



Report for:	Corporate Committee 22 June 2015	Item number	
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Title:	Annual Internal Audit Report and Assurance Statement 2014/15
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Report authorised by :	Assistant Director of Corporate Governance
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Lead Officer:	Anne Woods, Head of Audit and Risk Management Tel: 020 8489 5973 Email: anne.woods@haringey.gov.uk
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Ward(s) affected: ALL	Report for: Information
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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 2014/15 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 2014/15.

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



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 awarded to the London Borough of Croydon and extended from 1 April 2015, 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 undertakes investigations into financial irregularities and reactive and pro-active counter-fraud work. The costs of the team, 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 of Corporate Governance has been consulted in the preparation of this report, and in noting that the internal audit work has been conducted in line with industry best practice, 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, 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 2014/15 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 2014/15 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 2014/15

- 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 2015. This includes reviews of internal audit reports, fraud investigations and briefings to management. In my opinion, with the exception of those areas where 'limited' assurance reports have been issued, the controls in place in those areas reviewed are adequate and effective. No 'nil' assurance reports were issued in 2014/15, an improved position from 2013/14. 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 2014/15, Internal Audit completed 47 planned system reviews; 13 school audit visits and 19 formal school follow up reviews; plus an additional five 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.

14.2 Seven of the system reviews and eight of the schools received a 'limited' assurance rating; with the remaining reviews which were completed receiving 'substantial' assurance ratings. One key financial system (accounts payable) was assessed as having limited assurance, nine systems receiving substantial assurance ratings and one receiving full assurance (pension fund investment).

14.3 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. Formal schools follow up audits found that 28 (48%) out of the 58 Priority 1 recommendations originally made remained outstanding at the time of the follow up visit. Additional support and training was provided to schools during 2014/15 by internal audit in order to assist them to improve their systems and internal control processes and outcomes were reported to the Schools Forum. The Director of Children's Services has also implemented an improvement process to ensure appropriate action is taken by schools to address identified control weaknesses.

14.4 In addition, detailed monitoring was undertaken during 2014/15 on all high priority (Priority 1) recommendations made for planned system reviews to ensure that appropriate action was undertaken to address the risks identified during the course of the original audit. As at the 31 March 2015, all Priority 1 recommendations had been implemented. The Corporate Committee monitored the implementation of all recommendations during 2014/15 and were satisfied with the responses from management on those lower level recommendations which remained outstanding, or partly implemented.

14.5 A detailed report on the work of Internal Audit and the counter-fraud investigation activity in 2014/15 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; no changes or updates were



required in 2014/15. 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.

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 2014/15, the incidence of limited 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 and briefing sessions during 2014/15 for governors, 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;
- Governance;
- Procurement and contract management;
- Information 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. Six significant governance issues were included in the 2013/14 AGS and the action plans to address these areas were implemented, with one carried forward as the due date had not been reached. An action plan was developed to address key activities going forward into 2015/16 and included in the 2014/15 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, Senior Leadership Team and the Corporate Committee during 2014/15 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 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 In May 2014, Haringey's Children's Service was subject to an unannounced Ofsted inspection which concluded on the 11 June 2014. The Ofsted report judged Haringey Children's Services to be comfortably within the 'Requires Improvement' grade and the report and recommendations have been approved by the Council. A number of key strengths were noted and 11 recommendations were provided, all of which have been accepted. The Improvement/ Action Plan was submitted to Ofsted in October 2014 and a 'Getting to Good' Board was established to monitor progress and set future quality and performance targets.
- 17.3 The Annual Audit and Inspection letter issued by the Council's external auditors, Grant Thornton, for the year ended 31 March 2014 was reported to the Corporate Committee on 25 November 2014. 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 2014 and its income and



expenditure for the year, adding that the Council deserves credit for significantly improving the quality of its statements since 2012;

- 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.

18. Assurance on the Effectiveness of Internal Audit

18.1 The mandatory 2013 UK Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and cover: Definition of Internal Auditing; Code of Ethics; and Standards for the Professional Practice of Internal Auditing. The PSIAS require that an external assessment of Internal Audit's compliance against the standards is carried out at least once every five years.

18.2 In London, the London Audit Group has arranged for a reciprocal peer review process to be completed by all Heads of Audit across London at no cost to individual authorities. As part of this arrangement Haringey Council's internal audit function was reviewed by the Head of Internal Audit at the London Borough of Brent in October 2014.

18.3 The outcome of the independent review was reported to the Corporate Committee on 25 November 2014. The review concluded that:

- The Council's internal audit service generally conforms to the requirements of the Public Sector Internal Audit Standards;
- It fully conforms in all but one area (reporting) within the three fundamental assessment areas (those which test compliance with the basic principles of audit work);
- It was only adjudged as not fully conforming due to the scores within the 'impact' section (which assesses the added value impact of the service); and
- To achieve fully conforming is a difficult benchmark due to the number of standards which need to be achieved and the degree of subjectivity attached to the impact assessment.

18.4 Three recommendations were made, which have all been implemented, or processes are in place to ensure compliance where the activity is ongoing..

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.