



<b>Report for:</b>	Corporate Committee 26 June 2014	<b>Item number</b>	
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<b>Title:</b>	<b>Annual Internal Audit Report and Assurance Statement 2013/14</b>
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<b>Report authorised by :</b>	Assistant Director of Corporate Governance
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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 2013/14 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 2013/14.

### **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 mandatory 2013 Public Sector Internal Audit Standards (PSIAS) 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.'
- 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



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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 Mazars Public Sector Internal Audit 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 and HB Fraud Investigation Team undertake investigations into financial irregularities and reactive and pro-active counter-fraud work. The costs of the teams, along with all other costs to provide an internal audit service, are contained and managed within the Audit and Risk Management revenue budget. The cost savings and avoided expenditure benefits are accrued to the Council as a whole, rather than to the Audit and Risk Management service.

## **7. Comments of the Assistant Director, Corporate Governance and Legal Implications**

7.1 The Assistant Director, Corporate Governance has been consulted in the preparation of this report and in noting that the responses to the issues contained in the report all follow the law; Corporate procedures; industry best practice advises that there are no direct legal implications arising from 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, including the investigation of fraud. Improvements in managing risks and controls and reducing expenditure lost to fraudulent activities 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 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 2013/14

**12. Basis of Assurance**

12.1 The Head of Audit and Risk Management's opinion is derived from work completed during 2013/14 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 2013/14 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 the mandatory standards and good practice contained within the 2013 UK Public Sector Internal Audit Standards 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 2013/14**

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 2013 UK Public Sector Internal Audit Standards; 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 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 the following opinion: 'I have considered the work completed by the Council's internal audit service provider, Mazars Public sector Internal Audit Ltd, and the in-house counter-fraud investigation staff for the year ended 31 March 2014. This includes reviews of internal audit reports, fraud investigations and briefings to management. In my opinion, with the exception of those areas where limited or nil assurance reports have been issued, the controls in place in those areas reviewed are adequate and effective. Where weaknesses in controls have been identified within internal audit reports, agreement on actions to be taken has been reached with management and Internal Audit will undertake follow up reviews to confirm their implementation.'

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



14.1 During 2013/14, Internal Audit completed 60 planned system reviews and 19 school audit visits, plus an additional 3 reviews/system tests 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. Eight of the system reviews and nine of the schools received a 'limited' assurance rating; one school received a 'nil' assurance rating; with the remaining reviews which were completed receiving 'substantial' assurance ratings. All twelve key financial systems were assessed as having substantial assurance ratings.

14.2 Internal Audit were satisfied with management responses in those areas which had received a 'limited', or 'nil' assurance rating and undertook prompt follow up work in some high risk cases to ensure that appropriate controls were in place and operating effectively. Additional support and training was provided to schools during 2013/14 by internal audit in order to assist them to improve their systems and internal control processes.

14.3 In addition, detailed monitoring was undertaken during 2013/14 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 2014, all Priority 1 recommendations had been implemented. The Corporate Committee monitored the implementation of all recommendations during 2013/14 and were satisfied with the responses from management on those lower level recommendations which remained outstanding, or partly implemented.

14.4 A detailed report on the work of Internal Audit and the counter-fraud investigation activity in 2013/14 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 reviewed and updated in 2013/14 and approved by Full Council. The arrangements which support the Local Code of Corporate Governance have been in place and operating effectively for a number of years.

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.



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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 2013/14, the 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 delivered workshop sessions during 2013/14 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 Assistant Directors had been appropriately dealt with, or had been included in the AGS.

15.6 Corporate governance is effective in most areas across the Council. Three significant governance issues were included in the draft 2012/13 AGS and the action plans to address these areas were implemented. An action plan was developed to address key activities going forward into 2014/15 and was included in the AGS. This will be monitored during the year in order to ensure agreed actions are completed.

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

16.1 The Council's risk management strategy draws all key areas into a framework to ensure that the Council manages its risks in the most appropriate way. The Council's Risk and Emergency Planning Steering Group reviewed the Council's implementation of the risk management strategy during 2013/14 and monitored the management of service area and departmental high risks.



16.2 Regular reports to the Statutory Officers Group and the Corporate Committee during 2013/14 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 reviewed and updated are managed via the Covalent electronic system.

16.3 Risk management is contained within the key business and programme management processes of the Council. This ensures that any resource implications are considered at the planning stage. The Council's project management framework was reviewed and updated during 2013/14 and has risk identification and management included as part of its required monitoring and reporting processes, therefore allowing any key risks to the success of the project to be appropriately managed from the outset.

### **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 ended 31 March 2013 was reported to the Corporate Committee on 26 November 2013. The letter reported:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- an unqualified opinion on the council's Whole of Government Accounts submission

17.3 Grant Thornton also commented that the Council has proper arrangements in place for securing financial resilience; the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets.

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

18.1 In December 2013, 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 2013 UK Public Sector Internal



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Audit Standards, and the Council's compliance with the standards required of it, as its basis and concluded that Haringey had complied with the Standard. The Head of Audit monitors compliance with the PSIAS on an ongoing basis to ensure the Council's arrangements for internal audit are in accordance with recommended practice.

18.2 An independent peer review of the 2013/14 self assessment will be undertaken during June 2014 in accordance with the requirements of the PSIAS. The outcome of this and any recommendations and action plans, if appropriate, will be reported to a future meeting of the Corporate Committee.

### **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.