07</b>
Full	0	1
Substantial	10	9
Limited	0	1
Nil	0	0
<b>Total</b>	<b>10</b>	<b>11</b>

- 12.5 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.
- 12.6 There are no national or Best Value performance indicators for internal audit work. However, we have been set two local performance indicators, which 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 2006/07 is recorded in Table 4 below.
- 12.7 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 18 customer evaluation questionnaires received during 2006/07 was 3.4, 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>
Audits completed against the planned programme (Deloitte)	90%	95%
User satisfaction [1 low to 5 high]	3.4	3.5

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

### **13. In-house team – fraud and irregularities**

- 13.1 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.
- 13.2 During 2006/07, a total of 31 investigations were completed involving Council employees. The allegations covered a number of issues including working whilst off sick and irregular use of leisure card facilities. Table 5 below summarises the investigations completed by department. For comparison purposes, figures for 2005/06 are included.

**Table 5 – Investigations by department**

<b>Department</b>	<b>Investigations Completed 2005/06</b>	<b>Investigations Completed 2006/07</b>
Chief Executive – OD	0	0
Chief Executive – Access	6	7
Chief Executive - Strategy	0	0
Finance	2	6
Children and Young People's Service	2	7
Housing Services	6	2
Social Services	1	4
Environmental Services	2	5
<b>Total</b>	<b>19</b>	<b>31</b>

13.3 The Council's anti-fraud and corruption arrangements are robust, with a clear strategy and detailed fraud response plan in place. 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.

13.4 Operational arrangements are supported by Codes of Conduct, the Employees Disciplinary Code and the Whistleblowing 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, by which members of the public can reports instances of suspected fraud or irregularity.

#### **14. Statement on Internal Control**

14.1 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 statement on internal control (SIC).

14.2 CIPFA guidance dictates the form and basic content of the SIC and its approval and publication with the authority's statement of accounts represents the end process of the annual review of internal control.

14.3 Internal control is effective in most areas within the council. The main areas for continuing action which need to be included within the SIC relate to:

- Further work will be undertaken to ensure that the business unit, departmental and corporate risk registers are monitored, reviewed and updated appropriately to take account of the re-shaped organisational structure.
- Partnership working has been identified as a key development area for the Council. The risk management programme will therefore encompass all key partnerships to ensure that these have been properly identified, appropriate risk assessments are produced and reviewed and that there are effective arrangements in place for risk sharing.



## **15. Other sources of assurance**

- 15.1 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.
- 15.2 In formulating the overall opinion on internal control, the Head of Audit and Risk Management took into account the work undertaken by other bodies and the assurances provided as follows:
- The external auditor's annual assessment for the Use of Resources, including financial standing, financial reporting, financial management and internal control;
  - The Comprehensive Performance Assessment (CPA) by the Audit Commission;
  - Directors' Management Statements of Assurance;
  - Office of Surveillance Commissioner's report on directed surveillance arrangements; and
  - Independent peer review of the effectiveness of Internal Audit.
- 15.3 The Audit Commission rated Haringey as a 'good' authority, and improving well, in the 2006 CPA.