



**Report for:  
INFORMATION**

**Item no 10**

<b>Contains Confidential or Exempt Information</b>	No
<b>Title</b>	Internal Audit Performance Report Q3 2014/15
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<b>Portfolio</b>	Finance, Performance and Welfare, Cllr Yvonne Johnson
<b>For Consideration By</b>	Audit Committee
<b>Date to be considered</b>	14 January 2015
<b>Implementation Date if Not Called In</b>	N/A
<b>Affected Wards</b>	All
<b>Keywords/Index</b>	N/A

**Purpose of Report:**

The attached report provides the Committee with an update on the work of Internal Audit since the September meeting up until the end of quarter 3.

In addition, the report provides the Committee with details regarding the proposal to extend the existing arrangements with regard to the sharing of the Head of Internal Audit role, to the creation of a more formalised Shared Audit and Counter Fraud service.

**1. Recommendation**

1.1 It is recommended that the Committee notes Internal Audit's performance and key issues arising during the period 1 October – 31 December 2014 2014. **(Appendix A)**

1.2 Note the current options being explored with regards to the creation of a shared service for the delivery of Internal Audit and Counter Fraud services hosted by the London Borough of Ealing.

**2. Reason for Decision and Options Considered**

2.1 This is a programmed, periodic report on the progress of internal audit; no decision is required.

### 3. Key Implications

3.1 Internal audit is an assurance function that provides an independent and objective opinion to 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 Council.

#### 3.2 Performance as at 31 December 2014

3.2.1 The 2014/15 Plan was approved by the Committee in March 2014. The Plan is indicative and is subject to revision during the year to take account of changing priorities and emergent risks. Audit Board monitors progress against the Plan and the S151 Officer and the Director of Finance meets regularly with the Head of Audit & Investigation and senior representatives from the strategic audit partner Mazars. Completion of the Plan against target is set out in Appendix A, along with outturn for the previous 2 years.

#### 3.3 Internal Audit Plan 2014/15

3.3.1 The Audit Plan as at 1st April 2014 comprised 788 days. There have been no changes to the Plan as follows:

2014/15 Audit Plan Analysis of Days	
Status	Days
Audit Plan - 31 March 2014	788
Days Added	-
Days Deleted/Deferred	-
Current Plan	788

#### 3.4 Internal Audit Plan 2014/15 Assurance Profile

3.4.1 Set out below is the current status/assurance profile for the Audit Plan.

2014/15 Audit Plan Status			2014/15 Audit Plan Assurance Profile		
Status	Total	%age	Assurance Level	Total	%age
Total	91	100	Total	91	100
Draft	8	9	Full	-	-
Final	55	60	Substantial	45	48
<b>WIP</b>	<b>2</b>	<b>2</b>	<b>Limited</b>	<b>10</b>	<b>11</b>
Overdue	-	-	<b>No Assurance</b>	-	-
Not Issued	-	-	Follow up	8	9
Not Due	23	25	Non Assurance Report	-	-
Not Applicable	-	-	To be Determined	28	31
Imminent	3	4	Not Applicable	-	-

### 3.4.2 Commentary

- The current Plan consists of 91 audits which include the delivery of 7 ICT specialist audits, 14 Key Financial System reviews / follow ups, 32 system based reviews and 38 audits/follow ups within schools.
- Audit plan status of 'Not Due' indicates that these audits are resourced to be completed during the final quarter of the 2014/15 audit year.
- In respect of the 10 audits which received 'Limited Assurance', 4 of these are currently in draft form and therefore these will be reported to the next meeting of the Committee. One report has been issued in final format since the last report to the Committee and relates to the audit undertaken within a School. Details of specific issues identified during the review are detailed in para 3.6.2 below.
- The table below provides a comparison for the current percentage of Internal Audit reviews where an assurance opinion of Limited has been provided. It is pleasing to report that this percentage continues to reduce, which gives assurance regarding the adequacy of the systems of internal control within the Council.

<b>Audit Year</b>	<b>% of Planned Audits With Limited Assurance</b>
2011/12	27
2012/13	24
2013/14	21
2014/15	11

### 3.4.3 Current Assurance Opinions

The current assurance opinions provided by Internal Audit are as follows:

<b>Level</b>	<b>Definition</b>
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 a basically 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 control processes may put some of the client's objectives at risk.
Limited	Weaknesses in the system of internal controls 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 processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

### 3.5 2014/15 Schools Internal Audit Plan

3.5.1 The Schools Internal Audit Plan comprises the following:

- 31 schools subject to a Probity audit.
- 2 schools subject to a Post 16-19 Education Funding Agency audit.
- 5 schools (those with 'Limited Assurance' identified as part of the 2013/14 Audit Plan) will be followed up.

Set out below is the current status of the Schools Internal Audit Plan:

1415 Audit Plan Status - Schools			1415 Audit Plan Assurance Profile - Schools		
Status	Total	%age	Assurance Level	Total	%age
Total	38	100	Total	38	100
Draft	2	5	Full	-	-
Final	27	71	Substantial	27	71
<b>WIP</b>	<b>2</b>	<b>5</b>	<b>Limited</b>	<b>2</b>	<b>5</b>
Overdue	-	-	<b>No Assurance</b>	<b>-</b>	<b>-</b>
Not Issued	-	-	Follow up	5	13
Not Due	-	-	Non Assurance Report	-	-
Not Applicable	-	-	To be Determined	4	11
Imminent	7	18	Not Applicable	-	-

### 3.6 Post 16/19 Education Funding Audits

3.6.1 As previously reported in the report to the September Committee, the Council assumed responsibility for commissioning and funding 'further education' services' in 2010, there is a requirement to provide assurance that public money expended on Post 16/19 Education is used in accordance with the principles of regularity and propriety. AS part of the 2014/15 review program, 2 schools were audited and both received 'substantial assurance'.

3.6.2 As outlined previously highlighted one limited assurance report has been issued since the last Committee. Issues identified during this review related to the following:

- Decisions were taken by the Governing body when the meetings were not quorate;
- Key policies and procedures including for example the Whistleblowing policy and the Lettings policy are not being subject to review in accordance with the timescales defined within the School Financial Handbook;
- The register for Declarations of Interest was incomplete and declarations had not been received from all necessary individuals required to make such declarations;
- Whilst reconciliations were being performed, the evidential requirements has defined with the School's Financial Handbook were not being consistently followed.

- Monthly budget monitoring reports were not consistently being signed off by the Head teacher again in accordance with the requirements of the School's Financial Handbook;
- Two private fund accounts with an income in excess of £5,000 had not been subject to independent audit as per the requirements of the Financial Handbook;
- Purchases for goods and services were being made with the required purchase order being raised;
- Explicit approval or End of Journey statements were not being obtained or produced in accordance with the requirements of the Schools Financial Handbook; and
- Asset registers and inventories were not up to date.

### **3.7 Internal Audit and Counter Fraud Shared Service Update**

3.7.1 Since April 2013, a partnership arrangement has been in place with the LB Hounslow for the sharing of Internal Audit and Counter Fraud and Investigation services, with the LB Ealing Head of Audit and Investigation providing management and leadership of this partnership.

3.7.2 The partnership has been successful in delivering a significant number of benefits to both LB Ealing and LB Hounslow in respect of improving service performance, sharing knowledge and areas of best practice, delivering economies of scale in training, resourcing specialist skills such as IT Audit, whilst also providing flexible deployment of resource as and when necessary, to assist in the development of staff and building specialist knowledge.

3.7.3 In summer 2014, LB Ealing was approached by LB Brent who expressed an interest in a shared service arrangement, in support of their drive to identify efficiencies in order to ensure their customers receive value for money. To this end, LB Ealing and LB Brent have been working together to jointly consider the options and develop a business case for sharing Audit and Investigation Services.

3.7.4 The current partnership arrangement with LB Hounslow has some limitations particularly in respect of the relative informality of the agreement currently in place between LB Ealing. It is therefore proposed that a formal Partnership and Delegation Agreement should be entered into with each of LB Hounslow and LB Brent respectively. The agreements would set out a range of terms, conditions and specifications for the services in scope, whilst also defining the relationship between LB Ealing and each of the other boroughs.

#### **Scope of Services**

3.7.5 The vision is to create a formalised shared service to provide comprehensive, robust and resilient Internal Audit, Counter Fraud and Investigation services to three London Boroughs. Therefore, building

on the existing shared service arrangement, the services that will initially be delivered are:

- Comprehensive Internal Audit and Assurance Service, including
  - LBE Head of Audit and Investigation to fulfil the role of Chief Audit Executive for each Borough;
  - Performance of all aspects of the role of the Chief Internal Auditor (Chief Audit Executive), in accordance with the requirements of the Public Sector Internal Audit Standards;
  - All necessary management and leadership of the Audit and Investigation function;
  - All necessary management activity in respect of the performance and delivery by the current external strategic audit partner engage by each Borough, including contract monitoring.
  - Provision of support to the Audit Committees in each Borough including the preparation of all necessary reports and attendance at meetings.
  - Preparation of the Annual Assurance Opinion of the Chief Internal Auditor; and
  - Preparation of the Annual Governance Statements.
- Comprehensive Counter Fraud and Investigation Service, including
  - Strategic management and leadership of the Counter Fraud and Investigation function;
  - Preparation of and delivery of the Counter Fraud Strategy;
  - Management of all necessary counter fraud activity including maintenance of case management records.
- Strategic Risk Management
  - Maintenance of the Risk Management Strategy including the completion of an annual refresh;
  - Maintenance of the Corporate / Strategic Risk Register
  - Embedding and promoting effective risk management across each organisation;

Additional optional services which could be supplied by the Shared Service include:

- Enhanced Employee Vetting.
- Insurance.
- Fraud Prosecution Activity

## **Anticipated Benefits**

3.7.5 Shared service arrangements are seen as an effective approach to deliver efficiencies within service delivery and a positive approach for responding to the financial pressures faced by the public sector. The service and financial benefits anticipated to be delivered by the proposed shared service for Audit and Investigation Services are:

- Financial savings as outlined within para 4.3.
- Consolidation of existing resources to improve service resilience and the ability for the function to effectively and promptly respond to the increasing and evolving fraud risks within the public sector;
- Staff resources can be deployed more flexibly, with better ability to cope with vacancies and / or ad-hoc work;
- Promote the sharing of best practice and the delivery of services to common methodologies, improving the overall efficiency and effectiveness of the counter fraud response to LBE, LBH and LBB.
- Deliver efficiencies with regards to the Audit and Assurance activity provided by the existing Strategic Audit Partner through risk focussed cross organisational audit activity;
- Availability of resources for delivery of investigation services to other organisations on a chargeable basis;
- Economies of scale e.g. training, resourcing specialist skills such as IT Audit and specialist fraud expertise.
- Development of a sense of ownership in the shared service and a culture of 'thinking as one, delivering as one'
- Provide staff development opportunities to further their careers within the Audit and Investigation function.

3.7.5 A report is being presented to 21 January 2015 meeting of Cabinet where it is being requested that:

Cabinet "Approves the creation of shared services for Internal Audit, Counter Fraud, Investigation Services and other functions as outlined in this report. The Shared Service to be hosted by LB Ealing, with effect from 1 April 2015 or as soon as possible thereafter with the London Boroughs of Brent and Hounslow and other authorities as approved by the Executive Director of Corporate Resources in consultation with the Finance, Performance and Welfare Portfolio Holder."

## **4 Financial**

4.1 All audit activity covered in this report is being delivered within the Audit & Investigations budget.

## **5 Legal**

5.1. The legal implications for the shared service proposal will be set out in the report scheduled to go to cabinet on 21 January 2015.

## **6 Value For Money**

6.1 Value for money reviews have been identified within the audit plan.

## **7 Sustainability Impact Appraisal**

7.1 Not applicable

## **8 Risk Management**

8.1 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.

## **9 Community Safety**

9.1 Not applicable.

## **10 Links to Strategic Objectives**

10.1 The issues outlined in this report have a particular focus on the Council's organisational improvement objective 'Becoming a high performing organisation, focused on the needs of its communities'.

## **11 Equalities and Community Cohesion**

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

## **12 Staffing/Workforce and Accommodation implications:**

12.1 Not applicable.

## **13 Property and Asset**

13.1 Not applicable

## **14 Any other implications:**

14.1 None.

## **15 Consultation**

15.1 As per attached table.

## **16 Appendices**

Appendix A: 2014/15 Internal Audit Performance.

## **17 Background Information**

## Indicative Audit Plan 2014/15

### **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	05/01/15	05/01/15	Throughout
Maria Christofi	Director of Finance (Deputy s151 Officer)	22/12/14	22/12/14	Throughout

### **Report History**

Decision type:	Urgency item?
For information	No

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

## Appendix A: 2014/15 Internal Audit Plan Performance

Measure	31 December 2014		Dec 2013	Dec 2012
	Target	Actual		
<b>Mazars</b>				
% of draft reports issued 12 days after fieldwork	<b>95</b>	98	91	91
% of drafts issued (Allocation + 20 days)	<b>95</b>	97	87	86
% of final reports issued 5 days after responses	<b>100</b>	100	90	98
% of QA forms rated 'satisfactory' or above.	<b>90</b>	100	91	90
% of Plan Completion (draft reports issued)	<b>75*</b>	69	75	75

### Commentary

- \*Target Plan completion as at 31 December 2014 is slightly below target. However a number of reviews are currently ongoing but are not at Draft Report stage and therefore are not included within the performance value above. All planned audits are however scheduled and resourced for completion during the current audit year

