



Report for:
INFORMATION

11.

Contains Confidential or Exempt Information	No
Title	Head of Internal Audit Annual Report 2014/15
Responsible Officer	Steven Tinkler, Head of Audit & Investigation
Author	Steve Tinkler, Head of Audit & Investigation, ext 8571, TinklerS@ealing.gov.uk
Portfolio	Cllr Yvonne Johnson - Finance, Performance and Customer Services
For Consideration By	Audit Committee
Date to be considered	25 June 2015
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	N/A

Purpose of Report:

The attached report describes the work of Internal Audit for the period 1 April 2014 to 31 March 2015

1. Recommendation

- 1.1 It is recommended that the Audit Committee:
- Reviews Internal Audit performance and key issues arising during the period 1 April 2014 – 31 March 2015; and
 - Endorse the use of the Head of Internal Audit Annual Opinion statement by the Council in support of its Annual Governance Statement included within the statement of accounts for the year ended 31 March 2015.

2. Reason for Decision and Options Considered

- 2.1 The Public Sector Internal Audit Standards require that the Head of Internal Audit presents an annual report to an Authority's Audit Committee. This is reflected fully in the terms of reference of the Committee. This report provides Members of the Audit Committee with:

- The Head of Internal Audit Opinion for 2014/15;
- An overview of the Council's risk exposure and its overall system of internal control;
- The work undertaken by Internal Audit in 2014/15;

- Review of the outcomes of key internal audit reports; and
- An overview of the performance of Internal Audit.

3. Key Implications

- 3.1 Internal Audit is an assurance function that provides an independent and objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving corporate objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic efficient and effective use of resources. While assurance will also be sought from third parties, the assurance gained from the programme of work set out in the 2014/15 Plan, will form the main input for the development of the 2014/15 opinion to the Council.

4. Head of Internal Audit Opinion

- 4.1 This report gives a summary of the work carried out by Internal Audit in the financial year 2014/15 and the results of that work. From the work undertaken during the year, my overall opinion on the Council's system of internal control is that:

Substantial Assurance can be given that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally applied consistently. The level assurance, therefore, remains at a level consistent with the assurance provided from 2013/14.

Controls relating to key financial systems were concluded to be generally at a 'Substantial Assurance' level. The majority of non-key financial system audits included those completed within schools were generally assigned 'Substantial' assurance classifications. The incidence of 'Limited' Assurance assigned to audits remains a concern and has been taken into consideration during the planning of the 2015/16 internal audit activity.

- 4.2 The basis for my opinion is derived from an assessment of the range of individual opinions arising from assignments, contained within the Internal Audit risk based plan that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. A summary of Audit Opinions is shown in the following table:

Table 1 – Summary of Audit Opinions 2014/15

Category	Full	Substantial	Limited	None
Financial Systems	-	7	-	-
Non-Schools Audits	-	33	6	-
Schools Audits	-	27	4	-
Total	-	67	10	-

- 4.3 It is however pleasing to note that in comparison to the assurance opinions provided in respect of the audits undertaken in 2013/14, there is a positive direction of travel in respect of the number of Limited assurance opinions issued. Table 2 below provides this summary.

Table 2 – Summary of Audit Opinions 2013/14





Category	Full	Substantial	Limited	None
Financial Systems	-	6	2	-
Non School Audits	-	24	16	-
School Audits	-	23	4	-
Total	-	53	22	-

5. Review of Audit Coverage

5.1 Audit Opinion on Individual Audits

The Committee are reminded that the following assurance opinions can be assigned for an audit:

Table 3 – Assurance Categories

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	While there is basically a sound system of internal control, there are weaknesses which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the systems of internal control are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the systems / processes open to

		significant error or abuse. Significant non-compliance with basic control leaves the systems / processes open to error or abuse.
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5.2 Summary of Non-School Audit Work

5.3 Table 4 below, details the assurance levels for the non-schools audits undertaken during 2014/15, including those audits completed on the key financial systems.

Table 4 – Summary of Audit Opinions 2014/15

Directorate / Audit	Assurance Opinion / Description
REGENERATION AND HOUSING	
Environmental Permits	Substantial
Empty Property Grants	Substantial
Community Infrastructure Levy	Substantial
Grants to Voluntary Organisations - Draft	Substantial
Housing Allocations	Substantial
Housing Procurement (Temp Accommodation)	Limited
Responsive Repairs Contract	Substantial
Voids Maintenance Contract	Substantial
Electrical & Gas Safety Inspections - Draft	Limited
Planning Enforcement	Substantial
Transport Services	Substantial
ENVIRONMENT & CUSTOMER SERVICES	
Emergency Planning	Substantial
Business Continuity Planning	Substantial
EMS (Amey) Contract - Draft	Limited
Commercial Waste	Limited
Community Centres Compliance Reviews	Substantial
Council Tax Support Scheme	Substantial
Cash Spot Checks - Registrars	Limited
Cash Spot Checks -Pitzhanger Cash Office	Substantial
Discretionary Housing Payments	Substantial
Adult Learning	Substantial
Registrars	Substantial
Telephone Card Payments	Substantial
Income Reconciliation	Substantial
Serco Contract Management	Substantial
CORPORATE RESOURCES	
Occupational Health	Substantial
Rendezvous	Substantial
Corporate Documents & Storage (Greenford)	Substantial
Individual Elector Registration	Substantial

Directorate / Audit	Assurance Opinion / Description
KEY FINANCIAL SYSTEMS	
General Ledger	Substantial
Asset Management	Substantial
Housing & Council Tax Benefit	Substantial
Payroll and Employee Expenses	Substantial
Housing Rents Income and Debtors	Substantial
Cash Receipting/ Cash Kiosk	Substantial
Non Pay expenditure/ Creditors	Substantial
Children's and Adult Services	
Children's Centres	Substantial
Public Health Services	Substantial
Residential Care Placements	Substantial
Mortlake - secondment JA	Substantial
IT Audits	
Network Management	Limited
CCD	Substantial
Firewall/VPN Management	Substantial
Remote Working	Substantial
Ash Debtor Systems	Substantial
Asset Management	Substantial
iWorld (Council tax)	Substantial

5.4 Summary of School Audit Work

5.5 During 2014/15 31 school audits were completed. A summary of the assurance levels provided is as outlined within Table 5 below:

Table 5 – Summary of School Audit Opinions

School Probity Audits	Assurance Opinion / Description
Allenby Primary School	Substantial
Berrymede Junior School	Substantial
Coston Primary School (JA)	Limited
Edward Betham CE Primary School	Substantial
Fielding Primary School	Substantial
Gifford Primary School	Substantial
Grange Primary School	Substantial
Hathaway Primary School	Substantial
Hobbayne Primary School	Substantial
Horsenden Primary School	Substantial
Khalsa Primary School	Substantial
Lady Margaret Primary School	Substantial
Little Ealing Primary School	Substantial
Mayfield Primary School	Substantial

School Probity Audits	Assurance Opinion / Description
North Ealing Primary School	Substantial
North Primary School	Substantial
Petts Hill Primary School	Substantial
Perivale Primary School	Substantial
Selborne Primary School	Substantial
St Joseph's RC Primary School	Substantial
Stanhope Primary School	Substantial
Three Bridges Primary School	Substantial
Tudor Primary School	Substantial
Viking Primary School	Substantial
Wolf Fields Primary School	Limited
Acton High	Substantial
Brentside High	Limited
Dormers Wells High School	Substantial
The Ellen Wilkinson School for Girls	Limited
Greenford High	Substantial
Castlebar School	Substantial

5.6 As part of the role of the Committee to support the Head of Audit & Investigation in the promotion of effective governance arrangements within the Council, Appendix A provides a summary of the Priority 1 audit recommendations included in reports where an assurance opinion of limited or lower has been given. In order to provide an element of context the definition for Priority 1 recommendation is:

- Priority One recommendations (Major issues for the attention of senior management and the audit committee)

5.7 The Committee should note that the majority of these issues have previously been reported as part of the defined cycle of update reports provided to the Audit Committee. The purpose of this section of the report is to give assurance to the Committee as to the effective progress being made to address the weaknesses identified within the individual reports. We will undertake regular follow up activity in respect of these and all future Priority 1 recommendations and report progress in respect of the timely implementation of these to the Audit Board and the Audit Committee. Failure by officers to implement recommendations in accordance with agreed timescales could result in Officers to attend and provide explanations to future meetings of the Audit Board or the Audit Committee.

5.8 Follow up Reviews

Internal Audit complete a programme of follow up reviews to ensure that agreed management actions in respect of significant recommendations made have been implemented. The status of the

Priority One recommendations raised during 2014/15 is as outlined within the tables below.

Non School Audits

To follow up	29
Due to be implemented by 31/05/15	18
Fully Implemented	9
Partially Implemented	4
Not Implemented	5

School Audits

To follow up	18
Due to be implemented by 31/05/15	14
Fully Implemented	9
Partially Implemented	1
Not Implemented	4

5.9 The tables above identify the lack of progress with regards to the implementation of agreed management actions, which whilst a relatively low number is an area of concern. In view of the current performance levels robust monitoring of implementation activity will be performed by Internal Audit on a quarterly basis and reported in accordance with para 5.7 above.

5.10 Internal Audit Performance

The performance against the agreed performance indicators is as follows:

Measure	31 March 2015	
	Target	Actual
% of draft reports issued 12 days after fieldwork.	95	98
% of draft reports (Allocation plus 20 days)	95	97
% of final reports issued 5 days after responses.	100	100
% of Plan Completion (draft reports issued)	95	98

6 Financial

- 6.1 The revenue budget for Audit & Investigation for 2015/16 incorporates the expenditure cost for the service, including the current contract with Ealing's audit partner.
- 6.2 All audit activity covered in this report will be delivered within the current Audit & Investigation budget.

7 Legal

- 7.1 All Local Authorities are required to make proper provision for Internal Audit in accordance with the 1972 Local Government Act and the Accounts and Audit Regulations 2011 (as amended). The Public Sector Internal Audit Standards (PSIAS) requires proper planning of audit work.

8 Value For Money

- 8.1 Ealing's Internal Audit Services are currently provided by Mazars via a framework agreement led by the London Borough of Croydon (LBC). The contract places an obligation on Mazars to continuously develop and improve services over the life of the contract, including improved benchmarking of services and costs.
- 8.2 The long-term nature of the contract means that daily rates are held and only increased in line with inflation each year. This provides some stability in costs for future years and avoids market fluctuations. Confirmation has however been received outlining that the day rates charged by Mazars are being held, with the inflationary increased being waived.

9 Sustainability Impact Appraisal

- 9.1 Not applicable

10 Risk Management

- 10.1 The Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

11 Community Safety

- 11.1 Not applicable.

12 Links to Strategic Objectives

- 12.1 Internal Audit makes a significant contribution to delivering the Corporate Plan and Council Objective, providing regular assurance to

senior management and members on the effectiveness of the corporate governance and internal control framework. Internal Audit impacts on all services and functions throughout the Council, including internal and external partnerships and stakeholders. This links to the strategic objective of being a high performing organisation focused on the needs of its community.

13 Equalities and Community Cohesion

13.1 No equality impact assessment has been undertaken as the report does not affect the general duties of the Equalities Act 2010.

14 Staffing/Workforce and Accommodation implications:

14.1 None

15 Property and Asset

15.1 None

16 Any other implications:

16.1 None.

17 Consultation

17.1 As per attached table.

18 Appendices

Appendix A – Priority 1 Recommendation Follow Up Status – Limited Assurance Audits

19 Background Information

Consultation

Name of consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Ian O'Donnell	Executive Director of Corporate Resources	2 June 2015	2 June 2015	Throughout
Maria Christofi	Director of Finance (Deputy s151 Officer)	2 June 2015	2 June 2015	Throughout
Cllr Yvonne Johnson	Portfolio Holder – Finance, Performance & Customer Services	17 June 2015	17 June 2015	Throughout

Report History

Decision type:	Urgency item?
For information	No

Authorised by Cabinet member:	Date drafted:	reportReport deadline:	Date report sent:
Report no.:	Report author and contact for queries:		
	Steve Tinkler, Head of Audit & investigation. Ext 8571		

Appendix A

Priority 1 Recommendation Follow up Status – Limited Assurance Audits

Audit	P1 Agreed Recommendation	Recommendation Status
Housing Procurement (Temporary Accommodation)	The Temporary Housing Team to obtain head leases for all properties provided to them by letting agents, to confirm that the agent can legally let the property to the Council.	Partially Implemented
	Where rates obtained for Temporary Accommodation exceed the standard rates, a senior officer should review and authorise any placements prior to placing the tenant to help ensure that best value has been achieved.	Fully Implemented
	The income and expenditure budget should be monitored on a monthly basis and discussion of variances, forecasts and actions to be taken should be documented and retained.	Outstanding
Commercial Waste	Management should ensure that there are valid Waste Transfer Notes in respect of all relevant waste collections.	Implemented
	A schedule of inspections around the borough should be developed and actioned to help ensure that businesses have made appropriate arrangements for their waste disposal.	Implemented
Cash Spot Checks - Registrars	Improved access controls should be implemented.	Implemented
	Bank statements should be requested from the bank and regular reconciliations should be undertaken on a regular basis and subject to independent review.	Implemented
Network Monitoring	Operational supplier risks and network security risks should be identified, documented, analysed and any mitigating actions implemented.	Partially Implemented
	The Serco-Kcom incident reporting and request procedures should be reviewed to ensure proper reporting, authorisation and tracking of incidents and secure transmission of information.	Implemented
	In particular, firewall requests and information should not be sent using insecure email. Ideally, they would be properly logged on the maintainer's request or incident management system.	Implemented
	Serco should investigate the possibility to integrate or report the KCOMs SLAs based on the time the calls are logged by	Implemented

Audit	P1 Agreed Recommendation	Recommendation Status
	the Ealing users to Kcom.	
	Management should ensure that the problem management system as specified in the Serco SLA is implemented and uses the system to assist in resolving issues.	Outstanding – Work remains ongoing.
Coston Primary School	The School should use a cost code designated by Ealing Council for private funds.	Implemented
	In future the School should ensure that the disposal of all ICT equipment in line with data protection principles and retain all appropriate evidence to demonstrate compliance.	Implemented
	<p>The School should:</p> <ul style="list-style-type: none"> • Follow up the return of the facilities booking applications for all lettings; • Apply charges in advance in line with the Letting's Policy; and • Review and update the letting's policy to be in line with current practice. 	Implemented
	The school should bring to an early conclusion the issues regarding the current lease in place for photocopiers. Furthermore in all future procurement of leases the school should ensure only procure operating leases.	Implemented
	<p>The School should:</p> <ul style="list-style-type: none"> • Ensure that only quorate meetings go ahead, any meeting that does not meet the minimum member requirement should be rescheduled. • Re-establish a Finance Committee as a minimum. • Report the budget position at each Full Governing Body meetings. 	Implemented
Wolf Fields Primary School	<p>Bank reconciliations should be completed in a timely manner and all reconciliations should be subject to independent review.</p> <p>All unreconciled items which are more than 6 months old should be identified as soon as possible.</p>	Not Due – Implementation Agreed by November 2015
	Staff should be reminded of the requirement of the Handbook in respect of ensuring that for expenditure in excess of £15,000, staff should be reminded that at least three written quotes must be obtained, compared and the results recorded.	Not Due – Implementation Agreed by end June 2015
	The Head teacher should ensure that a full review if the School asset register is conducted to accurately record all assets the School holds. This register should record whether or not the item has been security marked.	Ongoing – Full implementation due by end November 2015

Audit	P1 Agreed Recommendation	Recommendation Status
Brentside High School	<p>Efforts should be undertaken to locate the contract with Moorepay. Where this is not possible, the School should contact the supplier to obtain a copy at the earliest opportunity.</p> <p>The Head teacher should authorise each payroll run and evidence of this should be retained.</p> <p>A quarterly reconciliation using the payroll masterfile and the School's personnel records should be undertaken, and subsequently checked and signed by a second individual.</p>	<p>Implemented</p> <p>Implemented</p> <p>Not Due – Agreed Implementation by end August 2015</p>
The Ellen Wilkinson School for Girls	<p>For all purchases (i.e. good and services), management should ensure the correct procedure is followed as documented within the Finance Policy and in compliance with the Schools Finance Handbook.</p> <p>Efforts should be made to locate the Greenworks Solutions, Divine Water and Ricoh agreements, once the School has clarified whether these contractual relationships still exist.</p> <p>EU Procurement Directives should be complied with.</p>	<p>Not Due – Agreed Implementation by end September 2015</p>

