



AUDIT AND PENSIONS COMMITTEE

15 March 2012

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

**Internal Audit Quarterly report for the
period 1 October to 31 December 2011**

This report summarises internal audit activity in respect of audit reports issued during the period to 31 December 2011, as well as reporting on the performance of the Internal Audit service.

**WARDS
All**

RECOMMENDATION:

To note the contents of this report

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1 Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 October to 31 December 2011 as well as reporting on the performance of the Internal Audit service.
- 1.2 In order to minimise the volume of paperwork being sent to Committee members, the appendices detailing outstanding recommendations and reports, as well as the full text of all limited or nil assurance reports have not been appended to this report. However, the information which would have been contained in these appendices has been made available to all members separately.

2 Internal Audit Coverage

- 2.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner
- 2.2 A total of 12 audit reports were finalised in the third quarter of 2011/2012 (see **Appendix A**). In addition 1 management letter and 2 follow up reports were issued.
- 2.3 In addition to follow-up audits of limited and nil assurance reports, Internal Audit also seeks to verify the implementation of all other priority 1 recommendations. In the quarter ended 31 December 2011, 9 recommendations were reviewed. 8 were found to have been fully implemented whilst the remaining one was found to have been partly implemented.
- 2.4 Two audit reports issued in this period received limited assurance. All 8 of the recommendations made in the report on *Client Affairs – Property Protection* and all 5 made in the report on *Direct Payments – Use of Funds* have now been reported as fully implemented. Follow-up audits will now be scheduled. Full copies of both these reports have been made available to members.
- 2.5 The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.
- 2.6 Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. We are very pleased to be able to report that there are no outstanding reports as at 31 December 2011.

- 2.7 We are also delighted to be able to report that there are no audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and it has either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to the 20 reported as outstanding at the end of the previous quarter.
- 2.8 Internal Audit are now focussing on a more proactive approach of assisting departments and HFBP to concentrate on forthcoming recommendations in order to maintain the current excellent position.
- 2.9 As part of the tri-borough programme some department names have been amended whilst their areas of responsibility have remained broadly similar. The changes are as follows: -
- ◆ Community Services has become *Adult Social Care*
 - ◆ Environment Services has become *Transport and Technical Services*
 - ◆ Finance & Corporate Services has become *Corporate Services*
 - ◆ Residents Services has become *Environment, Residents and Leisure Services*.

3 Internal Audit Service

- 3.1 Since the last report to the Audit Committee, there has been no structural change to the operation of the internal audit service. The in-house team consists of the Chief Internal Auditor (CIA) and Audit Manager. Deloitte Public Sector Internal Audit Ltd carries out individual audits and also periodically provides management information to support the reporting requirements of the in-house team
- 3.2 Part of the CIA's function is to monitor the quality of Deloitte work. Formal monthly meetings are held with the Deloitte Contract Manager and one of the agenda items is an update on progress and a review of performance against key performance indicators. The performance figures are provided for the period from 1 April to 30 June 2011 are shown below.

Performance Indicators 2011/12

Ref	Performance Indicator	Target	Pro rata target	At end of December	Variance	Comments
1	% of deliverables completed (2011/12)	95%	75%	69%	-6%	75 reports delivered out of a total plan of 108
2	% of planned audit days delivered (2011/12)	95%	75%	64%	-11%	608 days delivered out of a total plan of 949 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	95%	On Target	37 out of 39 briefs issued more than ten working days before the start of the audit.
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	93%	-2%	43 out of 46 draft reports issued within 10 working days of exit meeting.

3.3 The Corporate Anti-Fraud Section which is part of the wider Internal Audit Unit is lasing with Housing and Regeneration Department in respect of Tenancy Fraud and an update has been attached as **Appendix B**.

4 Audit Planning

4.1 The 2012/13 Internal Audit Plan has been submitted to the Committee for approval as a separate report.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/ Copy	Department/ Location
1.	Full audit reports from October 2004 to date	Geoff Drake Ext. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

APPENDIX A

Audit reports Issued 1 October to 31 December 2011

We have finalised a total of 12 audit reports for the period to 31 December 2011. In addition, we have issued a further 1 management letter and 2 follow ups.

Audit Reports

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

Audit Reports finalised in the period:

No.	Audit Plan	Audit Title	Director	Audit Assurance
1	2011/12	Holy Cross Primary School	Andrew Christie	Substantial
2	2011/12	Normand Croft Community School	Andrew Christie	Substantial
3	2011/12	St John's CE Primary School	Andrew Christie	Substantial
4	2011/12	Sullivan Primary School	Andrew Christie	Substantial
5	2011/12	St Peter's CE School	Andrew Christie	Substantial
6	2011/12	Direct Payments	John Chamberlain (Acting)	Limited
7	2011/12	Supported Housing Contract Renegotiation	John Chamberlain (Acting)	Substantial
8	2011/12	Reablement	John Chamberlain (Acting)	Substantial
9	2011/12	Client Affairs – Property Protection	John Chamberlain (Acting)	Limited
10	2011/12	Client Affairs – Funerals	John Chamberlain (Acting)	Substantial
11	2011/12	Client Affairs – Appointeeships and Deputyships	John Chamberlain (Acting)	Substantial
12	2011/12	Election Expenses	Jane West	Substantial

Audit Reports

Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may 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, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
13	11/12	Key Financial Controls – Self Assessments	Jane West

Follow ups

No.	Audit Plan	Audit Title	Director	Implemented	Partly Implemented	Not Implemented	Not Applicable
14	2011/12	Parking Pay and Display	Nigel Pallace	7	1	0	0
16	2011/12	CRB Checks*	Jane West	0	0	0	0

* No recommendations raised in the original report as there was a sound system of controls in place to identify and follow up outstanding and due CRB checks. However, our audit work identified that there remained a significant number of officers who have not been CRB checked in the last three years for whom CRB check applications have not been submitted. Our follow up work established that the Council's position on outstanding CRB checks has improved since the original audit was undertaken; however we have raised a further recommendation that departments should be formally reminded to submit CRB check applications.

Tenancy Fraud Initiative 2011/2013

There is a Tenancy Fraud Initiative partnership between Housing and Regeneration Department (HRD) and the Corporate Anti-Fraud Section (CAFS). This links the work of CAFS with the tenancy fraud initiative being managed by a consultant within the Technical and Support Services Unit in HRD. Fortnightly operational meetings are held as well as monthly fraud steering group meetings.

The core strategy is to identify areas of tenancy fraud, in particular illegal subletting, and identifying areas of weakness with internal processes and controls in order to reduce the likelihood of error and fraud.

The initiative will involve referrals of proactive intelligence to CAFS that arise from developing data matching techniques. CAFS will conduct prioritised visits providing monthly feedback on their enforcement actions.

The priorities will be eviction, conviction and with an overarching consideration of asset recovery where cost effective and “profitable”. Prevention of loss will also be a major consideration.

The use and feedback of 12,346 Experian data matched records with key trends in Council held data will develop a proactive approach and a legacy for future operations against tenancy cheats. 6% of tenancies have been designated high risk with 109 classified as high quality matches. Additional training and database access within HRD will allow more detailed briefing packages and referrals to be made to CAFS.

Two referrals have already been made to CAFS for further investigation. A steep rise in referrals is expected moving forward.

Four operational recommendations have been raised to more closely record squatting of council properties, to ensure all void properties are correctly categorised, to introduce safeguards to prevent repossession of council properties by squatters and to roll out JANUS concierge software within the south of the borough.