Haringey Council

Agenda item:

[No.]

| Audit Committee | On 24 June 2008 |

Report Title: **Annual Audit Report and Assurance Statement 2007/08**

Report of: **Head of Audit and Risk Management**

| Wards(s) affected: **All** | Report for: **Non-key decision** |

1. Purpose

1.1 To inform Members of the overall adequacy and effectiveness of the system of internal control and risk management operating throughout 2007/08 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 2007/08.

2.2 That the annual audit report and assurance statement is referred to the next available Full Council meeting for information.

Report Authorised by: **Chief Financial Officer**

Contact Officer: Anne Woods, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: anne.woods@haringey.gov.uk

3. Local Government (Access to Information) Act 1985

3.1 List of background documents:
   The following background documents were used in production of this report:
   - Accounts and Audit (amendment) (England) Regulations 2006.
   - CIPFA Code of Practice for Internal Audit 2006
   - CIPFA guidance on the Annual Governance Statement

4. Background

4.1 One of the terms of reference for the Audit 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.'

4.2 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.

4.3 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.

4.4 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.

4.5 The Accounts and Audit (Amendment) (England) Regulations 2006, which came into effect on 1st April 2006, 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 a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish.'

4.6 As part of the 2006 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.

5. Basis of assurance

5.1 The Head of Audit and Risk Management's opinion is derived from work completed during 2007/08 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.

5.2 The internal audit plan for 2007/08 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.

5.3 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.

5.4 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.

6. Overall Audit Opinion 2007/08

6.1 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 2006 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.

6.2 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 2008 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.

7. Assurance from the work of Internal Audit

7.1 During 2007/08, Internal Audit undertook 91 planned reviews, using a risk based approach. The outcome of the reviews indicated that generally the overall adequacy and effectiveness of the system of internal control is satisfactory.

7.2 Internal Audit were satisfied with management responses in those areas which had received a 'limited' assurance rating. In addition, detailed monitoring was undertaken during 2007/08 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 2008, 92% of all Priority 1 recommendations had been fully addressed and action was being taken to address the remaining 8%. Internal Audit were satisfied with the responses from management on this area of follow up work.

7.3 A detailed report on the work of Internal Audit is attached at Appendix A to this report.

8. Assurance on 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 has been developed to comply with the CIPFA/SOLACE recommended framework and guidance on corporate governance. The council's draft Local Code of Corporate Governance, which codifies the council's governance arrangements, was reported to the Audit Committee in May 2008. The arrangements which support the Local Code of Corporate Governance have been in place and operating effectively for a number of years.

8.2 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.

8.3 A review of the council's Corporate Governance arrangements was completed as part of the 2007/08 annual audit programme. The council's arrangements were measured against the requirements of the CIPFA/SOLACE guidelines. Although the report has not yet been finalised, no fundamental risks were identified during the review and the initial feedback has been that a substantial assurance rating will be provided. The detailed findings will be reported to the Audit Committee in due course.

8.4 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.

8.5 As part of the process to compile the AGS, all Directors and Assistant Chief Executives 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 audit recommendations.

8.6 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 Chief Executives had been appropriately dealt with, or had been included in the AGS.

8.7 Corporate governance is effective in most areas within the council. The main areas for continuing action were included within the AGS relate to:
- Embedding partnership governance arrangements;
- Embedding the Local Code of Corporate Governance across the Council and providing corporate governance assurances to officers and members;
- Improving corporate data management systems and procedures; and
- Fully embedding the revised corporate Management of Risk Strategy.

9. Assurance on Risk Management

9.1 A substantial amount of work has been undertaken to implement and further embed risk management arrangements throughout the organisation an in key business processes. During 2007/08, the council's corporate risk management strategy was reviewed and updated to reflect the progress made to date in embedding risk management. The revised 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.

9.2 Regular reports to managers and members during 2007/08 by Internal Audit provided updates on the management of key business risks. Risk registers and the processes to keep these updated are fully embedded at business unit, departmental and corporate levels.

9.3 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. Based on the testing completed, where no risk registers were assessed as providing 'limited', or 'no' assurance, the risks identified within business units were being managed appropriately.

9.4 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.

9.5 Training on risk management was provided to managers and members during 2007/08 by Internal Audit. In addition, Internal Audit worked with the Supporting People team to deliver training on risk management to the external providers of services. As a result, key service delivery partners have developed risk registers which are based on the council's framework and are aligned to the council's service delivery objectives.

9.6 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.

10. Assurance from External Inspections

10.1 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 inspections.

10.2 In 2007/08 the Audit Commission completed their annual assessment for the Use of Resources, including financial standing, financial reporting, financial management and internal control. Their conclusion was that the council had maintained its position in four of the five themes and has arrangements in place around Financial Management, Financial Standing, Internal Control and Value for Money that are performing well. a number of improvement opportunities were highlighted and an action plan was put in place to ensure that these are being addressed.

10.3 The Audit Commission's Annual Audit and Inspection letter concluded that the council is improving well and has been assessed as a three-star authority under the Comprehensive Performance Assessment (CPA) framework.

10.4 During 2007/08, the Housing Benefits Security arrangements were inspected by the Benefits Fraud Inspectorate (BFI). Six high priority recommendations were raised and a further 14 lower priority recommendations were made. A response plan was agreed and reported to the Audit Committee in January 2008, which highlighted the fact that all high priority recommendations had been addressed by management.

10.5 The Interception of Communications Commissioners Office (ICCO) also inspected the council's policies and procedures relating to Part 1, Chapter 2 of the Regulation of Investigatory Powers Act 2000 (RIPA). The ICCO concluded that the council's arrangements were lawful and in accordance with the regulations. A number of recommendations were made to further improve processes, and these were reported to the Audit Committee, together with the agreed action plan to address the recommendations, all of which have been completed.

11. Assurance on the Effectiveness of Internal Audit

11.1 In April 2008, a review of the effectiveness of the council's internal audit arrangements in place during 2007/08 was completed by the Royal Borough of Kensington and Chelsea. 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. The full report, including areas for improvement and the resulting action plan to address these, was submitted to the Audit Committee for approval.

12. Qualifications to the Head of Audit Opinion

12.1 Internal Audit has unrestricted access to all areas 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 2007/08

1. Summary of Internal Audit work

1.1 Internal Audit services, 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 prioritsing 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 a basically 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 2007/08 a total of 81 projects, including schools and social services establishment visits, formed the 2007/08 annual audit plan. Resources to assist departments with the development and implementation of risk management and project management arrangements were also delivered, although no reports are issued in these areas.

1.4 In addition, requests for additional audit work were made during 2007/08 and a further ten projects were completed. A summary of the work completed, by 31 March 2008, against the planned work is shown at Table 2 below. Including additional projects, a completion rate of 83% (based on final reports issued) was achieved by 31 March 2008.

Table 2 – Planned work vs. actual completion rates

	Number of projects planned	Number of final reports issued	Number of draft reports issued	%
Key systems	12	8	4	67
Other systems	39	29	10	74
Establishments	4	4	0	100
Schools	26	24	2	92
Additional projects	10	10	0	100
Total	**91**	**75**	**16**	**83**

1.5 Internal Audit performs reviews of the Council's key systems on an annual basis. This is completed in agreement with the council's external auditors (for 2007/08 this was 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.

1.6 The assurance levels provided for the key systems work is shown in Table 3 below. Four reports are still to be finalised for 2007/08, However, based on the findings of the draft reports, all are expected to be given a 'substantial' assurance rating. For comparison purposes, the assurance levels for 2005/06 and 2006/07 are also included.

Table 3 – key systems assurance ratings

Assurance level	2005/06	2006/07	2007/08
Full	0	1	1
Substantial	11	10	7
Limited	1	1	0
Nil	0	0	0
Total	**12**	**12**	**8**

1.7 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.

1.8 There are no national or Best Value performance indicators for internal audit work. However, three local performance indicators 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 2007/08 is recorded in Table 4 below.

1.9 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 26 customer evaluation questionnaires received during 2007/08 was 3.25, on a scale where 1 is low and 5 is high.

Table 4 – Local performance measures

Performance indicator	Actual	Target
Audits completed against the planned programme (Deloitte)	83%	95%
Time taken to complete investigations by in-house staff (2007/08 referrals)	13.4 weeks	12 weeks
User satisfaction (1 low, to 5 high)	3.25	3.75

1.10 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 2007/08, a total of 25 investigations were completed involving Council employees. The allegations covered a number of issues including misuse of blue badges, working whilst off sick and council tax and housing benefit fraud. Table 5 below summarises the investigations completed by department.

2.3 For comparison purposes, figures for 2005/06 and 2006/07 are included. Cases from previous years have been included in the current organisational structure, e.g. Library Services investigations are now included within ACCS. The table below excludes investigations completed for Homes for Haringey. Of the 26 cases investigated, 23 were concluded within the 2007/08 financial year and 3 were carried forward into 2008/09.

Table 5 – Investigations by department

Department	Investigations Completed 2005/06	Investigations Completed 2006/07	Investigations Completed 2007/08
Chief Executive – POD	0	0	0
Chief Executive – PPPC	1	3	0
Corporate Resources	4	9	4
Children and Young People's Service	2	7	7
Adults, Culture and Community Services	4	5	6
Urban Environment	8	7	8
Total	**19**	**31**	**26**

2.4 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.

2.5   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, by which members of the public can reports instances of suspected fraud or irregularity.

2.6   During 2007/08, 54 referrals were made via the council's email reporting facility. Of these, 20 were not fraud related and were referred on to the relevant department in order for the issue to be dealt with; 17 were in relation to housing benefit/council tax issues; 7 related to planning and enforcement issues; 4 related to Right-to-Buy processes and discounts; 2 related to school admissions issues; 2 related to the award of grants; 1 related to housing application processes and 1 related to an individual's identity.