

PART 1 - PUBLIC

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**Decision Maker:**      **Audit Sub-Committee Committee**

**Date:**                      **10<sup>th</sup> June 2010**

**Decision Type:**      Non-Urgent                      Non-Executive                      Non-Key

**Title:**                      **INTERNAL AUDIT ANNUAL REPORT 2009-10**

**Contact Officer:**      Mark Gibson, Assistant Director of Resources  
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**Chief Officer:**              Paul Dale, Director of Resources

**Ward:**                      Borough wide

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1.      Reason for report

1.1 The annual report is for Member information and is also intended to assist the Council in meeting the accountability requirements of the Accounts and Audit Regulations. Part of the overall arrangements require the Chief Executive and the Leader to sign an annual governance statement. This will be put before Members as part of the statutory accounts and is attached to the progress report on this agenda. Included in this report are highlights of the performance of the Internal Audit function, a summary of the audits undertaken and an opinion on the overall adequacy and effectiveness of the organisation's internal control environment based on this work. Members should note that the Annual Schools Report and the fraud reports are considered by the Audit Sub-Committee separately.

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2.      **RECOMMENDATION(S)**

2.1      **Members are asked to note the report.**

### Corporate Policy

1. Policy Status: Existing policy.
  2. BBB Priority: Excellent Council.
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### Financial

1. Cost of proposal: N/A
  2. Ongoing costs: N/A.
  3. Budget head/performance centre: Internal Audit
  4. Total current budget for this head: £587,520 excluding the benefit fraud partnership costs but subject to reduction.
  5. Source of funding: Existing budgets
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### Staff

1. Number of staff (current and additional): 10
  2. If from existing staff resources, number of staff hours: circa 2000 days
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### Legal

1. Legal Requirement: Statutory requirement. Accounts and Audit regulations 2006
  2. Call-in: Call-in is not applicable. This report does not require an executive decision.
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### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Potentially all staff
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### Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

### 3. COMMENTARY

- 3.1 The annual report is for Member information and is also intended to assist the Council in meeting the accountability requirements of the Accounts and Audit Regulations. Part of the overall arrangements require the Chief Executive and the Leader to sign an annual governance statement. This will be put before Members as part of the statutory accounts. Included in this report are highlights of the performance and achievements of the Internal Audit function, a summary of the audits undertaken and an opinion on the overall adequacy and effectiveness of the organisation's internal control environment based on this work.
- 3.2 Internal Audit's main objective remains as ' assisting management and Members in minimising risks, maintaining high standards and continuously improving service delivery through independent appraisal, review and advice.' We aim to do this by;
- **independently reviewing** and appraising systems of control throughout the Authority
  - ascertaining the **extent of compliance** with procedures, policies, regulations and legislation
  - **providing assurance** to management and Members that the areas subject to review are performing adequately and any control weaknesses are identified and rectified.
  - facilitating good practice in **managing risks**
  - **working in partnership** with the external auditors and other external providers
  - **identifying fraud** as a consequence of the reviews and **deterring crime**.
- 3.3 A key aspect of all reviews is looking at the controls in place and making an assessment of these and the associated risks if these controls are not in place or are not being fully followed. Essentially the controls and actions ensure that the processing procedures operate in an orderly and efficient manner, statutory and management requirements are complied with, assets are safeguarded, completeness and accuracy of records are secured and identified weaknesses are corrected when something has gone wrong. There is always the intention to consider the balance of controls against the cost of implementation and where the controls are regarded as over burdensome this will be acknowledged.

#### Performance

- 3.4 As a recap the purpose of the Internal Audit Plan was to:
- Optimise the use of audit resources available, given that these are limited
  - Identify the key risks facing the Council to achieving its objectives and determine the corresponding level of audit resources
  - Ensure effective audit coverage and a mechanism to provide Members, and senior managers with an overall opinion on the auditable areas and the overall control environment
  - Add value and support senior management in providing effective control and identifying opportunities for improvement
  - Supporting the Director of Resources in fulfilling obligations as the Council's nominated Section 151 Officer
  - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations.
- 3.5 Internal Audit seeks to satisfy our customers through our business processes which make sure we have set challenging targets and standards for all audit staff through agreed objectives. We

review and appraise the achievement of these objectives throughout the year. The document used for measurement of our audit service is the improvement, efficiency and effectiveness plan. Within this plan for each objective that is set we then present what we will do, how we will do it and who will monitor this. The overriding theme is the annual audit planning and work programme agreed each year. This plan will be subject to adjustment for unexpected levels of unplanned activity or shortfall in resources.

- 3.6 Internal Audit work and outputs have been reviewed by External Audit who were able to conclude that Internal Audit were providing a satisfactory service and were able to place reliance on our work. In addition the use of resources assessment including specific areas relating to internal audit work and influence was marked three out four which helped to contribute to the overall assessment for use of resources.
- 3.7 Internal Audit have completed the high risk audit reviews scheduled in 2009-10 and received positive feedback from the client departments with an overall average of over 4.2 out of 5 for the audit satisfaction surveys. Overall 81% of the plan was completed against the annual performance indicator requirement of 90%. The main reason for this was the level of unplanned absences including sickness as well as the secondment of an audit manager.
- 3.8 In addition, 90% of the audits were completed within the allocated budgeted time allowed against a performance indicator requirement of 90%.
- 3.9 Unfortunately the performance indicator requiring 95% of audits to be completed within two months of commencement of fieldwork fell short of target running at 83%. Mitigating circumstances include vacancies, awaiting information from clients, extending the original scope where there are major audit findings and auditors being asked to carry out ad hoc work including investigations. However, this indicator is kept under close scrutiny as it is acknowledged that where there are major weaknesses identified it is imperative that corrective management action is both agreed and implemented within a tight timescale.

#### Highlight Achievements in 2009/10

**Risk Management** – This is an ongoing exercise where we have continued to lead and coordinate the Council's risk management approach and provided ongoing training. The risk registers play a key part in the Annual governance process both corporate and departmental risk registers are maintained. The risks are regularly reported through to the Audit sub committee and the corporate risks now feature in the main Are we on Track report.

**Customer Service** – We have received good customer feedback achieving an average score of 4.2 out of 5 in our audit surveys. We are the accredited body to undertake reviews of the Financial Management Standards in Schools(FMSiS) standards and have undertaken assessments for all the required schools. A key part of the audit planning process is consultation with senior officers.

**Shared Service** – the partnership with L B Greenwich for benefit fraud has continued to be highly effective both prosecuting and acting as a deterrent to public sector fraud. In addition the partnership has been extended at no extra cost to include corporate anti fraud work.

**Partnership Working** – we continue to achieve closer links with other local authorities and public bodies to ensure our ability to work collaboratively. We also work with the London Audit Group and Kent audit Group on developmental and training activities and have productive working relationships with the external auditor which reduces the audit fee as they are able to place reliance on our work.

**Audit Team Performance** – we achieved the required external audit standard undertook all high risk audit reviews and achieved a score of 3 out of 4 against the use of resources remit of internal control, risk management and probity. Monitored the main audit indicators which are substantially met. In addition we were successful peer reviewed as complying with the cipfa code of practice for internal audit

### Benefits Delivered

**Effective Control** – our work continues to be instrumental in ensuring the Council has high standards of control and probity.

**Economies of Scale** – the partnership with Greenwich and computer audit service provided by Deloitte continued to ensure the service secures access to specialist resources at competitive rates and brings in income to the council in penalties and fines received

**Risk Management** – the Council has a robust framework for identification and management of risks, reducing likelihood of failure of service delivery.

**Recommendations for Improvement**-Agreed actions for improvement recognised and implemented. All priority one recommendations are reported to Members and followed up.

**Advice**- professional advice is given on new initiatives and ways of working. We have installed the new financial regulations and procedures as part of the managers toolkit, undertaken training and awareness courses and had the Code of Corporate Governance adopted by the Council.

**Assurances**-assurance provided to management by internal audit reviews. We also play a lead role in producing and coordinating the statutory Annual Governance statement.

**Efficiencies**- our review activity enables us to offer advice to managers regarding opportunities to improve efficiency, examples include, data matching opportunities, identifying overpayments, identifying duplication and potential for better use of technology

**Audit Efficiency** – we will continue to streamline our own processes, for example, though exploitation of the onebromley intranet, continue to use electronic working papers and use the functionality of the integrated database capturing audit and risk issues

### 3.10 Additionally, some notable achievements are as follows

- Audit planning has been aligned to the corporate and departmental risk register.
- Procedure for priority ones agreed at Audit Sub-Committee in June 2009. Greater emphasis to implement these recommendations.
- Peer review with Bexley and Brighton and Hove –substantial assurance given with minor recommendations. Results reported to Audit Sub-Committee in June 2009.
- Schools Financial Regulations have been updated, approved by Audit Sub-Committee in December 2009 and effective from April 2010. Offering schools greater clarity in some areas such as contract letting and use of purchase cards.
- List of waivers from tendering for contracts have been reported to Audit Sub-Committee in December 2009.
- Internal Audit were benchmarked against other authorities and came out favourably – results reported to Audit Sub-Committee in September 2009.
- Audit Manual being revised and updated.
- Raising Concerns (Whistle Blowing) annual report did not raise any major concerns.
- Assurance framework for producing Annual Governance Statement well established. Significant governance issues reported to Audit-Sub Committee.

3.11 Internal audit has provided 1,379 audit days (1,732days for 2008-9) to the departments through reviews and financial support and advice. As well as mainstream audit activity internal audit has spent time on investigating fraud and irregularities, managing the fraud partnership, giving advice and guidance, development of regulations and codes of practice, attendance at departmental and corporate working groups, representing the Council at external meetings and leading and participating in data matching exercises including the National Fraud Initiative.

**Summary of Audit Days provided to the departments.**

	<b>2009-10</b>	<b>2008-9</b>
<b>Departments</b>	<b>Audit days</b>	<b>Audit days</b>
Corporate Services	493	520
Children and Young People	498	659
Adult and Community services	241	348
Environment	97	115
Recreation and Renewal	50	90
	1,379	1,732

The reduced number of days coverage is due to vacancies and secondments

- 3.12 It is important to note that all audits arising from the approved plan result in a formal report to management. Each audit has an agreed terms of reference and is conducted according to the CIPFA audit code of practice and Bromley's standard audit documentation guidance. All final reports are agreed with the client prior to release and are followed up systematically. In addition, all final reports include an assessment of the risk of any control weakness identified.
- 3.13 Throughout the year Internal Audit have reported all priority one recommendations i.e. those that are significant and require urgent management attention. These reports are contained in the respective progress reports. The reason for the specific summary reports to Members are that all of these reports contain a recommendation which Internal Audit believe to be a risk to the service, system, function or establishment which needs to be addressed. The level of priority ones and the nature of any fundamental areas of weakness will determine the overall opinion given.
- 3.14 As a result of the Internal Audit work and in consultation with management, auditors form an overall opinion on the extent that actual controls in existence provide reasonable assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance is rare regarding internal control systems, because no matter how sophisticated they are, it will not be possible to prevent or detect all errors or irregularities. The opinions given are graded accordingly in the table below.

<b>Assurance Level</b>	<b>Definition</b>
Full Assurance	There is a sound system of control designed to achieve all the objectives tested.
Substantial Assurance	While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.
Limited Assurance	Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.
No Assurance	Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.

3.15 In any case where Internal Audit have been able to provide no assurance or there has been a significant number of priority one recommendations, based on the review and testing undertaken, a full management response has been presented at the Audit Sub Committee. In addition responsible officers are called to account for the reasons for the weaknesses and giving Members assurance of their management actions agreed with Internal Audit. These actions are then followed up and reported within a six month timescale. On other audits reviews with less material weaknesses but those still requiring urgent management action it has been agreed that responsible officers will be required to attend the meetings where satisfactory action has not been taken.

3.16 The table below lists the reports requiring special attention and reported to Members throughout the year. In addition a brief update has been included.

**Reports including Priority one recommendations reported to Audit Sub during 2009-10**

Title	Dept	No of Priority One's	Outcome
Review of Transportation Strategy	ENV	1 –Part 2 of agenda	Recommendation agreed. Project team no longer employed at LBB, procedures to procure services have been tightened.
Review of Fostering	CYP	1	Accepted by Management for immediate implementation. To be followed up as part of 2010/11 planned audit.
Review of Transition Team	ACS	1	Case assessments found to have incomplete supporting documentation and referrals from other teams. This audit is to be followed up in 2010/11.
Domiciliary Care Service	ACS & RD	1	Statements of care charges were found to be issued late and in some instances were incorrect. A follow-up review found that statements are now sent out monthly. Now completed.
Extended Schools	CYP	1	Recommendation agreed. Further work has now demonstrated how funding is allocated.
Town Centre Management	R&R	2	Christmas Lights tendering for 2010/11 onwards implemented. Updating of procedures due to be reviewed in 2010/11 audit when new structure is in place.
Council Tax	RD	1	Found to be partially implemented at 2009/10 audit, resulting in a partial re-recommendation being made which was reduced to a Priority 2. This related to recovery procedures.
Creditors	RD	2	Additional controls implemented to reduce and identify/recover duplicate payments have been implemented, a number were still found by internal audit on review, re-recommendation made but reduced to priority 2.

			Controls regarding authorisation of manual payments have been strengthened. Both implemented.
Debtors	RD	1	Recommendation agreed, the collection procedures have been produced but there are still ongoing recovery issues.
Direct Payments	ACS/CYP/RD	1	Recommendations relating to financial monitoring information in respect of clients as well as administrative arrangements agreed and to be followed up in 2010/11.
Learning Disabilities	ACS	1	Missing care files issue, now addressed by new file management system.
Early Years	CYP	2	Overpayment now recovered and other overpayments identified. Strengthened review process instigated. Poor financial controls and lack of procedures identified have been addressed.
Cash & Banking	RD	1	Petty Cash issues encountered in reconciliations. This has now been rectified.
Telephony	RD	1	Draft mobile phone policy in place.
Parking	ESD	1	Reconciliations not complete or performed regularly however management now being taken for more regular reconciliations.

3.17 A listing of completed audits is given in appendix one. The opinion details are given for each audit. Recommendations have been made in all reports and these are normally categorised as areas requiring immediate management attention as priority one, those that do not represent good practice as a priority two or finally suggestions for improvement at a priority three.

3.18 The summary of audit work undertaken resulted in 90 final reports excluding schools work. Of these 43 were classified with full or substantial assurance, 21 were follow ups to existing reports and 23 limited assurances were given with no nil assurances issued in the year. There were also 3 specific investigations reports. Overall 429 improvement recommendations have been made in the year. By comparison last year 46 reports were classified with full or substantial assurance, 24 limited assurances were given and 23 were follow ups to existing reports, however there was one nil assurance. In total there were 518 recommendations made last year.

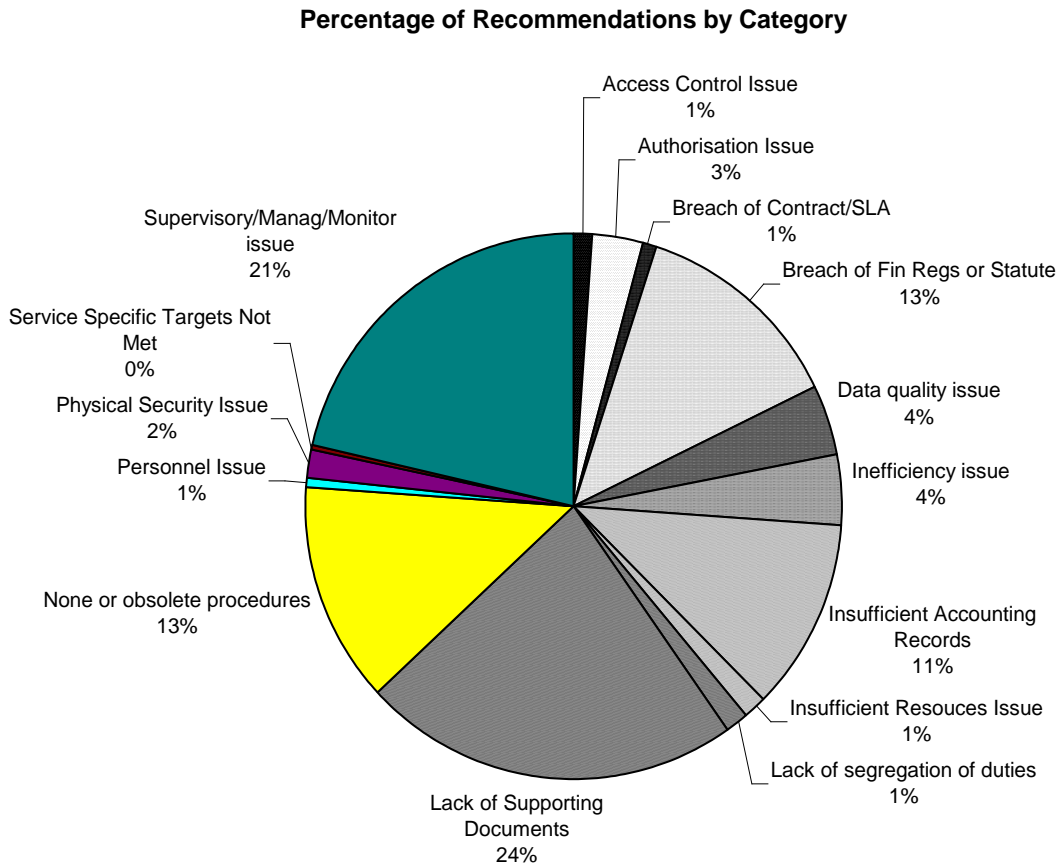
3.19 Typical control issues highlighted in the audit reports fall under the following broad categories;

- Organisational – the controls that provide the framework under which the system of other controls can operate effectively and efficiently.
- Financial – the system of controls that ensures the accuracy and adequacy of financial records and also safeguards the organisation against possible financial loss due to fraud or error.



- Operational – the system of controls that ensures the efficiency and effectiveness of operations, ensures the organisation’s objectives are met (and services delivered) and also safeguards the organisation against any reputational damage or other loss.
- Compliance controls – the system of controls that ensure that the organisation complies with all relevant legislation, best practice guidance and internal policies with respect to the conduct of the business.

3.20 These control issues led to recommendations that were broadly categorised as follows;



<b>Recommendation Category</b>	<b>% of all recommendations</b>
Access Control Issue	1%
Authorisation Issue	3%
Breach of Contract/SLA	1%
<b>Breach of Financial Regulations or Procedures</b>	13%
Data quality issue	4%
Inefficiency issue	4%
Insufficient Accounting Records	11%
Insufficient Resources Issue	1%
Lack of segregation of duties	1%
<b>Lack of Supporting Documents</b>	24%
<b>None or obsolete procedures</b>	13%
Personnel Issue	1%
Physical Security Issue	2%
<b>Supervisory/Monitor issue</b>	21%

- 3.21 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 which is designed to identify and prioritise the risks to the achievement of Bromley's policies, aims and objectives. It also evaluates the likelihood of those risks being realised and the impact should they be realised as well as managing them efficiently, effectively and economically. The categorisation of recommendations into the above groups is a new feature. The results of the first year demonstrate that the top four headings are lack of evidence, procedures and supervisory issues and breaches of the regulations or procedures. The severity of each of these needs to be seen in the context of whether it was a priority one, two or three recommendation or not but it does give a broad picture of where improvements can be made.
- 3.22 The scope of internal control spans the whole range of the Council's activities, encompassing policies, processes, tasks, behaviours and other aspects of the organisation. It is the means devised by management to promote, direct, restrain and check upon its various activities to ensure the Council is competently managed and its business is undertaken in an orderly manner in accordance with its objectives and policies.
- 3.23 A report on the action plan on continued compliance with the code of internal audit conduct is also attached to this report following the peer review undertaken see Appendix 2.
- 3.24 Each Chief Officer reviews the effectiveness of the system of internal control and risk management processes based on a list of key controls expected to be in place. Where measures are required to enhance the adequacy of existing internal controls actions are agreed. Because of the emphasis on risk within this process the individual departmental statements have been co-ordinated by the Risk Management Group.
- 3.25 In conclusion, my overall opinion on the control environment based on the internal testing and reviews undertaken is that I am able to place overall reliance on the internal controls identified and where there have been significant issues highlighted provide assurance that corrective management action has been or will be taken to mitigate the risks. I can confirm that action plans have been agreed for all areas of identified weakness and Internal Audit will continue to apply close scrutiny to ensure that all priority control weaknesses are addressed by management. This assurance process constitutes part of the Annual Governance Statement which is attached to this report.
- 3.26 In summary the process used for determining the annual governance statement follows proper practice as guided by CIPFA and is a combination of assurances derived from;
- The adequacy and effectiveness of the management review processes
  - Outcomes from the formal risk assessment and evaluation ( risk register)
  - Relevant self-assessments of key service areas within the directorate
  - Relevant internal audit reports and results of follow ups regarding implementation of recommendations
  - Outcomes from reviews of services by other bodies including Inspectorates, external auditors etc.

## **4 LEGAL IMPLICATIONS**

Internal Audit is a statutory function under the requirements of the Accounts and Audit Regulations.

<b>Non-Applicable Sections:</b>	Policy/Finance/Personnel
Background Documents: (Access via Contact Officer)	Audit Sub-Committee reports