



Havering

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.30pm

**Tuesday,
1 March 2011**

**Havering Town Hall,
Main Road, Romford.**

Members 6: Quorum 3

COUNCILLORS:

Conservative (4)

Georgina Galpin (C)

Osman Dervish (VC)

Roger Ramsey

Frederick Thompson

Residents (1)

Clarence Barrett

Labour (1)

Paul McGeary

For information about the meeting please contact:

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AGENDA ITEMS

1. CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2. APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3. DECLARATION OF INTERESTS

Members are invited to declare any interests in any of the items on the agenda at this point of the meeting. Members may still declare an interest in any item at any time prior to the consideration of the matter.

4. MINUTES OF THE MEETING

To approve as correct the minutes of the meeting held on 7 December 2010 and authorise the Chairman to sign them.

5. UPDATE ON OBJECTION TO ACCOUNTS ACTION PLAN

An oral report will be given.

6. EXTERNAL AUDIT INTERIM REPORT

An oral report will be given.

7. EXTERNAL AUDIT ANNUAL PLAN 2010/11

Report attached.

8. HOUSING BENEFIT FRAUD PROGRESS REPORT

Report attached

9. INTERNAL AUDIT PROGRESS REPORT

Report attached.

Audit Committee, 1 March 2011

10. INTERNAL AUDIT CHARTER AND TERMS OF REFERENCE

Report attached.

11. ANNUAL REVIEW OF AUDIT COMMITTEE EFFECTIVENESS

Report attached

12. INTERNAL AUDIT PLAN 2011/12 AND STRATEGY

Report attached.

13. GRANTS REPORT

Report attached.

14. PROGRESS REPORT ON IFRS IMPLEMENTATION

Report attached

15. URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

16. EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

E1. TREASURY MANAGEMENT UPDATE – Exempt item

Report attached

**Philip Heady
Democratic Services Manager**

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Havering Town Hall
7 December September 2010 (7.30pm – 9.00pm)**

Present:

COUNCILLORS:

Conservative Group Georgina Galpin (Chairman), Osman Dervish, Roger Ramsey and Frederick Thompson

Residents' Group *Ray Morgon

Labour Group Paul McGeary

An apology for absence was received from Councillor Clarence Barrett (substituted by Councillor Ray Morgon).

All decisions were taken unanimously with no votes against unless shown otherwise.

The Chairman advised the Committee of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

There were no declarations of interest.

14 MINUTES

The minutes of the meeting held on 23 September 2010 were agreed as a correct record and signed by the Chairman.

15 UPDATE ON OBJECTION TO ACCOUNTS ACTION PLAN

At its meeting on 23 September 2010, following the report by the Council's Auditors, PricewaterhouseCoopers (PWC) on the findings of their investigations, into a complaint by a leaseholder. The Head of Service for Housing & Public Protection gave an assurance that the recommendations highlighted were being addressed and a progress report was to follow at this meeting.

The Committee received an updated report that outlined the progress by Housing Service against the recommendations of PWC in response to a complaint by a leaseholder.

One of the points raised as part of the review, related to the contract that the Council holds with Surtees, who provided the access points for TV and Satellite television and who also maintained the equipment.

Members raised some questions on aspects of the contract with Surtees, and asked for an update at a future meeting.

The Committee **NOTED** the report.

16 ANNUAL AUDIT LETTER

The Committee received a report that updated Members on the external auditor's PricewaterhouseCoopers (PwC) annual letter for 2009/10.

The annual audit letter was a key summary of audit and inspection results by the Council's external auditor during the course of the year.

The Committee **NOTED** the report.

17 IFRS/ACCOUNTS CLOSEDOWN UPDATE

The report before the Committee advised the Audit Committee of the progress to date in preparing for the implementation of International Financial Reporting Standards in Local Authority Accounting.

The report detailed that the Council would be required to publish its 2010/11 Statement of Accounts on an IFRS basis in 2010/11. In doing so, all comparative data for 2008/09 and 2009/10 must be restated on the same basis. A project plan was prepared in order to assist in managing the implementation process and had been regularly reported the Committee. The plan was set out in the following three stages:

- i) Restate the closing Balance Sheet as at 31 March 2009 on an IFRS basis
- ii) Restate the 2009/10 accounts on an IFRS basis for comparative purposes
- iii) Prepare the 2010/11 accounts on an IFRS basis

The Committee **NOTED** the report and the actions taken to date to implement the project plan.

18 INTERNAL AUDIT PROGRESS REPORT

The Committee received a report that advised on the work undertaken by the Internal Audit team during the period 1 July 2010 to 30 September 2010.

The progress report contained the following update of Internal Audit activities:

- Section 1 Audit Work 1 July to 30 September 2010

Detailed a summary of the reports finalised by the end of September 2010.

- Section 2 Management Summaries

Outlined summaries of all final reports issued in the period.

- Section 3 Budget & Resource Information

The budgetary and resource position at the end of September was included for information.

- Section 4 Key Performance Indicators

The actual performance against target for key indicators was included.

- Section 5 Changes to the Approved Audit Plan

The changes made to the audit plan since the last meeting were detailed and explained in this section of the report.

- Section 6 Outstanding Recommendations Summary Tables

The details regarding status, as at the end of September, of all outstanding recommendations were included within tables for information.

The Committee raised a concern on recommendations that had been taken over by event and agreed to receive a report that outlined these recommendations in order to delete such entries and ensure a trail was in place.

The Committee **NOTED** the report.

19 ANNUAL REVIEW OF RISK MANAGEMENT ARRANGEMENTS

This report provided Members with details of the annual review of risk management arrangements as well as providing an update on developments during the last year and new initiatives going forward.

The report detailed that the formal annual review of the Council's Risk Management arrangements was undertaken as planned in October 2010. The exercise included a review of the Council's strategy which coincided with a bi annual update of the Corporate Risk Register.

The Council's Risk Management arrangements for 10/11 would not be subject to the Use of Resources assessment as had been the case in previous years. Senior Management had confirmed their commitment to continue to strengthen the arrangements in place and that the Risk Management Group continued to be an effective forum for overseeing the arrangements across the whole organisation.

The report informed the Committee that the 2014 Transformation programme and in particular the rate of change that the organisation had would continue to experience, only increases the importance of having sound processes to manage and report risk. Each of the Transformation Programmes was lead by a Corporate Management Team (CMT) member and the Central Transformation Team ensures that each programme is identifying, communicating and managing risks in a consistent and effective manner. Risk logs are maintained at programme level and significant risks are reported via a central risk register to CMT monthly. In addition the Internal Audit & Corporate Risk Manager sits on some of the Boards or related Assurance Groups and links with the Central Transformation Team to ensure the Corporate Risk Register is updated as required.

In 2010/11 a e learning tool, aimed at third and fourth tier managers has been designed to strengthen the effectiveness of risk management arrangements at the operational level of the organisation.

The annual review noted that the Council had continued to work with a representative from Zurich Municipal (ZM), the Council's insurers throughout the current financial year to challenge the Risk Management arrangements and strengthen where possible the scope of work, including reporting any progress to the Risk Management Group. Workshops for senior management teams had been offered and one took place in September 2010. Due to restructures it was anticipated that further sessions would be required post January 2011 as new management structures and teams were set up.

As a thorough review of the Strategy took place last year it had only been necessary to update and refresh out of date terminology and make minor changes as part of this year's review.

The report detailed the further action following Member approval of the Strategy:

- Update officer guidance and the intranet;
- Promote availability of Directorate and Service Management Teams to workshop risk, particularly in areas with most significant change due to transformation; and
- Roll out and monitor take up of E Learning tool.

In addition to the strategy, the report informed that that work would continue on risk management in the following areas:

- Ad hoc reviews of registers
- Learning from best practice
- Promoting risk management throughout the organisation to achieve better outcomes and deliver priorities and
- Attendance at relevant network events and peer review, with cooperation from other authorities

The Corporate Risk Register had also been reviewed and was appended to the report.

The report concluded that due to the pressure of Transformation Risk Management Group had significantly supported Corporate Management Team to complete the review. The following significant changes have been made:

- Individual transformation programmes have been removed and Transformation 2014 has been added as one risk;
- Supply Chain Failure has been added;
- Asset Management and Maintenance has been acknowledged as a risk area.

The Committee **NOTED** the work continuing to take place on Risk Management.

20 **FRAUD PROGRESS REPORT**

The Acting Internal Audit & Corporate Risk Manager presented a report that advised the Committee on the anti fraud and corruption work undertaken by the internal audit team during the period 1 January to 30 September 2010.

The report detailed the progress in the fraud work from January to September 2010. The report informed the Committee that 33 cases were completed and closed and on work in progress as at end of September. A detail of savings and losses for the same period was also included. The report also incorporated an update on current risks and trends.

The Committee was advised that the results for the fraud specific key performance indicator were outlined in the report and that other key performance indicators were reported quarterly as part of the Internal Audit Progress report.

The Committee **NOTED** the content of the report.

21 ANNUAL GOVERNANCE STATEMENT UPDATE REPORT

A report was presented to the Committee that was to assist Members in their newly delegated responsibility to sign off the Annual Governance Statement (AGS). The report updated the Committee on the current arrangements with regards to Corporate Governance and the production of the AGS on the progress to address the issues identified in the 2009/10 AGS and the work of the officer Governance Group to date in 2010/11.

The report detailed that the Committee was required to consider any Corporate Governance related issues that needed to be referred to the Governance Committee for review.

The report noted that although robust arrangements were already in place, the introduction of the AGS did mean that these arrangements were reviewed and updated accordingly.

During 2010/11 the officer Governance Group, chaired by the Group Director Finance and Commerce had continued to meet quarterly. During the year the actions taken to address the issues identified in the 2009/10 AGS had been captured and reported to Governance Group. The action plan was detailed in November 2010 and good progress was noted in all areas. The action plan would be updated again at the end of March 2011 at which time a decision would be taken as to whether the issue had been sufficiently addressed to be removed. The Group had also reviewed the questions answered by Senior Management as part of their mini assurance statements to ensure they continue to be fit for purpose.

The process to draft the 2010/11 AGS was underway. A timetable was appended to the report to inform the Committee of the various actions. There were no significant issues to report to members at this time. Once all sources of assurance have been reviewed at the end of the financial year, a draft version of the AGS would be presented to the Committee in June for approval as part of the Council's Statement of Accounts.

The Chairman expressed her appreciation on behalf of the Committee to staff who organised the Treasury Management training.

The Committee **NOTED** the report.

13 TREASURY UPDATE

The Committee resolved to exclude the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972 which could reveal the identity of an individual and it was not in the public interest to publish this information

The Financial Services Manager presented the report that sets out the context that was part of the Chartered Institute of Public Finance and Accountancy (CIPFA) revised Code of Practice for Treasury Management.

The revised Code suggested that Members would be informed of Treasury Management activities at least twice a year or preferably quarterly. The report ensured the Council was embracing Best Practice in accordance with CIPFA's revised Code of Practice.

The details of the report were outlined to the Committee, including that the Council had remained within its prudential indicators limits.

The Committee **NOTED** the report

Chairman
27 January 2011

DRAFT



AUDIT COMMITTEE

REPORT

1 March 2010

Subject Heading:

EXTERNAL AUDIT PLAN 2010/11

Report Author and contact details:

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Policy context:

The Audit Committee are required to consider the External Audit plan.

Financial summary:

N/A

SUMMARY

The attached report, Appendix 1, advises the Audit Committee of the proposed External Audit Plan for 2010/11. At the time of writing the fees for 2011/12 are unknown and will be presented to the Audit Committee at the first opportunity.

The Council's External Auditors, PricewaterhouseCoopers (PwC), will be at the meeting to present the report.

RECOMMENDATIONS

1. To note the contents of the plan.
2. To raise any issues of concern and ask specific questions of officers or external auditors where required.

REPORT DETAIL

PricewaterhouseCoopers (PwC) are the current External Auditor for the London Borough of Havering, as appointed by the Audit Commission.

This plan has been developed with the assistance of Council officers and has been approved by the Chief Financial Officer.

The attached plan contains the following sections to outline the External Auditors planned approach:

- Introduction;
- Risk assessment;
- Our approach to the audit;
- Our team and independence;
- Communicating with you;
- Audit budget and fees;
- Matters affecting future accounting periods;
- Appendix A – other engagement information.

IMPLICATIONS AND RISKS

Financial implications and risks:

The Committee received a report in June 2010, summarising the proposed external audit fee, and containing the audit fee letter from PwC. The attached plan confirms the details of the proposed fee as follows:

The total audit fee from the 2009/10 plan was £346,731. The fee now proposed for the 2010/11 audit is £370,110. This represents an increase of 6.75%. In addition, a further charge of £78,000 will be made for the certification of claims and returns, which is 3.6% less than 09/10, and £35,000 for the pension fund audit.

A comparison of the elements making up the fee is shown in the table below:

Element	2010/11 Fee £	2009/10 Fee £
Audit of accounts	300,010	247,724
Use of Resources, Data Quality and Value for Money Conclusion	70,100	99,007
Total	370,110	346,731
Certification of claims and returns	78,000	80,933
Pension Fund	35,500	35,000

The fee does not include any additional time required to audit grants, any additional work requested by the Council, and any additional work generated outside any assumptions on which the fee is based. As the letter indicates, the quoted fee is an estimate and may change to reflect the actual content of the audit plan.

There are no other financial implications or risks arising directly from this report.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

London Borough of Havering 10/11 Audit Plan – PricewaterhouseCoopers

London Borough of Havering

Audit Plan (2010/11)

Audit Plan 2010/11

February 2011



Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford
RM1 3BB

17 February 2011

Ladies and Gentlemen,

We are pleased to present to you our Audit Plan, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting the London Borough of Havering.

We would like to thank Members and officers of the London Borough of Havering for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact Julian Rickett, Ciaran McLaughlin or Keeley Gibbons.

Yours sincerely

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Encs

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body and on the Audit Commission's website.

The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas.

Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Introduction

Introduction

The purpose of this plan

Our Audit Plan has been prepared to inform the officers and Members of the London Borough of Havering (the Authority) about our responsibilities as your external auditors and how we plan to discharge them.

We issued our audit fee letter, setting out our indicative fees for 2010/11, on 26 May 2011 in accordance with Audit Commission requirements. This plan sets out in more detail our proposed audit approach for the year.

Every authority is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the authority. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Authority and the local government sector, we have noted in the next section recent developments and other relevant risks. Our plan has been drawn up to consider the impact of these developments and risks.

Period covered by this plan

This plan outlines our audit approach for the period 1 April 2010 to 31 March 2011, including the 2010/11 final accounts audit which we will undertake in July and August 2011.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was last updated in March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies (the Statement) which was updated in March 2010. Both documents are available from the Chief Executive or the Audit Commission's [website](#).

Risk assessment

Risk assessment

Planning of our audit

We have considered the Authority's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have determined the extent of our financial statements and use of resources audit work.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards.

In addition, we also identify other risks affecting the Authority and our response to these risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

Risk assessment results

The following table summarise the results of our risk assessment and our planned response.

Risks	Audit approach
<p>Significant Risks</p> <p>Revenue and expenditure recognition</p> <p>We are required by International Standards on Auditing (ISAs) to specifically consider the risk of material misstatement in relation to revenue recognition. We have also considered the risk of material misstatement in relation to expenditure recognition. There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported income and expenditure position.</p> <p>Due to their nature, we do not consider the receipt of council tax, national non domestic rates, dedicated schools grant, housing rent or revenue support grant to be a significant risk and these income streams will therefore be excluded from this category. However other sources of material income such as social care, parking and leisure services are considered to represent a significant risk.</p> <p>The Authority is likely to be experiencing increased pressures on many of its budgets as a result of the recent economic conditions. Budget holders may feel</p>	<p>We will understand and evaluate controls relating to income and expenditure recognition and:</p> <ul style="list-style-type: none"> Seek to place reliance on internal audit work on key controls, where it is efficient and appropriate to do so; Reperform a sample of tests carried out by internal audit around key controls to confirm they are operating effectively. <p>We will consider the accounting policies adopted by the Authority and subject income and expenditure to the appropriate level of testing to identify any material misstatement.</p> <p>We will carry out cut off testing on expenditure at year end to ensure that expenditure has been recorded in the correct financial year.</p> <p>We will test expenditure invoices to ensure they have been correctly classified in the financial statements as either revenue or capital expenditure.</p> <p>We will also carry out the required certification work in respect of the Housing and Council Tax Benefit Subsidy</p>

Risks

under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.

Audit approach

for the year.

Fraud and Management Override of Control

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under International Standard on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. Our audit is designed to provide reasonable assurance that the 2010/11 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates, such as provisions and accruals as significant risks.

We are required to make inquiries of those charged with governance in respect of your oversight responsibility for:

- Systems for monitoring risk, financial control and compliance with the law; and
- The entity’s assessment of the risks of fraud and of the internal control the entity has established to mitigate specific risks of fraud that it has identified.

We will review material management estimates for provisions and accruals and evaluate the accuracy, completeness and relevance of the data and the underlying assumptions used to produce the estimate, taking account of the new Clarity ISA requirements on estimates.

We will also perform targeted procedures on high-risk areas, such as journals, and on unusual material transactions. In line with ISA requirements, we will also perform unpredictable procedures to provide reasonable assurance that the Accounts are free from material misstatement.

2010/11 – the first year of reporting under IFRS

The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Authority Accounting.

In particular:

Leases

IFRS requires building and land elements of leases to be analysed separately, increasing the possibility that the land element may need to be classified separately as an operating lease. The lease accounting rules have also been extended to cover arrangements that have the substance of a lease even though they do not have the legal form of a lease. There is a risk that relevant agreements might not be identified and classified correctly and that income and expenses relating to the agreements might be accounted for inappropriately.

Component Accounting

The new Code requires the separate depreciation of components of an item of Property, Plant and Equipment whose cost is significant in relation to the total cost of the item and which have a shorter useful life than the item as a whole. Where items have been insufficiently broken down into their component parts,

We are working closely with the Finance team to ensure that you are aware of the main differences between IFRS and UK GAAP and to resolve any accounting issues raised with us on a timely basis.

We will perform a review of the restated 2009/10 statements to identify disclosure issues during the interim stage of the audit. We will communicate the results of this review to management so they may take action to address issues in advance of the final audit.

We will understand and evaluate accounting policies adopted by the Authority for leases against Code requirements. We will perform detailed testing to establish the completeness of leases and lease type arrangements including minute review and review of contracts. We will also perform testing of lease classification and accounting entries.

We will perform detailed testing around component depreciation and the employee benefit accrual calculations, considering the methods used to result in the accounting entries and ensuring that these are in line with Code guidance.

At the final audit stage we will perform an independent ‘hot review’ of the financial statements and disclosures.

Risks

there is a risk that depreciation charges might be materially understated.

Accruals for Employee Benefits

The new Code has more rigorous requirements for the accrual of employee benefits earned during a year but untaken by the year-end (particularly leave entitlements and flexitime) and for the disclosure of termination benefits.

VfM Conclusion related risks

Increased pressures on budgets

Local government bodies are expected to make significant efficiency savings over the next three years as a result of the Comprehensive Spending Review 2010 and the local government financial settlement. There is a risk that savings plans may not be robust or based on sustainable solutions which could result in short term actions to ensure that spending targets are met.

In addition, it will be important for authorities to be able to demonstrate that they are allocating resources to areas of priority within their tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. There is a risk that the Authority will not be able to demonstrate its achievements in this area.

Audit approach

We will consider the Authority’s arrangements to ensure that it has:

- Robust systems and processes to manage its financial risks and opportunities effectively, and to secure a stable financial position. The organisation’s financial position should enable it to continue to operate for the foreseeable future.
- Adequate arrangements to demonstrate the achievement of cost reductions and by improving efficiency and productivity.

To do this we will consider the Authority’s medium term financial plans and consider their robustness. The ‘foreseeable future’ has been defined for the purposes of the financial resilience criterion as 12 months from the date of the auditor’s report on the relevant set of financial statements.

We will review the Authority’s budget monitoring processes to identify any areas of concern. We will seek to place reliance on internal audit work on key controls. We will also bear any risks in mind when carrying out cut-off testing.

We will also consider the accounting implications of any savings plans and would welcome early discussion of any new and unusual proposals. In particular, we will consider the impact of the efficiency challenge on the recognition of both income and expenditure as detailed above.

Other risks

Accounting for Fixed Assets

The accounting for property, plant and equipment (PPE) is complex and our cumulative knowledge and experience of the Authority has demonstrated that aspects of accounting for PPE can result in the financial statements being misstated.

We consider the following issues, in particular, to represent a risk of material misstatement, while the other elements of accounting for PPE are considered to be normal risks:

Valuation

Valuations may have not been performed on a systematic basis meaning that some assets may not have been included within the scope of revaluations or

We will:

- Update our understanding of the Authority’s fixed asset and capital accounting arrangements under the Code, to the extent required by Accounting Standards;
- Review the capital programme and capital expenditure around year end to ensure that assets under the course of construction are appropriately identified and valued correctly;
- Test expenditure incurred over capital and ensure that this has been correctly treated in accordance with the Code;
- Understand management’s assumptions over the

Risks

may not have been valued on an appropriate basis.

Subsequent expenditure

Expenditure on existing assets may not be accounted for correctly in accordance with the requirements of the SORP, leading to misstatement of PPE.

Assets under construction

The valuer may not be given sufficient information to assess whether assets are under construction and this could lead to incorrect accounting treatment being adopted.

Assets held for sale

Appropriate consideration is needed to identify whether 'surplus assets' should be treated as 'available for sale' and accounted for in accordance with the Code.

Audit approach

treatment of surplus assets to ensure that they are correctly treated as a surplus asset or asset held for sale in accordance with the Code.

Our approach to the audit

Our approach to the audit

Planning of our audit

We have considered the Authority's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have determined the extent of our financial statements and use of resources audit work.

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Annual Governance Statement; and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

Accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). These standards have recently been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2010/11 accounts.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

For planning purposes, our overall materiality for the Authority is estimated as 2% percent of gross expenditure in 2009/10. This will be updated when gross expenditure for 2010/11 is known. Overall materiality represents the level at which we would consider qualifying our opinion.

However, ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We propose to treat misstatements less than £250k as being clearly trivial.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Authority. Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

We also aim to use the work done by internal audit to inform our risk assessment and in payroll we will aim to place reliance on their work. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.

Our Risk Assurance specialists will undertake a review of the general IT controls. The scope of this review will be to understand the IT controls in place over your key financial systems.

Work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit.

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with recent guidance issued by the Audit Commission, in 2010/11 our conclusion will be based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we will not be required to reach a scored judgement in relation to these criteria and the Audit Commission will not be developing 'key lines of enquiry' for each criteria. Instead, we will be carrying out sufficient work to allow us to reach a conclusion on your arrangements.

The Audit Commission has produced VfM guidance and supplementary audit tools to support auditors in their work as set out in the following table:

	VfM profile tool	Financial ratios tool	National study update briefings	Local savings reviews
Local government	✓	✓	✓	✓

We will consider the need to utilise these tools in producing our VfM conclusion for the year. The local savings review guides cover the administration cost of revenues and benefits and the efficiency of back office functions in local government. Should our planned work for the year indicate that these are specific risks to the Authority we will consider the need to complete the reviews, or elements of them, and the resultant impact on our fee. Should we feel that this is necessary we will discuss the implications with the Group Director Finance and Commerce and communicate with you as we continue with our audit process.

Local government pension fund

We will prepare a separate audit plan for our work on the pension fund. This and other matters relating to the pension fund audit will be presented to those charged with governance for the pension fund, as well as to the officers and Members of the Authority.

Our team and independence

Our team and independence

Audit Team	Responsibilities
Relationship Partner Julian Rickett 020 7804 0436 julian.c.rickett@uk.pwc.com	Responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Director Ciaran McLaughlin 020 7213 5253 ciaran.t.mclaughlin@uk.pwc.com	The Engagement Director will support the Relationship Partner in the discharge of his responsibilities. Ciaran will be responsible for the overall control of the audit engagement and liaison with the Director of Finance and Resources and the audit committee.
Audit Manager: Use of Resources Chris Hughes 020 7804 3392 chris.hughes@uk.pwc.com	Manager on the audit responsible for coordinating the use of resources audit programme including preparing and presenting reports.
Audit Manager: Accounts Keeley Gibbons 020 7212 3440 keeley.m.gibbons@uk.pwc.com	Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the use of resources.

Our team members

It is our intention that wherever possible staff work on the London Borough of Havering audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 (revised) ‘Communication of audit matters with those charged with governance’ requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that ‘those charged with governance’ are the Audit Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Audit Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	Audit Fee letter	May 2010
	Audit Plan	Feb 2011
Audit findings	ISA (UK&I) 260 report incorporating specific reporting requirements, including: <ul style="list-style-type: none"> • Any expected modifications to the audit report • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust • Material weaknesses in the accounting and internal control systems identified as part of the audit • Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures. • Any significant difficulties encountered by us during the audit; • Any significant matters discussed, or subject to correspondence with, Management; • Any other significant matters relevant to the financial reporting process; and Summary of findings from our use of resources audit work to support our value for money conclusion.	Sept 2011
	Financial Statements including Use of Resources	Sept 2011
Audit reports	Pension Fund Annual Report	Sept 2011
	Annual Audit Letter	Dec 2011
Other public reports	A brief summary report of our work, produced for Members and to be available to the public.	
	Annual certification report to those charged with governance Report detailing the value of each certified claim, details of any amendments and qualifications, certification fees charged and a discussion of issues arising, including recommendations for improvement where necessary.	Feb 2012

Audit budget and fees

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Local Authorities for the 2010/11 financial year, which depend upon the level of expenditure and potential risk. Based on your expenditure, the indicative fee scale set by the Audit Commission for audit for the Authority is £349,160 (excluding certification work).

Our proposed fee is 6% above the scale fee; this represents a reduction on the 2009/10 fee which was set at 8% above the scale fee, due to knowledge gained from our 2008/09 and 2009/10 audits and our ongoing liaison with the finance team. We categorise the Authority as medium risk, however the uplift also reflects the increase in work which we anticipate following the Authority's transition to IFRS. In our audit fee letter dated 26 May 2010 we therefore agreed an audit fee of £370,110 (exclusive if VAT), which is broken down as follows:

	2010/11	2009/10
Accounts	300,010	247,724
Use of Resources/VFM conclusion work	70,100	99,007
Total audit fee – excluding Pension Fund	370,110	346,731
Pension Fund audit	35,000	35,000
Total audit fee including Pension Fund	405,110	381,731
Certification of grant claims and returns	78,000	80,933
Total	483,110	462,664

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the following work of inspectors and internal audit in respect of our use of resources conclusion:
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2011; and
- Our use of resources conclusion and accounts opinion being unqualified

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Certification of grant claims

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree each bill with the Director of Finance and his team. We anticipate that our audit fee for this work will be below the £78,000 originally indicated in the 2010/11 fee letter to the Director of Finance.

Appendices

Appendix A: Other engagement information

The Audit Commission appoint us as auditors to the London Borough of Havering and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne,

NE1 8HW, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6RH. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 (revised) places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Freedom of Information Act

In the event that, pursuant to a request which London Borough of Havering has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. London Borough of Havering agrees to pay due regard to any representations which PwC may make in connection with such disclosure and London Borough of Havering shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, London Borough of Havering discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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In the event that, pursuant to a request which London Borough of Havering has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), London Borough of Havering is required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. London Borough of Havering agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, London Borough of Havering discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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AUDIT COMMITTEE

REPORT

1 March 2011

Subject Heading:

Housing and Council Tax Benefit Fraud Update report.

Report Author and contact details:

Jeff Potter, Head of Customer Services
Ext 4139.

Policy context:

To advise the Committee of the work and performance undertaken by the Benefit Investigation Section.

Financial summary:

There is no specific financial impact to be considered from this report.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	<input checked="" type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

This report advises the Committee of the work and performance undertaken by the Benefit Investigation Section during the period 1 April 2010 to 30 September 2010.

RECOMMENDATIONS

1. To note the contents of the report.

REPORT DETAIL

Introduction

This report contains four sections; the content of each section is outlined below:

Section 1. Background

Section 2. HB/CTB Fraud Work April 2010 to September 2010

- A) Referrals
- B) National Fraud Initiative
- C) Types of Offences
- D) HB/CTB fraud overpayments
- E) Raising Fraud Awareness

Section 3. Direction of Travel

- A) DWP, Local Authorities, Police and other partnerships.
- B) Successful Prosecution
- C) Single Person discount and local authority tenancy fraud
- D) Financial investigations

Section 4. Key Performance Indicators

Section 1 Background

- 1.1 Local Authorities are empowered by s151 of the Local Government Act 1972 to undertake housing and council tax benefit (HB/CTB) fraud investigations and prosecute offenders.
- 1.2 The Benefits Investigation Section investigates claims for HB/CTB and make recommendations in accordance with the Benefits Service Sanctions Policy and the Corporate Strategy for the Prevention and Detection of Fraud and Corruption.
- 1.3 At the 30th September 2010, there were 20,665 claims for HB/CTB in payment. This is an increase of 893 claims when compared to the same time last year (19,772) and which can in the main be attributed to the national economic climate.
- 1.4 The Benefit Investigations Section continues to be located within Benefit Services. The establishment comprises one Principal Investigations Officer, one Senior Investigations Officer, one Financial Investigator, four Investigations Officers and one Investigations Assistant. The service has been subject to a

recent restructure and now report to the Head of Customer Services.

- 1.5 The cost of administering the Benefit Investigation Team is estimated at £461,000 for 2010/11 and is funded through the Benefit Administration grant.
- 1.6 Data and statistical information in relation to fraud work is provided for 09/10 for comparison purposes with 2010/11

Section 2 HB/CTB Fraud Work April 2010 to September 2010

A) Referrals

- 2.1 The table at para. 2.5 provides the sources of fraud referrals for the Investigations Section from April 2010 to September 2010. Referrals for the previous year have also been presented for comparison purposes.
- 2.2 The anonymous referrals make up 17% of all referrals across this six month period.
- 2.3 External organisation referrals are made up of HBMS data matches and National Fraud Initiative (NFI) data matches which total 37% of all referrals
- 2.4 Referrals from internal departments contribute 46% towards the total referrals in 2010/11 with the majority as anticipated, coming from the Benefit processing teams in Benefit Services.
- 2.5

Source of Referrals						
Number of Referrals/ Type	Quarter 1 10/11	Quarter 2 10/11	Total QTR 1 & 2 10/11	Quarter 1 09/10	Quarter 2 09/10	Total QTR 1 & 2 09/10
Anonymous	18	38	56	40	14	54
External Organisations	76	47	123	68	42	110
Internal Departments	60	95	155	68	83	151
Total	154	180	334	176	139	315

- 2.6 The table at para. 2.7 shows the categories of the potential fraud referrals from April 2010 to September 2010. For comparison purposes referral sources from the first half of 09/10 have also been recorded in the table. There is a large percentage of “Living Together as husband and wife cases” which is reflected in the statistics below. This may be attributed to greater staff and public awareness as well as the makeup of households in the Borough.

2.7

Referrals by Category						
Potential Fraud	Quarter 1 10/11	Quarter 2 10/11	Total QTR 1 & 2 10/11	Quarter 1 09/10	Quarter 2 09/10	Total QTR 1 & 2 09/10
Capital	35	25	60	12	9	21
Contrived Tenancy	4	9	13	3	13	16
Income from Other Sources	9	14	23	25	7	32
Living Together	60	66	126	48	44	92
Non-Dependant	5	7	12	20	7	27
Non-Resident/vacated	13	13	26	34	35	69
Other welfare benefits	-	-	-	8	1	9
Working	23	36	59	17	17	34
Non Commercial Tenancy	1	4	5	3	6	9
Other	4	6	10	6	0	6
Total	154	180	334	176	139	315

B) National Fraud Initiative

2.8 The National Fraud Initiative (NFI) lead by the Audit Commission is a data matching exercise undertaken every two years to assist participating organizations identify possible cases of fraud and protect the public purse. The core remit of the NFI is to match data to help reduce the level of housing benefit fraud, payroll and occupational pension fraud and tenancy fraud.

2.9 The most recent NFI exercise commenced in March 2009 where a total of 2,273 original matches involving housing Benefit and Council Tax Benefit were identified. This has led to two administration penalties, two Cautions, three cases pending prosecution and 8 cases where an overpayment has been raised.

2.10 The current NFI match is due to commence in February 2011.

C) Type of Offences

2.11 The severity of the sanction is determined by the circumstances surrounding the offence. Guidance to assist in determining the sanction is provided in the Council’s Benefit Fraud Policy which considers a range of issues including:

- The factors surrounding the offence
- The amount defrauded

- The evidential test
- The test of public interest

2.12 The number of successful outcomes from April 2010 to September 2010 is detailed in Table 2.13 below.

2.13

Successful Outcomes						
Sanction/ Offence Type	Administrative Penalties		Cautions		Prosecutions	
	Qtr 1 & 2 10/11	Qtr 1 & 2 09/10	Qtr 1 & 2 10/11	Qtr 1 & 2 09/10	Qtr 1 & 2 10/11	Qtr 1 & 2 09/10
2009/10						
Capital	9	6	3	2	3	1
Working and Claiming	1	1	6	7	3	2
Contrived Tenancies	-	-	4	3	1	1
Living Together	5	2	3	2	14	1
Income from other sources	-	1	2	1	-	1
Vacated	-	1	4	1	1	2
Other Benefits	3	-	-	5	-	-
Total	18	11	22	21	22	8

2.14 Normally the offence of living together as husband and wife is a very difficult fraud to prove in court. However, 14 cases have been successfully prosecuted so far this year.

2.15 The reason for this high level of success can be accredited to the good working relationship between the Metropolitan Police Force and the Benefit Investigation Section.

D) HB/CTB Fraud Overpayments

- 2.16 Overpayments are identified and classified as fraudulent following a sanction. This can be a Caution, Administrative Penalty or successful Prosecution.
- 2.17 The Council's commitment to recovering overpayments is reflected in the authority's corporate strategy for the prevention and detection of fraud and corruption. With regard to subsidy and expenditure, fraudulent overpayments are recorded as eligible overpayments and the Authority receive 40% of the overpayment amount in subsidy from the DWP.
- 2.18 From April 2010, overpayments can only be classified as fraudulent where a sanction has been administered or a successful prosecution has taken place. For the purpose of overpayment recovery, any Housing Benefit overpayment that is fraudulent can be recovered at a higher rate from ongoing entitlement if the claimant has either:
- been found guilty of an offence whether under statute or otherwise, or
 - made an admission after caution of deception or fraud for the purpose of obtaining relevant benefit, or
 - agreed to pay a penalty under section 115A of the Social Security Administration Act 1992
- 2.19 When recovering housing benefit overpayments from ongoing entitlement, maximum rate of recovery from housing benefit is £9.90 per week. However, If the overpayment has arisen as a result of fraud, this figure increases to £13.20 per week. The rate of recovery can increase even further if the claimant is working, in receipt of a war pension or receives income from a charity,
- 2.20 The value of fraudulent housing benefit overpayments generated for the first half of the 2010/11 year totalled £379,131.03.

E) Raising Fraud Awareness

- 2.21 Raising awareness is an important tool in combating fraud within the welfare benefit system and is a key objective for Customer Services and the Council.
- 2.22 Benefit Services encourage employees and the public to be vigilant against fraud and refer cases to the Benefit Investigation Section if they believe an offence is being committed.
- 2.23 The rolling programme of improving fraud awareness has included a variety of innovative and practical ideas to prevent and detect fraud.
- 2.24 National newspaper and Television coverage has been achieved for a particularly high profile case that resulted in a custodial sentence for a fraudulent claimant who was living in Paris whilst claiming housing benefits in the borough of Havering.
- 2.25 The BBC has filmed the Benefit Investigation Section on two occasions for the

documentary series "Saints & Scroungers". The series has recently been aired in January 2011 and attracts large viewing audiences.

Section 3 Direction of Travel

A) DWP, Police and other Partnerships, Financial Investigations

- 3.1 The Benefit Investigation Section continues to jointly investigate claims with the local DWP where HB/CTB and welfare benefit is involved. There are 85 cases in progress and a further two cases involving organised fraud.
- 3.2 The Section is also working on three cases in partnership with other local authorities and has also worked closely with the Immigration department, the Ministry of Defence and occasionally Her Majesty's Revenues and Custom Service.
- 3.3 During the period April 2010 to September 2010, 22 partnership cases have been successfully prosecuted for fraud in relation to HB/CTB and another welfare benefit.
- 3.4 The Section continues to work in partnership with the Local Safer Neighbourhood Police. This has resulted in 33 arrests being made to date including the spouse of a serving police officer.
- 3.5 The high profile nature of these arrests will act as a deterrent by "word of mouth" promotion that benefit fraud is taken very seriously by both Havering Council and the Police and will not go unpunished.

B) Successful Prosecutions

- 3.6 There were 17 claimants summonsed to attend the court for prosecution between April 2010 and September 2010. Also, during this period, 22 defendants pleaded guilty or were found guilty of benefit offences under social security, Fraud Act and Theft Act legislation. There are currently 30 cases at various stages within the court process.
- 3.7 The following are examples of successful prosecutions by Havering's Investigation Section which have attracted the attention of the national media.

Case 1. Mr & Mrs X

- 3.8 Mrs X, a 49 year old claimant from Hornchurch was found guilty of living with her husband, Mr X, after falsely claiming to be a lone parent and receiving benefits totalling £40,674. Mr X was a drummer in a 1980s pop band which had a string of hits in the US.
- 3.9 The investigation established that royalties from radio plays and film soundtracks and income from his current work as a self employed record producer, contributed towards the £75,600 that Mr X declared as his annual income. The couple holidayed abroad twelve times over a period of six years.
- 3.10 Mrs X was sentenced to 30 weeks imprisonment suspended for 18 months and ordered to carry out 120 hours of unpaid work. Mrs X was also electronically

tagged as part of a 3 month curfew and ordered to pay £7,500 costs.

3.11 The case was also reported in the Enquirer.

Case 2. Ms Y Mr Z

3.12 The couple Ms Y and Mr Z received £85,000 in benefits due to Ms Y claiming to be a lone parent of four children. Mr Z, the father of the two youngest children lived with the family in a property in Hornchurch which was raided by Havering investigating Officers and the Metropolitan Police.

3.13 The investigation established that Mr Z who earned nearly £50,000 pa. as a gas engineer owned four properties worth £585,000. The couple enjoyed holidays abroad and lived an extravagant lifestyle. Ms Y and Mr Z pleaded guilty to the benefit fraud charges.

3.14 The couple each received a twelve month suspended sentence and were ordered to carry out 250 hours of unpaid work. Mr Z was also given a four month curfew and was electronically tagged. A financial investigation is currently in progress.

3.15 This case was reported in the local, national and international press.

C) Single Person Discount Fraud and Local Authority Tenancy Fraud

3.16 There has been a growing recognition of the damaging impact fraud has on the UK economy. The Audit Commission in their paper "Protecting the Public Purse" identified a significant area of risk in false claims for single person discount estimated at costing the taxpayer £90 million each year nationally.

3.17 The report highlighted local authorities' responsibilities and recommended strategies to provide reassurance to their Members that opportunities to commit fraud were being minimised.

3.18 In 2009, Members agreed to allow a review of single person discounts (SPD) to be undertaken. The review is well underway and commenced with an exercise to match the SPD data on the Council Tax system against various data sources such as credit bureau information and the electoral role.

3.19 A specialist company, Datatank undertook the first phase of this exercise and the initial results showed 5652 cases warranted further investigation as information relating to a second individual was found at the property.

3.20 The position of the Datatank exercise as at 31st January 2011 is shown in Table 3.21 below.

3.21

Single Person Discount Initiative	
Cases under review with Datatank	52
Non returns	222
Cases under investigation	170
Number of Single Person Discounts withdrawn	598
Value of Discounts withdrawn	£332,105.30

3.22 The review has progressed to the second phase where a more in depth investigation will take place. In appropriate cases, a sanction will be administered or prosecution undertaken.

3.23 A corporate initiative to review local authority tenancy fraud has also commenced. The Benefit Investigation Section is working in partnership with Internal Audit and Homes in Havering to develop robust systems and procedures to prevent and detect tenancy fraud.

3.24 A pilot of 40 cases has been investigated for tenancy fraud. This has resulted in two properties being returned to Homes in Havering with two more properties in the process of being recovered. The Audit Commission values the recovery of each Council property at £75,000.

D) Financial Investigations

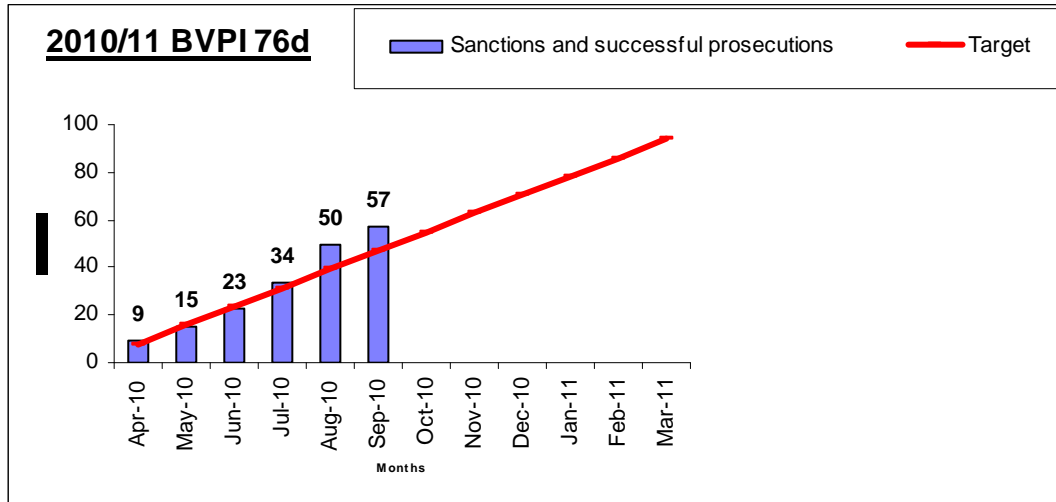
3.25 An accredited Financial Investigations Officer has been recruited into the Benefit Investigation Section. This will enable the Council to seize the assets of people convicted of offences against the Council by use of the Proceed of Crime Act 2002.

3.26 Currently there are two financial investigations in progress, the first involves the ownership of four properties. The second concerns a large sum of money hidden in an undisclosed bank account. It is hoped both of these financial investigations will result in the Council recovering the benefit overpayment and also any other criminal profit made by the convicted individual.

Section 4 Key Performance Indicators (KPIs)

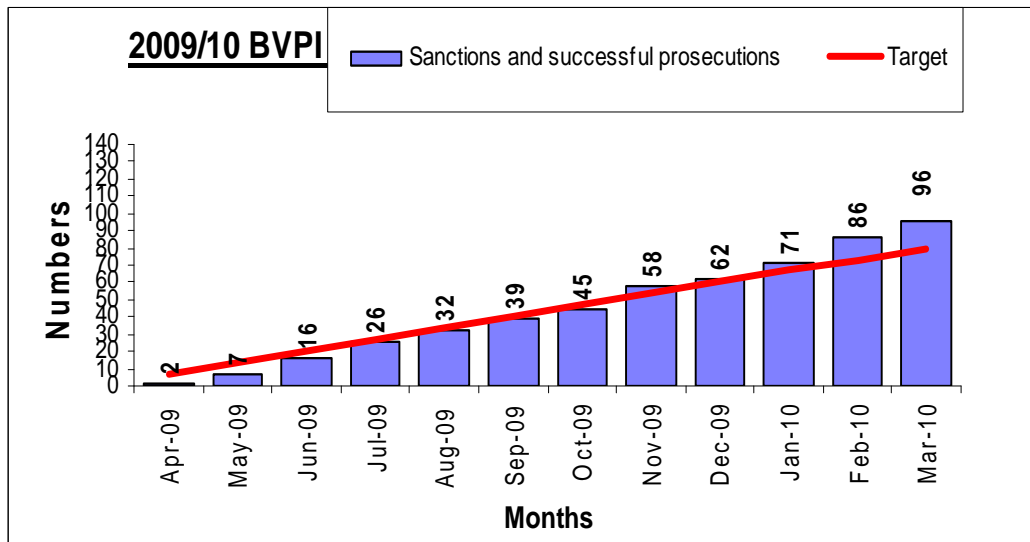
4.1 The number of sanctions and successful prosecutions for the first 6 months of 2010/11 is shown in the graph below.

4.2



4.3 In comparison to performance during the first half of 2009/10 which can be seen in Table 4.4 below, a significant improvement can be seen.

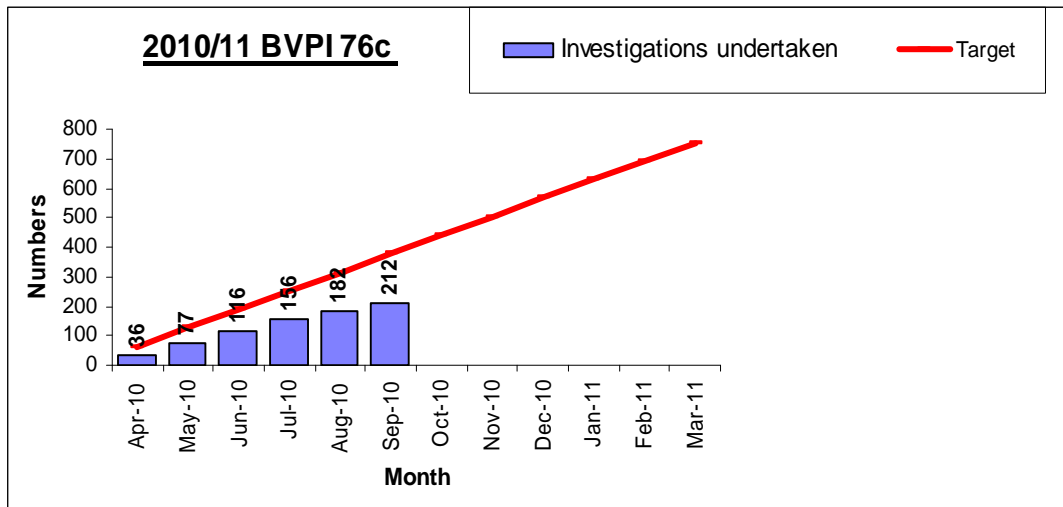
4.4



4.5 The investigation process remains streamline and efficient through regular review.

4.6 The graph in Table 4.7 shows the number of investigations undertaken between April 2010 and September 2010.

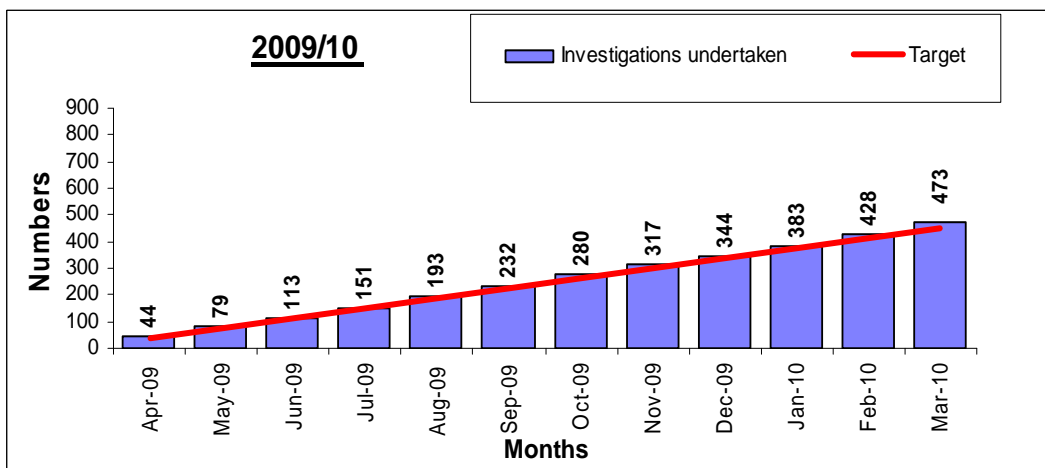
4.7



4.8 Table 4.10 shows the number of investigations undertaken in 2009/10. It can be seen the number of investigations undertaken so far in 2010 do not surpass performance in relation to the same time last year.

4.9 The lower level of investigations during 2010 was expected as the quality of referrals investigated has been subject to a more rigorous sifting process and this has had the desired affect of increasing the number of successful sanctions and prosecutions.

4.10



IMPLICATIONS AND RISKS

Financial implications and risks:

The Benefits Service administers HB/CTB on behalf of the Department for Work and Pensions who ordinarily provide the Council with 100% subsidy for the expenditure it occurs from payment of HB/CTB. However, subsidy is reduced where overpayments occur as there is an expectation that Councils will recover the overpaid benefit. The DWP will allow 40% subsidy in the case of fraudulent overpayments.

The work of the Benefit Investigation Team regularly identifies benefit to which claimants are not entitled which are to be recovered by the Council. There are however, no direct financial implications or risks arising directly from this report.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

None

AUDIT COMMITTEE REPORT

1 March 11

Subject Heading:	Internal Audit Progress Report
Report Author and contact details:	Paula Sisson – Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of progress to deliver the audit plan in quarter three of 2010/11.
Financial summary:	N/a

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 1 October - 31 December 2010.

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

This progress report contains an update to the Committee regarding Internal Audit activity presented in seven sections.

	Page
Section 1 Audit Work 1 October- 31 December 2010	3
A summary of the reports finalised by the end of December is included in this section of the report.	
Section 2 Management Summaries	4
Summaries of all final reports issued in the period.	
Section 3 Schools Audit Work	9
Section 4 Budget & Resource Information	10
The budgetary and resource position at the end of December are included for information.	
Section 5 Key Performance Indicators	11
The actual performance against target for key indicators is included.	
Section 6 Changes to the Approved Audit Plan	13
The changes made to the audit plan since the last meeting are detailed and explained in this section of the report.	
Section 7 Outstanding Recommendations Summary Tables	14-19
The details regarding status, as at the end of September, of all outstanding recommendations are included within tables for information.	

Section 1 Audit Work 1 October- 31 December 2010.

At the end of December 60% of the audit plan had been delivered. This was against a target for the period of 65%.

Schedule 1 details the work completed in quarter three. Details are listed in the table below and management summaries under Section 2 starting on page 4.

SCHEDULE 1: 2010/2011 – Systems Audits Completed

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
Corporate Support Team	Unqualified	0	2	3	5	2 (1)
Children in Need	Unqualified	0	0	3	3	2 (2)
Housing Advice & Homelessness	Unqualified	0	0	0	0	2 (3)

Section 2 Management Summaries

Corporate Support Team

Schedule 2(1)

2.1 Background

2.1.1 The Corporate Support Team are responsible for the provision of corporate processes such as;

- Internal & external post;
- Issue & collection of ID passes;
- Sorting & distribution of pay slips;
- Retention & maintenance of the Council's Gifts & Hospitality register; and
- Processing of members allowances as well as printing & distributing reports and agendas to Councilors.

2.1.2 The Corporate Support Team is also responsible for the provision of reception staff in the Councils three main corporate buildings, Mercury House, the Town Hall and Scimitar House.

2.1.3 Summary of Audit Findings

2.1.4 A comprehensive procedures manual was produced in 2005. Whilst there is no evidence to support that this manual has since been reviewed, it was noted that some procedures have been superseded by changes in the team's responsibility.

2.1.5 One to ones have not been undertaken in the last two years due to the ongoing implementation of a local restructure. Whilst it is appreciated that staff roles within the team are likely to change once the restructure has been agreed and rolled out, it should be ensured that staff have an appropriate platform to meet with their manager.

2.1.6 There is a lack of ownership over responsibility for attending alarms triggered via the use of Scimitar House contact rooms. These rooms provide a secure environment for social care service users to meet. However, in the event of the alarm being triggered, response is voluntary. No recommendations have been raised regarding this issue; however, management should consider future arrangements regarding this issue after the closure of Scimitar House. Consideration should be given to inclusion of this responsibility into the current job profiles of the PASC reception / security staff.

2.1.7 Guidance regarding the use of ID passes is available on the Council's intranet pages. New starters provided with photographic ID passes are verbally informed requirements, however there is no evidence to support that this has occurred.

- 2.1.8 Managers are responsible for ensuring that ID passes are returned when staff leave the Council. A monthly leavers list is provided to the Corporate Support Team to ensure that cards are deactivated. Any cards returned are destroyed and a note included within the ID pass computer system to support this. Currently no management information is available to allow monitoring of leavers against cards returned / destroyed to be undertaken.
- 2.1.9 Monthly budget monitoring is undertaken. Whilst the team are currently projecting an under spend, it was noted that the subjective codes in place are not being adequately used. As a result, some subjective codes show expenditure where no budget has been allocated and vice versa.
- 2.1.10 The Corporate Support Team are responsible for recharging the costs of using facilities such as the photocopies to the relevant services. At the time of the audit, no recharges had been made. There is a risk that services are carrying out budget monitoring without any indication of the recharges incurred within the first six months of the financial year.
- 2.1.11 Measurable performance indicators applicable to the team have not been established. Likewise, management information, excluding budget related information is currently not being produced. No recommendations have been raised regarding these issues as management were aware of the issues and have acknowledged the need to resolved them once the team has been restructured.
- 2.1.12 **Audit Opinion**
- 2.1.13 As a result of this audit we have raised three low and three medium priority recommendations.
- 2.1.14 Recommendation relate to the need for:
- The procedures manual to be reviewed for accuracy;
 - One to ones to be reintroduced in line with corporate requirements;
 - Evidence to be retained to support the provision of guidelines relating to ID passes to new starters;
 - Monitoring to be undertaken of ID passes returned and destroyed to facilitate the reporting of outstanding passes;
 - Recharges to be made on a regular basis to allow effective budget monitoring to be undertaken by departments; and
 - Subjective codes to be reviewed to ensure efficient and effective budget monitoring can be undertaken.
- 2.1.15 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Children in Need

Schedule 2(2)

2.2 Background

2.2.1 Section 17 of the Children Act 1989 placed a general duty on every Local Authority to safeguard and promote the welfare of children who are in need within its borough.

2.2.4 A child is deemed to be “in need” if:

- S/he is unlikely to achieve or maintain, or to have the opportunity of achieving or maintaining a reasonable standard of health or development without the provision of services by a Local Authority; and/or
- Their health or development is likely to be significantly impaired, or further impaired, without the provision of such services.

2.2.5 The CIN team had 209 cases as at June 2010, 16 of which were new referrals. The budget for 2009/10 was £1,117,115. The budget for 2010/11 is £825,660 due to a staffing restructure.

2.2.6 The Intensive Family Intervention Team (IFIT) had 13 cases as at October 2010, all of which were CIN cases. IFIT amalgamated with the Parenting Assessment Team (PAT) and CIN in June 2010. The budget for 2010/11 therefore increased to £617,410.

2.2.5 Summary of Audit Findings

2.2.6 A local induction check list is currently being drafted which will provide an opportunity to evidence that new starters have familiarised themselves with local procedures.

2.2.7 Evidence is not retained to support reviews undertaken where no issues arise, resulting in an incomplete audit trail and a misleading record of the level of work undertaken to ensure compliance.

2.2.8 Expenditure incurred is not consistently notified to the administrative staff for inclusion to the budget monitoring spreadsheet, impacting on the accuracy of budget monitoring.

2.2.9 Reconciliations of expenditure to FIS have not been consistently undertaken, however, this has only recently been implemented, as such no recommendations have been raised.

2.2.10 Petty cash expenditure is not always supported by a receipt. Whilst receipts are retained on individual case files to evidence expenditure in relation to cases, no spot checks are undertaken to ensure receipts have been obtained.

2.2.11 Core Group meetings and CIN planning meetings and visits are not being undertaken in within the expectations imparted by the team's manager during the system walkthrough/documentation, however, these expectations are well within those set by the Government in the case of Core Group meetings and are consistent with those of neighbouring boroughs in the case of CIN planning meetings (where the Government issues guidance rather than prescriptive targets). Therefore no recommendations have been raised.

2.2.12 Whilst three members of staff were found to have CRB checks older than three years, no recommendation has been raised in this report as human resources have previously accepted recommendations and actions to reduce the risks have commenced.

2.2.13 Filing cabinets retaining physically case files are not locked. However, the risk of not being able to gain access to the data is greater than that of unauthorised access to data particularly as the office is secured by access pass entry. The team is also working towards paperless ways of working. Therefore no recommendations have been raised.

2.2.14 The collection of data and management information is a time consuming and laborious process which is the subject of a service wide review. As management are aware of this issue and are taking steps to resolve it, no recommendations have been raised.

2.2.15 Audit Opinion

2.2.16 As a result of this audit we have raised three low priority recommendations. Recommendations raised relate to the need for:

- Details of all expenditure incurred in relation to cases to be notified to the administrative staff for inclusion in budget monitoring;
- Petty cash payments to be supported by receipts where possible; and
- Evidence to be retained of reviews undertaken.

2.2.17 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

2.3 Background

2.3.1 The Housing Act 1996, part VII (revised 2002) lays out the duties and responsibilities of local authorities with regard to homeless people. The act requires local authorities to investigate cases of homelessness in the area and places a range of obligations upon the authority dependent on the outcome of the investigations. These obligations range from the provision of housing advice / assistance to direct provision of housing.

2.3.2 The result of applications for homelessness and the subsequent outcome of investigations may result in referrals to relevant housing sections of the borough. The audit focused on the procedures and controls within this investigation process in order to determine the level of assurance that can be placed on the referrals received from the section to other housing departments.

2.3.3 During 1st April 2010 and 30th September 2010 there were a total of 937 homelessness cases reviewed.

2.3.4 Summary of Audit Findings

2.3.5 Testing found that good controls are evident in the processing and review of homelessness applicant cases. Legislation provides the right for any applicant to appeal decisions made but of these appeals only a small number result in a decision being overturned at court which is also reflected in the relatively low legal expenditure.

2.3.6 Some access to data concerns were raised as a result of a lack of checks with housing managers when staff across the Council request access to the OHMS system. This is being raised as an area of concern for overall Corporate IT access and will be picked up as part of the IT audit plan by Deloitte in 2011/12.

2.3.7 Audit Opinion

2.3.8 As a result of this audit no recommendations have been raised.

2.3.9 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place.

Section 3 - Schools Audit Work 1 October- 31 December 2010

The schools internal audit programme was brought back in-house last year. The programme started in October. There has been some delay due to staff training requirements which have now been addressed and the programme is back on track. Three final reports have so far been issued. Although this progress report is for quarter three data for January has been included to give Committee a better steer on how things are progressing given that the in-house programme is in its infancy.

Schedule 3: 2010/2011 – School Audits Completed as at 31 Jan 2011

Report	Opinion	Recommendations			
		High	Med	Low	Total
Engayne Primary	Full			2	2
St Marys RC Primary	Substantial	2	4	5	11
Harold Court Primary	Substantial	1	7	1	9
Total		3	11	8	22

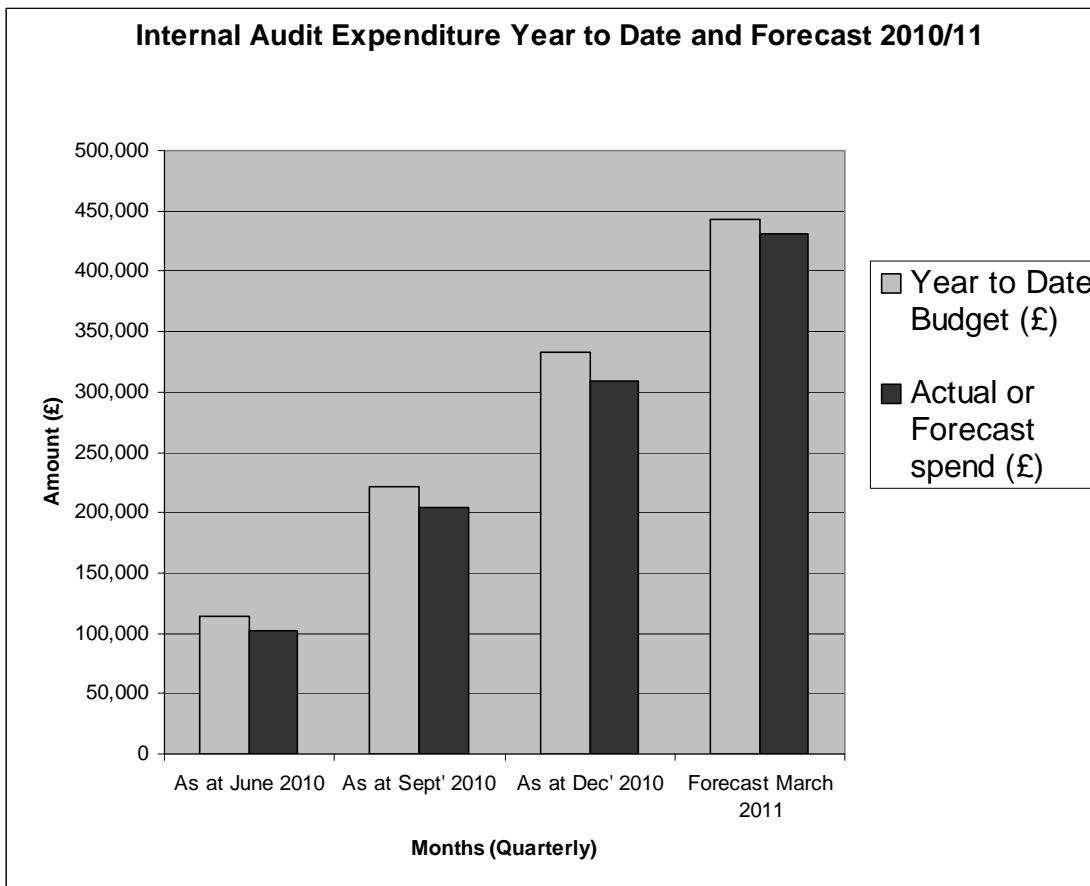
Management summaries will only be included in the quarterly progress reports when we have given limited or no assurance during an audit. There are no school audits in this quarter that have given cause for concern.

Section 4 Budget & Resource Information

2010/2011 Budget Analysis

Internal Audit (F620) 2010/11 Year to Date Expenditure and Forecast as at end December 2010

	As at June 2010	As at Sept' 2010	As At Dec' 2010	Forecast March 2011
Year to Date Budget (£)	113,623	221,330	332, 280	442,660
Actual or Forecast spend (£)	102,291	204,036	308,700	430, 904
Variance (£)	-11,332	-17,294	23,580	11, 756



Quarter 1 variance due to expected delay in start of IT audits and therefore invoices.

Quarter 2 variance due to delay in receipt of IT audit invoices.

Quarter 3 variance due to the above plus additional income from schools

Section 5 Key Performance Indicators

The tables below detail the profiled targets for the year and the performance to date at the end of December 2010 (excluding schools).

Audit Plan Delivered (%)										
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Actual	20	28	34	41	52	59	60			
Cumulative Target	16	25	30	38	45	57	65	75	86	97

At the end of December 2010 the team is just behind target with 60% of the audit plan having been delivered. However this is not anticipated to have an affect on the overall target being reached.

KPI 01 - Briefs issued										
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Actual	24	32	40	42	49	49	53			
Cumulative Target	16	23	28	35	42	49	52	55	56	60

It is estimated the team will undertake 60 audit assignments. The outputs of this work is reported in various ways to the committee depending on the type of work. Outputs from Fraud investigations are not counted in the 60. At the end of December the team were ahead of target with regards issuing of audit briefs.

KPI 02 – Draft Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	6	9	16	25	26	26	29				
Cumulative Target	7	11	16	22	28	32	37	45	51	54	60

KPI 03 – Final Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	4	7	11	16	23	24	25				
Cumulative Target	3	7	11	16	22	26	32	40	46	51	60

Twenty final reports had been issued at the end of September. This includes fraud proactive and non systems assurance work the outcomes of which are not included in this report.

The tables show that we are slightly behind in the issuing of draft and final reports. This is due to the majority of the Systems work that was removed from the plan

being either Q2 or Q3 work. Auditor time during Q3 was diverted to Schools Audits which have been delivered so with no extra resources coming into the team.

Schools Key Performance Indicators

The tables below detail the profiled targets for the year and the performance to the end of January.

School Audit Plan Delivered (%)						
	Oct	Nov	Dec	Jan	Feb	Mar
Actual				38		
Cumulative Target			25	50	75	100

Briefs issued						
	Oct	Nov	Dec	Jan	Feb	Mar
Actual	2	4	9	9		
Cumulative Target	2	5	8	12	15	15

Fieldwork (site visit) completed						
	Oct	Nov	Dec	Jan	Feb	Mar
Actual	1	5	6	8		
Cumulative Target	1	4	6	9	12	15

Draft Reports							
	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual			3	3			
Cumulative Target		3	6	8	10	13	15

Final Reports							
	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual				3			
Cumulative Target			3	6	9	12	15

Section 6 – Changes to the Approved 2010/11 Audit Plan

In March 2010 the Audit Committee approved an Annual Audit Plan for the 2010/11 financial year totalling 1530 days.

At the previous update committee were informed that deliverables had been reduced to 60 rather than 70. At the end of quarter three this remained the same and no further reductions have been made to the plan.

Section 7 – Outstanding Recommendations Summary Tables

At Committee in December members expressed concern at the number of outstanding recommendations, particularly those that have been outstanding for several years. As a result of this the Interim Internal Audit and Corporate Risk Manager has undertaken a complete review of all recommendations that are over two years old with a view to ensuring that they are: a) completed as a matter of urgency b) removed from the outstanding list because they are no longer valid in our changing organisation or c) if they remain outstanding there is justification. The tables below list the recommendations that remain outstanding. Given the number of recommendations that have been removed from the tables this quarter members have been provided with brief reasons for the closure of the recommendation as well as information on those that remain outstanding.

Categorisation of recommendations

High: Fundamental control requirement needing implementation as soon as possible
 Medium: Important Control that should be implemented
 Low: Pertaining to Best Practice

Outstanding Internal Audit Recommendations – 2006/07

Review in 2006/07	HoS Responsible	Outstanding			Position as at end Dec 10		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Providing Services for the Physically Disabled	Adult Social Care	1	1		2		
Total		1	1	1	2	0	0

- Providing Services for the Physically Disabled have revised dates of February 2011. This was almost resolved however the fairer charging policy that was agreed by Cabinet has been called in by the Overview and Scrutiny Committee.
- Liquidated and Ascertained Damages has been completed, a manual recording system has been implemented with adequate control pending implementation of an IT system.

Outstanding Internal Audit Recommendations – 2007/08

None Outstanding

- Street Lighting is now complete as Havering have entered into an inlighting/performance arrangement with the current term contractor. The arrangement includes a periodic structural inspection of the lighting stock which will identify any specific problem areas.
- Asbestos Management is now complete as existing documentation is now held as an attachment within the database to provide an audit trail.
- Civil Contingencies is now complete. Arrangements for an emergency control centre are in place and are fit for purpose.

Outstanding Internal Audit Recommendations – 2008/09

Review in 2008/09	HoS Responsible	Outstanding			Position as at end Dec 10		
		High	Medium	Low	In Progress	Not Started	Position Unknown
E Payments	Business Systems		2		2		
Commissioning of Works	Asset Management	1			1		
IT Security & Data Management	Business Systems	2			2		
Telecommunications	Business Systems	1	1		2		
Homelessness, Hostels & Housing Aid	Housing & Public Protection		1		1		
Trading Standards	Housing & Public Protection	1			1		
Cemeteries & Crematorium	Housing & Public Protection		1		1		
	Total	5	5	0	10		

Update on outstanding recommendations

E-Payments This work will be complete by the end of March 2011. Paris will be moved into the new data centre and transactions will be resilient and therefore this issue will never arise

Commissioning of Works has a revised date of February 2011, this recommendation relates to a contract that is due for a full audit during 11/12.

IT Security and Data Management has revised dates of November June 2011. This is a high risk area but good progress is being made.

Telecommunications has a revised date of June 2011. Deployment is scheduled for the second quarter of 2011

Homelessness, Hostels and Housing Aid (1) has a revised date of April 2011, This is a very major task and cannot be actioned earlier owing to budget pressures. The new structure includes an ICT Systems Development Officer in Housing from April 2011 who will be charged with delivering this.

Trading Standards has a revised date of March 2011, progress has been made. System is being tested on one team and will be rolled out across remaining teams shortly.

Cemeteries and Crematorium the medium recommendation has been revised to April 2013 due to the complexity of the work.

Update on completed/removed recommendations

Asylum Seekers has been 80% implemented however the IT process cannot be implemented as it is not currently compatible with Havering's IT suite. There are manual processes in place to assist with control. As this matter cannot be resolved the recommendation has been removed however Asylum seekers will receive a short follow-up audit in 11/12 to ascertain what else can be done to improve control.

Internet now completed. Revised policy was agreed by CMT in Dec 10 and went live before Christmas

Homelessness, Hostels and Housing Aid (2) now completed, new structure agreed and come into effect April 2011.

Procurement and Leasing of Vehicles is complete, procurement of vehicles is taking place as identified within the fleet replacement schedule.

Cemeteries and Crematorium the high recommendation is complete as the new structure has been agreed and will be implemented from April 2011.

Business Continuity is now complete, site clearance plan complete.

Burials and Protection of Property is now complete. All retention and disposal complies with Treasury Solicitor guidance

Meals on Wheels now complete, MOW charging will become part of customer services from April 2011.

Outstanding Internal Audit Recommendations – 2009/10

Review in 2009/10	HoS Responsible	Outstanding			Position as at end Sept 10		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Fairkytes	Culture & Leisure			1	1		
Contract Procedure Rules & Procurement	Financial Services		2		2		
Integrated Youth Services	Children's and Young people		3	1	4		
Climate Change	Regeneration		1		1		
Children's Centres	Shared Services		1		1		
Government Connect GCSx	Business Systems	3	2		5		
Integrated Children's Systems	Children's and Young People		4		4		
	Total	3	13	2	18		

Fairkytes has a revised date of January 2011

Contract Procedure Rules and Procurement has revised dates of March 2011

Integrated Youth Services has revised dates of April 2011 for the medium recommendations and May 2011 for the low recommendation.

Climate Change has a revised date of January 2011

Children's Centres has a revised date of March 2011

Government Connect GCSx has three high priority with revised dates of June 2011, March 2011 and February 2011 and two medium with revised dates of March 2011.

Integrated Children's Systems have one revised date of March 2011, two revised dates of March 2011 and one revised date of June 2011.

Outstanding Internal Audit Recommendations – 2010/11

Review in 2010/11	HoS Responsible	Outstanding			Position as at end June10		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Registrars	Customer Services	0	0	1		1	
Total		0	0	1	0	1	0

Registrars has a revised date of March 2011.

IMPLICATIONS AND RISKS

Financial implications and risks:

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work.

Legal implications and risks:

There are no apparent legal implications arising from the noting of this report.

Human Resources implications and risks:

Any HR implications arising from the implementation of these recommendations will be dealt with within the Council's existing HR policies and procedures.

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None.

AUDIT COMMITTEE

1 March 2011

REPORT

Subject Heading:

Review of Internal Audit Charter and Terms of Reference

Report Author and contact details:

Paula Sisson – Interim Internal Audit & Corporate Risk Manager ext 3733

Policy context:

For the Committee to approve the revised Internal Audit Charter and Terms of reference.

Financial summary:

N/a

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

This report reviews the role of Audit Committee against best practice guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and makes recommendations for action to further improve the arrangements in place.

RECOMMENDATIONS

1. To approve the updated Internal Audit Charter and Terms of Reference, appendix A.

REPORT DETAIL**Internal Audit Charter and Terms of Reference**

1. The aim of the Internal Audit service is to provide an assurance function; this is set out in the Internal Audit Charter and Terms of Reference.
2. The review has resulted in only minor changes. The document has been track changed to demonstrate what changes were required and a final version has also been provided for approval.

IMPLICATIONS AND RISKS**Financial implications and risks:**

None directly arising from this report, however by maintaining an adequate audit service, management are supported in the effective identification and efficient management of risks which may prevent financial losses.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None

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INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

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1.0 Why do we have Internal Audit?

- 1.1 The requirement for a local authority to have an internal audit function is implied by s151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'. The Accounts and Audit Regulations 2003 (amended) more specifically require that a relevant body must 'maintain an adequate and effective system of internal control in accordance with the proper practices in relation to internal control'.

2.0 Definition

- 2.1 The London Borough of Havering has adopted the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and its definition of Internal Audit:

- 2.2 *Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's 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.*

3.0 Internal Audit Service's Role

- 3.1 The Internal Audit Service is responsible for conducting an objective and independent appraisal of all the London Borough of Havering's activities, financial and otherwise.
- 3.2 Internal Audit is required to be a continuous service available to all levels of management but its primary responsibility is to give assurance to Members, the Chief Executive, Chief Finance Officer, Assistant Chief Executives and Group Directors on all control arrangements, including risk management and corporate governance.
- 3.3 Internal Audit will consider the adequacy of the control environment necessary to secure: propriety, strategic management, data quality, compliance with laws and regulations and effectiveness of operations in all areas.
- 3.4 The role and responsibilities of Internal Audit are specified in more detail in the enclosed Terms of Reference below.

4.0 Management's Role

- 4.1 Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.

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4.2 It is for management to determine whether or not to accept the audit recommendations and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions.

5.0 **Key Performance Indicators (KPIs)**

5.1 KPIs have been devised to measure the performance of the Internal Audit Service and are communicated via the Internal Audit Protocol and the Internal Audit Service Plan. Current KPIs include:

5.2 KPI 01 - The total number of audit briefs issued as a percentage of the total annual number of planned reviews (%).

5.3 KPI 02 - The number of audit reviews completed to draft stage as a percentage of the total annual number of planned reviews (%).

5.4 KPI 03 - The number of audit reviews completed to final stage as a percentage of the total annual number of planned reviews (%).

5.5 KPI 04 - Performance against target time: 50 days max to complete an audit from start to release of a consultation draft (%).

5.6 KPI 05 - System Audits Survey Forms Assessed (%).

5.7 KPI 06 - Fraud Audits Survey Forms Assessed (%).

5.8 KPI 07 - Management Satisfaction Survey results above average (%).

5.9 The Terms of Reference below provides more detail regarding how the effectiveness of the Audit Service is monitored.

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<https://www.havering.gov.uk/internet/index.aspx?articleid=5656>

TERMS OF REFERENCE

6.0 RESPONSIBILITIES of INTERNAL AUDIT

6.1 To provide assurance to elected members and to management that there are arrangements in place for the proper administration of the financial affairs and that generally the system of internal control is adequate and effective in the management of all risks, financial or otherwise, to the organisation.

6.2 To alert the Group Director Finance and Commerce (GDF&C) to any significant areas of internal control weaknesses relevant to his s151 role.

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6.3 To report to Audit Committee regarding results of audit work.

6.4 To produce an Annual Report and Head of Internal Audit Opinion.

6.5 To deliver a risk based audit plan that ensures the resources available are used to the maximum benefit of the authority.

6.6 To work with External Audit, in accordance with the Internal and External Audit Protocol, in order to maximise the value obtained from the total audit resource and minimise the overall cost of audit to the authority.

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6.7 To work in accordance with the Internal Audit Protocol.

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7.0 SCOPE

7.1 All London Borough of Havering's activities fall within the remit of the Internal Audit Service.

7.2 Internal Audit will not restrict itself to the audit of financial systems and controls but will cover all operational and management controls.

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7.3 Not all systems will be subject to review each year but they will be included within the overall remit of audit and be subject to the audit needs risk assessment and considered for review as described in the Annual Audit Strategy and Strategic Plan.

7.4 As Audit can give an opinion on the whole of the system of control it may include areas as diverse as equality and diversity, sustainability, staff turnover or performance management etc. The role of internal audit is to confirm the effectiveness of systems and controls in meeting objectives. It will not make academic or other judgements.

7.5 It is not within Internal Audit's remit to question the appropriateness of policy decisions. However, Internal Audit is required to examine the arrangements by which such decisions are made, monitored and reviewed.

7.6 The Internal Audit Service may also conduct special reviews and investigations, (i.e. unplanned work) requested by Members, Chief Executive, Assistant Chief Executives and Group Directors and in

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particular the Group Director for Finance and Commerce (GDF&C); provided such reviews do not compromise its objectivity or independence. The impact on the audit plan must be assessed by the Internal Audit & Corporate Risk Manager (IA&CRM) and, if necessary, the plan must be reprioritised. Any significant changes must be reported back to the GDF&C and Members in the next Audit Committee reporting cycle.

8.0 ACCESS

8.1 Internal Audit has a right of access to all premises, personnel, documents and information they consider necessary for the purpose of their audits as specified in Financial Procedure Rules Section P, and to obtain such information and explanations from any employee or member as necessary concerning any matter under review/investigation.

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8.2 Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred.

9.0 OBJECTIVES of the AUDIT SERVICE

9.1 To understand the whole organisation, its needs and objectives.

9.2 To add value and assist the organisation in achieving its objectives.

9.3 To be forward looking, innovative and challenging.

9.4 To help to shape the ethics and standards of the organisation.

9.5 To support management in maximising Value for Money in the use of public funds.

9.6 To ensure the right resources are available to deliver the audit plan, recognising changes in capacity, experience, qualifications and specialisms.

9.7 To share opportunities for joint working and seek to share best practice with auditors and examiners from other authorities and organisations, in particular the Council's External Auditor.

9.8 To maintain strong and effective relationships with management.

9.9 To report significant issues to the Audit Committee, in a timely fashion, to enable and support the effective completion of their responsibilities.

10.0 INDEPENDENCE

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- 10.1 Internal Audit is organisationally independent that is; the Internal Audit Service has no operational responsibilities (with the exception of the annual returns to the Inland Revenue), nor does it have responsibility for the development, implementation or operation of systems. However, it may provide advice on implementation, control and related matters, subject to resource constraints.
- 10.2 Responsibility for internal control rests fully with management who must ensure that appropriate and adequate arrangements exist without reliance on Internal Audit. To preserve the objectivity and impartiality of the auditor's professional judgement, responsibility for implementing audit recommendations rests with management.
- 10.3 Internal Audit will be free from interference in setting objectives, scope and priorities for the Audit Plan (although they must have due regard for the Authority's strategic objectives and corporate and service risk registers and consult with Members and Officers charged with governance) and in reporting and carrying out their duties. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
- 10.4 Internal Audit is supported by the organisation and its independence is seen as key to providing the London Borough of Havering with an effective service.
- 10.5 Internal Audit has direct access to the Chief Executive, the Assistant Chief Executive, all Group Directors, Heads of Services, the Leader of the Council and the Chair of the Audit Committee and report in their own name.
- 10.6 The IA&CRM should have sufficient status within the authority to facilitate the effective discussion of audit strategies, plan, results and improvement plans with senior management.
- 10.7 In order to maintain organisational independence, Internal Audit has its own budget and is responsible for providing the Internal Audit service within budget.

11.0 REPORTING LINES

- 11.1 The IA&CRM reports to the Head of Financial Services and GDF&C on the progress with the audit plan and the performance against KPIs. The IA&CRM has direct access to the Audit Committee to ensure the role of Internal Audit is not unduly influenced by the management structure.
- 11.2 Other service performance data i.e. achievement of service plan objectives is reported quarterly via the Head of Service Packs.
- 11.3 The IA&CRM reports quarterly to the Corporate Management Team, in the month prior to each Audit Committee.

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11.4 A progress report is submitted to each of the five Audit Committee meetings held annually. Reports will also be submitted annually for approval regarding the Audit Strategy and Plan, Charter and Terms of Reference, Risk Management and Fraud Strategies. On an annual basis the IA&CRM will present their Annual Report and Head of Internal Audit Opinion to the Audit Committee.

INTERNAL AUDIT'S ROLE IN FRAUD AND CONSULTANCY WORK

12.0 Fraud

12.1 As stated in the CIPFA Code, managing the risk of fraud and corruption is the responsibility of management (for example through maintaining internal controls to prevent and detect fraud). Internal audit does not have responsibility for the prevention or detection of fraud. However, fraud issues are an area where Internal Audit is well placed to offer a lead as a service to the organisation. To enable this an anti-fraud and corruption team exists, which has responsibility for:

- Raising fraud awareness across the Council;
- Carrying out a programme of proactive fraud identification work;
- Dealing with the National Fraud Initiative and other external anti-fraud contacts;
- Acting as a source of expert advice to other internal auditors and officers generally; and
- Leading on any fraud investigations where Internal Audit are conducting the work.

12.2 Financial Procedure Rules require that all detected instances of fraud and corruption be reported to the GDF&C and Internal Audit so that lessons arising from the irregularity can be identified.

12.3 Responsibility for the investigation of fraud rests with management, but internal audit has expertise in such investigations and can assist management with this. In addition, suspicions of fraud or corruption may be reported directly to Internal Audit under the Council's Confidential Reporting (Whistle blowing) policy. In these cases investigations by internal audit will usually be in conjunction with line management but exactly who is informed will depend on the nature of the allegations.

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<https://www.havering.gov.uk/internet/index.aspx?articleid=11676>

12.4 The pro active audits target specific areas of concern to management, where a short focused review, of controls, is sufficient to provide assurance to management. Where issues are highlighted this may result in a full systems review being undertaken or lessons learned being circulated to management.

13.0 Consultancy

13.1 Internal Audit can also provide, to the extent that resources permit, an independent and objective consultancy service designed to help line management improve the Council's internal control environment. This can include reviews of specific problem areas, advice and support on new

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developments and assistance in the preparation of financial training and documentation and strategic policy documents.

14.0 Strategy Review

This strategy will be reviewed annually and presented for approval by the Audit Committee.

The next review will be completed in February 2011.

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15.0 Key Contacts

Interim Internal Audit & Corporate Risk Manager – Paula Sisson ext 3733

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Head of Financial Services – Mike Stringer ext 2101

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Group Director Finance & Commerce – s151 Officer – Andrew Blake
Herbert ext 2218

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AUDIT COMMITTEE

1 March 2011

REPORT

Subject Heading:

Annual Review of Audit Committee Effectiveness

Report Author and contact details:

Paula Sisson – Interim Internal Audit & Corporate Risk Manager ext 3733

Policy context:

To inform the Committee of the results of the Review of Audit Committee Effectiveness Self Assessment.

Financial summary:

N/a

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

This report reviews the role of the Audit Committee against best practice guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and makes recommendations for action to further improve the arrangements in place.

RECOMMENDATIONS

1. To comment on and approve the Audit Committee Effectiveness Improvement Plan set out at appendix B.

REPORT DETAIL

A self assessment checklist has been produced by CIPFA as part of the Toolkit for Local Authority Audit Committees. The self assessment was undertaken by the Chair of the Audit Committee with assistance from the Interim Internal Audit and Corporate Risk Manager and the Committee Officer. The Committee Chair sought opinions and comments from the members of the committee as part of the process. The self assessment covers 10 different areas of committee responsibility, administration and activity. The results of the self assessment are attached at appendix A.

As a result of the self assessment four areas have been highlighted for improvement. These are contained in the improvement plan attached at appendix B.

IMPLICATIONS AND RISKS

Financial implications and risks:

None directly arising from this report, however the existence of an effective Audit Committee is fundamental in ensuring the Council maintains a robust system of internal control. Failure of the Audit Committee to undertake its duties in an effective manner may result in issues that arise not being addressed.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

Audit Committee Handbook, HM Treasury, 2007
CIPFA Toolkit for Local Authority Audit Committees, 2006

Audit Committee Self Assessment

CIPFA TOOLKIT

ESTABLISHMENT, OPERATION AND DUTIES					
Role and remit					
Priority	Issue	Yes	No	N/a	Comments/action
1	Does the audit committee have written terms of reference?	Partial			Currently contained within the constitution and do not cover everything that is required. See Action Plan.
1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	X			
1	Are the terms of reference approved by the council and reviewed periodically?	X			Constitution last reviewed November 2010
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	X			6 members, mix of experience. Quorum 3
1	Can the audit committee access other committees and full council as necessary?	X			Lead member maybe approached. Cabinet Member Value is also on the Committee.
2	Does the audit committee periodically assess its own effectiveness?	X			Annually from this point forward

2	Does the audit committee make a formal annual report on its work and performance during the year to full council?	X			
Membership, induction and training					
1	Has the membership of the audit committee been formally agreed and a quorum set?	X			Quorum 3
1	Is the chair independent of the executive function?	X			
1	Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	X			Rolling programme of training- including refresher training when we get into new cycle
1	Are new audit committee members provided with an appropriate induction?	X			
1	Have all members' skills and experiences been assessed and training given for identified gaps?		X		Skills assessment will be carried out.
1	Has each member declared his or her business interests?	X			
2	Are members sufficiently independent of the other key committees of the council?	X			

Meetings					
1	Does the audit committee meet regularly?	X			5-6 per year
1	Do the terms of reference set out the frequency of meetings?		X		Agreed at beginning of the year by officers and committee based on need.
	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	X			
1	Are members attending meetings on a regular basis and if not, is appropriate action taken?	X			Chair will raise with Leader if concerns
1	Are meetings free and open without political influences being displayed?	X			
1	Does the authority's S151 officer or deputy attend all meetings?	X			
1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	X			Could be rationalised.
INTERNAL CONTROL					
1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review	X			

Audit Committee, 1 March 2011

	of the effectiveness of the system of internal audit?				
1	Does the audit committee have responsibility for review and approval of the AGS and does it consider it separately from the accounts?	X			
1	Does the audit committee consider how meaningful the AGS is?	X			
1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	X			
1	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	X			Members sit on other committees that also have overlapping responsibility for risk.
1	Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption?"	X			Committee would like more information on fraud activity
1	Does the audit committee ensure that the "Actions to Counter Fraud and Corruption" are being implemented?	X			

2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	X			
2	Does the audit committee review the authority's strategic risk register at least annually?	X			
2	Does the audit committee monitor how the authority assesses its risk?	X			Head of Audit reports on this
2	Do the audit committee's terms of reference include oversight of the risk management process?	X			
FINANCIAL REPORTING AND REGULATORY MATTERS					
1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	X			
1	Does the audit committee consider specifically: <ul style="list-style-type: none"> • the suitability of accounting policies and treatments • major judgements • changes in accounting treatment • the reasonableness of accounting estimates made • large write-offs 	X			

Audit Committee, 1 March 2011

1	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	X			
1	Does the audit committee review management's letter of representation?	X			
1	Does the audit committee annually review the accounting policies of the authority?	X			
1	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	X			
1	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	Partial			Regular Training but circulars are not received.
INTERNAL AUDIT					

Audit Committee, 1 March 2011

1	Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	X			
1	Does internal audit have an appropriate reporting line to the audit committee?	X			
1	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?	X			
1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	X			
1	Does the audit committee hold periodic private discussions with the Head of Internal Audit?		X		Head of Audit meets periodically with the Chair which is adequate. No action required.
1	Is there appropriate cooperation between the internal and external auditors?	X			
1	Does the audit committee review the adequacy of internal audit	X			Part of reports

	staffing and other resources?				
1	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal audit in Local Government in the United Kingdom?	X			Peer review
2	Are internal audit performance measures monitored by the audit committee?	X			
2	Has the audit committee considered the information it wishes to receive from internal audit?	X			
EXTERNAL AUDIT					
1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognizing the statutory duties of external audit)?	X			
1	Does the audit committee hold periodic private discussions with the external auditor?	X			Annually
1	Does the audit committee review the external auditor's annual report to those charged with governance?	X			

Audit Committee, 1 March 2011

1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	X			
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?	X			
1	Does the audit committee assess the performance of external audit?	X			
1	Does the audit committee consider and approve the external audit fee?	X			
ADMINISTRATION					
Agenda management					
1	Does the audit committee have a designated secretary from Committee/Member Services?	X			
1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	X			

2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	X			
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?	X			Additional items added in advance
Papers					
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	X			
2	Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?	X			Council Standard
Actions arising					
1	Are minutes prepared and circulated promptly to the appropriate people?	X			
1	Is a report on matters arising made and minuted at the audit committee's next meeting?	X			Not separate report, dealt with in the minutes.

Audit Committee, 1 March 2011

1	Do action points indicate who is to perform what and by when?	X			
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Audit Committee effectiveness improvement plan

ESTABLISHMENT, OPERATION AND DUTIES			
Role and remit			
Issue	Compliance		Action
	Partial	No	
Does the audit committee have written terms of reference?	X		Terms of Reference should be agreed that cover the roles and responsibilities of the Audit Committee that are separate from the constitution.
Membership, induction and training			
Have all members' skills and experiences been assessed and training given for identified gaps?		X	A skills and knowledge assessment needs to be conducted to inform future training needs for the committee
Meetings			
Do the terms of reference set out the frequency of meetings?		X	Democratic Services will be consulted with regards to including this in the TOR.
FINANCIAL REPORTING AND REGULATORY MATTERS			
Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	X		A mechanism needs to be established for members of the committee to receive circulars and updates.



**AUDIT
COMMITTEE**

1 March 2011

Subject Heading:

**INTERNAL AUDIT DRAFT STRATEGY
AND PLAN FOR 2011/12**

Report Author and contact details:

Paula Sisson
Interim Internal Audit & Corporate Risk
Manager
Tel: 01708 - 433733.
E-mail : paula.sisson@havering.gov.uk

Policy context:

To propose the 2011/12 Internal Audit
Strategy and Plan

Financial summary:

N/A

SUMMARY

In accordance with the Internal Audit Charter and Terms of Reference the Audit Service reports each year to the Audit Committee on its proposed Strategy and Audit Plan.

The Strategy outlines the means by which Internal Audit will achieve its objectives and is attached as Appendix A of this report.

Appendix B details the risk based audit plan for the next financial year, which shows how the service will deliver its strategy and what audit work will be undertaken for the period together with the number of audit days required.

The individual audits shown in the plan and the assurance gained by completing them will feed into the Head of Internal Audit Opinion which is a key assurance for the Annual Governance Statement.

RECOMMENDATIONS

- 1 To review the draft strategy and provide comments in order that these may be considered as part of the compilation of the final strategy.
- 2 To approve the strategy on the basis of any agreed amendments arising during the meeting.
- 3 To review the draft plan and provide comments in order that these may be considered as part of the compilation of the final plan.
- 4 To approve the plan on the basis of any agreed amendments arising during the meeting.
- 5 To note that any required changes to the Audit Plan during the financial year, as considered necessary by the Internal Audit & Corporate Risk Manager, will be reported for discussion within the progress report to the next Audit Committee meeting.

REPORT DETAIL

1. Internal Audit Strategy 2011/12

Appendix A contains the proposed Audit Strategy for 2011/12. It has been drafted following reference to best practice guidance provided by Cipfa. There are minimal changes to the strategy required for 2011/12.

The Strategy sets out how Internal Audit intends to meet its objectives for the coming year.

2. Audit Plan 2011/12

The audit plan has been derived by reviewing and updating the Strategic Audit Plan and the list of key systems / areas of risk (audit universe). Both the Corporate and Service Risk Registers have been considered. Audit issues identified during 2010/11 have also been fed into the process. Meetings have taken place with Heads of Service and/or Service Internal Audit Representatives to discuss potential audit areas and any specific issues or concerns.

The plan has been circulated to Senior Management for comment. Any issues arising from this consultation will be reflected in the final version of the plan, and any of a material nature will be advised to the Committee.

As an audit plan is not a static document and is always evolving as risk plans are amended, service provision changes and previous audits change the categorisation of the risk assessment of a service. This means that the audit plan will change in year. In setting the plan for the coming year consideration has been given to the current pace of change within the organisation. It is difficult to identify exactly, at the present time, where Internal Audit resources will be most needed within our new structures so audit days have been allocated to larger areas than usual and will be drawn down on as necessary.

By delegating the responsibility for everyday operational decisions to the Internal Audit & Corporate Risk Manager this will facilitate efficient work processes during the year. Any changes to the plan will be reported back to the Committee as part of the regular progress reports.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs of both directly employed and outsourced services to carry out the agreed plan will be met from within the 2011/12 budget for the Audit Service. The 1466 days of resource available are sufficient to review all the high risk areas identified in the planning process as well as allowing the team to undertake a small percentage of probity type audits.

Temporary staff will need to be used for an interim period during quarter 3 and Quarter 4 due to maternity leave, the costs of which will be contained within the audit budget.

The risks relating to the audit plan are set out below.

Risk	Mitigation factors
That the plan will not address the key risk areas within the council	The plan has been prepared taking into account the council's risk registers. The auditable areas have been identified and subjected to a risk evaluation to determine if and when they should be reviewed. The plan has been formulated and assessed by the Internal Audit & Corporate Risk Manager using prescribed methodologies, including discussion with Heads of Service. The plan has been circulated to Senior Management for comment and will be reviewed periodically throughout the year with any required changes being reported to Audit Committee. Any changes necessitated by new legislation or changing financial circumstances will be reflected in the plan and advised to the Committee.

<p>That the plan does not provide assurance for the external auditor</p>	<p>The plan ensures that key areas of the financial procedures which feed the financial statements are reviewed annually. There is regular liaison between the internal and external auditors during the year to ensure adequate assurance is provided.</p>
<p>That the plan is not flexible enough to meet the needs of the council during the year</p>	<p>There is a contingency within the year to allow for unforeseen systems based audit work and if necessary decisions may need to be made to replace one audit with another. As the level of fraud investigation work cannot be determined with any certainty the same practice will operate as in previous years in that should there be more fraud investigation work than was planned then the pro-active audits would be reduced and if there is not as much as anticipated then further pro-active audits would be undertaken. Should additional work be required above these two factors then resources may be seconded from the systems team or additional funding may need to be identified before work could commence. As indicated, there is a higher risk than normal of changing circumstances for the coming year, and this will therefore need to be managed accordingly.</p>
<p>That there are not sufficient staffing resources both in number and to the required skill level to carry out the work identified</p>	<p>The structure of the team is appropriate to deliver the draft audit plan. There is a shortfall in resource due to maternity leave and so, as stated above, temporary agency staff will need to be employed. Training needs are assessed at 6 monthly intervals via the PDPA process. Continuous training is provided to ensure that staff have sufficient skills to carry out their duties and deliver the audit plan and strategy.</p>
<p>That there is insufficient understanding and coverage of other risks (not purely operational and strategic)</p>	<p>Involvement with projects systems development and change. Reliability and integrity of management databases and information. Stewardship of financial and non financial assets. Reviews to ensure that the authority complies with new legislation.</p>
<p>Not addressing risks in areas where there control deficiencies and weaknesses have been identified</p>	<p>The audit planning process will review the Annual Governance Statement and ensure that reviews of identified weaknesses are included within the plan. Also that recommendations to address critical control weaknesses are reviewed in the following financial year</p>

	to ensure that the have been fully implemented by agreed dates.
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Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None

APPENDIX A



AUDIT STRATEGY

Version: February 2011

1. Internal Audit Strategy

- 1.1 An Internal Audit Strategy outlines the means by which Internal Audit seeks to achieve its stated aims and objectives. These objectives are linked to the goals and vision of the organisation.
- 1.2 The perceived outcome of this strategy is the provision of an effective audit service, that achieves its own objectives, and in particular a service that meets the needs of management and other stakeholders.

2. Strategy Statement

- 2.1 The overall Strategy of Internal Audit is:

“To deliver a risk-based audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it.”

3. Definition

- 3.1 The Internal Audit Charter and Terms of Reference defines Internal Audit as

“An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s 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.”

4. Objectives of Internal Audit

- 4.1 The objectives for the Audit Service are:
 - To understand the whole organisation, its needs and objectives.
 - To add value and assist the organisation in achieving its objectives.
 - To be forward looking, innovative and challenging.
 - To help to shape the ethics and standards of the organisation.
 - To ensure value for money is achieved in the use of public funds.
 - To ensure the right resources are available to deliver the audit plan, recognising changes in capacity, experience, qualifications and specialisms.
 - To share opportunities for joint working and seek to share best practice with auditors and examiners from other authorities and organisations, in particular the Council’s External Auditor.
 - To maintain strong and effective relationships with management.
 - To report significant issues to the Audit Committee, in a timely fashion, to enable and support the effective completion of their responsibilities.

5. Status of Internal Audit

- 5.1 Internal Audit is responsible to the Head of Financial Services for line management purposes, and helps to deliver the statutory financial responsibilities of the Council's Chief Finance Officer the Group Director of Finance & Commerce. However Internal Audit is independent in its planning and operation, and has no responsibility for delivering or managing non-audit services.
- 5.2 The Internal Audit & Corporate Risk Manager shall have direct access to the Chief Executive, all levels of management and elected members.

6. Audit Resources and the Annual Plan

- 6.1 The Internal Audit & Corporate Risk Manager is responsible for delivering the audit service in accordance with its Terms of Reference. To ensure that this can be achieved, there are appropriate arrangements for:
- Determining and planning the work to be carried out (i.e. an audit plan based on an assessment of the risk).
 - Providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes).
- 6.2 Due to the specialist skills required to carry out computer audits and the fact that the resources required would not equate to a full time member of staff this service is currently procured from the private sector. This method of service provision will be reviewed during 2011/12 against other potential shared service opportunities. All other resources required to deliver the 2011/12 audit plan are currently in place within the Audit Team.
- 6.3 The Internal Audit service will be delivered on the basis of a detailed Plan for 2011/12. The plan sets out the number of person-days required for Internal Audit to adequately review the areas involved.
- 6.4 Where resources available are not considered, by the Internal Audit & Corporate Risk Manager, to be adequate for the Head of Internal Audit opinion to be provided, this will be reported to the Audit Committee.
- 6.5 The annual risk assessment process takes account of a range of strategic, corporate, service and operational risks (including those identified through the Risk Management process and by the external auditor) and the views of senior management on these issues.
- 6.6 The 2011/12 Plan balances the following requirements:

- The need to ensure the Audit Plan is completed in a timely fashion
- The need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which External Audit will place reliance);
- The need to appropriately review other strategic and operational arrangements;
- The need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations.
- To enable positive timely input to assist corporate and service developments.

6.7 In order to ensure the Internal Audit Service continues to meet the needs of the organisation the skills and experience available are annually reviewed and there are a number of initiatives working with other Boroughs to identify how collaboration can benefit the service, this work will continue in 2011/12. In addition the Council's PDPA process identifies training needs for staff.

7. Relationships

- 7.1 A joint working arrangement with External Audit will be operated such that Internal Audit resources are used as effectively as possible.
- 7.2 Periodic reports relating to audit issues will be provided to Corporate Management Team and where necessary direction regarding specific policy or risk issues will be sought. Corporate Management Team therefore has a part to play in the successful achievement of strategy outcomes in particular the achievement of the Internal Audit objectives.
- 7.3 An Audit Representatives Group exists to maintain links between the team and each of the Council directorates.
- 7.4 Internal Audit manage an annual programme of presentations and training designed to raise the profile of the audit team and raise awareness of audit issues.

8. Quality

- 8.1 Internal Audit will comply with the CIPFA *Code of Practice for Internal Audit in Local Government in the UK*, and auditors are expected to comply with any other relevant professional standards.
- 8.2 The Internal Audit & Corporate Risk Manager will ensure that there is an Audit Manual in place setting out expected standards for the service, and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments. Relevant training will be provided to ensure auditors have the level of skills necessary to undertake their roles.

- 8.3 Where necessary to ensure an adequate, effective and professional audit service is provided, the Internal Audit & Corporate Risk Manager will buy in resources from external providers to supplement internal resources.

9. Performance Management

- 9.1 Progress against the audit plan, and the content of the plan itself, will be kept under review by the Internal Audit & Corporate Risk Manager in liaison with the Head of Financial Services and the Group Director Finance & Commerce, and through monitoring corporate and service developments.
- 9.2 Where there is a need for material changes to the plan a revised plan will be re-submitted to Audit Committee for approval.
- 9.3 Audit Committee will also be advised of performance against the audit plan and on other relevant key performance indicators, as identified within the Service's Business Plan, on a quarterly basis.

10. Strategy Review

- 10.1 This strategy will be reviewed annually and presented for approval by the Audit Committee.
- 10.2 The next review will be completed in February 2012.

11. Key Contacts

- 11.1 Internal Audit & Corporate Risk Manager – Vanessa Bateman ext 3733
- 11.2 Head of Financial Services – Mike Stringer ext 2101

Service Area - CORPORATE	Audit Area	Goal	Budget	Head of Service	Group Director
ALL	Partnership / Joint Working	Value	20	ALL	Culture & Community
ALL	Data Quality / Performance Management	Value	15	ALL	Culture & Community
ALL	Contracts & Procurement	Value	40	ALL	CMT
ALL	Project Management	Value	15	ALL	CMT
ALL	Supply chain resilience	Value	15	ALL	CMT
ALL	Outcomes of Transformation Agenda	Value	70	ALL	CMT
ALL	Organisational Capacity	Value	15	ALL	CMT
190					

Service Area - CULTURE & COMMUNITY	Audit Area	Goal	Budget	Head of Service	Group Director
Regeneration & Strategic Planning	Climate Change	Environment	10	Regeneration & Strategic Planning	Finance & Commerce
Culture & Leisure	Mayrise Financial Controls	Environment	15	Culture & Leisure	Culture & Community
Street care	Jacobs Contract	Value	7.5	Street care	Culture & Community
Customer Services	Registrars, new structure and fees and charges	Value	10	customer service	Culture & Community
Housing & Public Protection	PP - fees and income - licencing, buy with confidence, et al	Value	15	HPP	Culture & Community
Housing & Public Protection	Disabled Facility Grants	Individuals	20	HPP	Culture & Community
77.5					

Service Area - SOCIAL CARE & LEARNING	Audit Area	Goal	Budget	Head of Service	Group Director
Learning & Achievement	Pupil Services	Individuals	15	Learning & Achievement	Social Care & Learning
Children's	Key worker recruitment and Retention	Individuals	20	Children's	Social Care & Learning
Children's	Child Protection	Individuals	15	Children's	Social Care & Learning
Children's	Transitions	Individuals	10	Children's	Social Care & Learning
Children's	Children's Centres - probity programme	Individuals	15	Children's	Social Care & Learning
Adult's	Self Directed Support	Individuals	15	Learning & Achievement	Social Care & Learning
Adult's	Learning and Physical Disability Day Services	Individuals	15	Adults	Social Care & Learning
Adult's	Appointeeships and Receiverships	Individuals	10	Adults	Social Care & Learning
115					

Service Area - FINANCE & COMMERCE	Audit Area	Goal	Budget	Head of Service	Group Director	
Financial Services	Budgetary Control	Value	15	Head of Financial Services	Finance & Commerce	
Shared Services	Internal Shared Service Controls	Value	20			
Shared Services	Contract Monitoring (OH & Commensura)	Value	15			
Business Systems	Disaster Recovery	Value	15	Business Systems	AD Business Efficiency	
Dev & BC	Flood Act 2010	Environment	10		Finance & Commerce	
Asset Management	Jacobs Contract	Value	7.5	Asset Management	Finance & Commerce	
Asset Management	Facilities Management	Value	15	Asset Management	Finance & Commerce	
Asset Management	Centralised Property Management	Value	15	Asset Management	Finance & Commerce	
Financial Services	Main Accounting	Value	Total days for Key Financials to be drawn down as required	Financial Services	Finance & Commerce	
Financial Services	Procurement	Value		Financial Services	Finance & Commerce	
Financial Services	Creditors	Value		Financial Services	Finance & Commerce	
Financial Services	Fixed Assets	Value		Financial Services	Finance & Commerce	
Financial Services	Treasury Management	Value		Financial Services	Finance & Commerce	
Customer Services	Housing Benefits	Value		Customer Services	Finance & Commerce	
Customer Services	Council Tax	Value		Customer Services	Finance & Commerce	
ISS	Debtors - inc debt collection.	Value		ISS	Finance & Commerce	
ISS	Payroll	Value		ISS	Finance & Commerce	
ISS	Pensions	Value		120	ISS	Finance & Commerce
232.5						

All	Reactive Fraud & Special Investigations	Value	263	Financial Services	Finance & Commerce
All	Pro-active Fraud	Value	176	Financial Services	Finance & Commerce
439					

SC&L - Education	Schools	Value	75		
337					

	Governance	All	20		
	Computer Audit	ALL	100		
	Risk Management	All	27		
	Advice to Directorates	All	25		
	Sign off of Grant Claims	Value	10		
	Homes In Havering		80		
	Contingency	All	50		
	Follow Ups	n/a	25		
337					

1466	1466
884	39
2285	

Non Chargeable Activity
(A/L, One to Ones, Study, Training, Sick, Admin etc)

TOTAL - 8.5 posts 260 days per year & Computer Audit

AUDIT COMMITTEE

REPORT

1 March 2011

Subject Heading:

**2009/2010 AUDIT REPORT OF GRANT
CLAIMS AND RETURNS**

Report Author and contact details:

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Tel: 01708 431057

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Manager

Tel: 01708 432431

ian.buckmaster@havering.gov.uk

Policy context:

The Audit Committee are required to review the outcome of the Authority's grant claims process for audited grant claims relating to the financial year 2009/2010

Financial summary:

No direct financial implications to report.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	□
Excellence in education and learning	□
Opportunities for all through economic, social and cultural activity	X
Value and enhance the life of every individual	X
High customer satisfaction and a stable council tax	X

SUMMARY

The 2009/2010 audit process was completed by the Audit Commission's representative, PricewaterhouseCoopers.

This report updates the Committee of the position regarding the final version of the 2009/2010 audit report of grant claims and returns and subsequent Action Plan for the 2010/2011 process.

The 2010/2011 Action Plan can be found at Appendix 1. The certification report from PricewaterhouseCoopers can be found at Appendix 2.

RECOMMENDATIONS

The Committee is recommended to:

1. review the outcomes of the 2009/2010 grant claims process
2. raise any issues of concern with officers on specific grant claims
3. note the year-on-year grant claims performance
4. otherwise note the report.

REPORT DETAIL

Overall summary of the 2009/2010 audited grant claims compared to 2008/2009.

1. Performance

Grant Funding Body conditions and guidelines determine whether a grant requires external audit. The Audit Commission publishes an index of grants over £125k that require audit annually. Most Specific Grants are subject to Chief Finance Officer Certification only.

There were 10 grants over £125k, that required audit certification, in 2009/2010, as there were in 2008/2009.

1.2 All 10 claims due for 2009/2010 have now been certified.

1.3 There were 4 (40%) amended claims for 2009/10, as there were in 2008/2009.

1.4 1 (10%) claim was qualified for 2009/2010, as there was in 2008/2009.

The grant claim qualified was BEN 01 - Housing Benefits and Council Tax. This was also qualified in the previous 4 years, however this is a very complex grant to administer and is also qualified in other London boroughs.

The agreed recommendations regarding the above can be found in the 2010/11 Action Plan (see Appendix 1).

1.5 All 10 (100%) claims for 2009/2010 achieved their Audit Commission certification as did all 10 for 2008/2009.

	2008/2009		2009/2010	
	No.	%	No.	%
Submitted by due date	10	100	10	100
Total claims	10	100	10	100

Amended claims	4	40	4	40
Claims not amended	6	60	6	60
Total claims	10	100	10	100

Qualified claims	1	10	1	10
Unqualified claims	9	90	9	90
Total claims	10	100	10	100

Certified by deadline	10	100	10	100
Uncertified by deadline	0	38	0	0
Total claims	10	100	10	100

2. Recommendations

2.1 The 2010/2011 Recommendations/Action Plan is attached as Appendix 1 and contains a number of issues identified during the 200/2010 audit process for implementation during 2010/2011.

2.2 PricewaterhouseCoopers have identified 5 recommendations to address in the 2010/2011 Action Plan. All 7 recommendations within the Audit Commission's 2009/2010 Action were implemented during 2010/2011.

3. Audit Fees

3.1 The following table records audit fees paid each year:

Paid in 2007/2008 re 2006/2007 audits	Paid in 2008/2009 re 2007/2008 audits	Paid in 2009/2010 re 2008/2009 audits	Paid in 2010/11 re 2009/2010 audits
£102,000	£98,000	£89,000	£81,000
No of Grant Claims Audited 12	No of Grant Claims Audited 8	No of Grant Claims Audited 10	No of Claims Audited 10

3.2 PwC audited the Councils grant claims in 2008/2009 and 2009/2010. Audit fees have decreased year on year. The good standard of working papers continues to contribute to the consistent decrease in audit fees, which for 2009/10, have decreased by 9% when compared to the 2008/2009 audit fees.

3.3 The annual Audit Commission index for 2010/11 has not yet been received although it is anticipated that 9 grants shall require Audit Commission certification for the period.

4.4. In Year Achievements

- During 2010/2011 the grants co-ordinator delivered 2 grant claim workshops to both service and finance staff. One to one training was also delivered upon request.
- The Grant Management Protocol has been updated and can be found on the Intranet.

4.5. Future Planned Developments

- Further training/workshops to claim compilers, to be delivered before the 2010/2011 audit process starts.

IMPLICATIONS AND RISKS

Financial Implications and risks:

For 2009/2010 specific grant claims provided £170 m in funding for the Council and poor performance in submitting claims puts income at risk and can effect the Council's reputation with funding bodies.

Qualified claims may lead to the Council having to repay grant income and delays leading to late certification of claims can result in the suspension of grant income.

These outcomes are mitigated by having in place, a robust system of training, support and review. This ensures that all grant claims are robustly examined before submission and that any queries are taken back through a consistent route.

Legal implications and risks

There are no apparent legal implications arising from the noting of this report.

Human Resources implications and risks

There are no apparent human resource implications arising from the noting of this report.

Equalities and Social Inclusion implications

None arising directly from this report.

BACKGROUND PAPERS

Appendix 1: Action Plan 2010/2011

CI Ref	Observation	Recommendations / Priority	Management Response	Responsibility (Implementation date)
BENO1	<p>Housing and Council Tax Benefits</p> <p>Errors were identified in the calculation of claimant's weekly income for nine cases sampled. This resulted in the Authority overpaying benefits totalling £179.49.</p>	<p>HIGH</p> <p>PwC recommend that refresher training is provided to benefits staff to ensure that they are fully aware of the process for calculating claimant's weekly income. This should be reviewed as part of the spot checks by management.</p>	<p>Agreed</p> <p>Refresher took place for all Benefit staff in December 2010.</p> <p>Reviews are undertaken as part of the random claim processing check undertaken by management.</p>	<p>Benefits Manager/Head of Exchequer Services</p> <p>Timescale: 15/12/10</p>
LA01	<p>National Non Domestic Rates Return</p> <p>The CI requires that the NNDR3 must include all information received by 31 January and must also include information received after that date, up to the date that the contribution is calculated, if it is reasonably practical to do so.</p> <p>This year the Authority included all information received up to 31 January (i.e. as at 27 January 2010) but did not include information received after that date which would impact on the detail to 31 January 2010.</p>	<p>MEDIUM</p> <p>PwC understands that new data is received on a weekly basis. The Authority should consider whether it is feasible to ensure that all information is included up to the reporting date.</p>	<p>Agreed</p> <p>Where possible we try to complete as many schedules as possible before year end but the major priority through February/March will always be annual billing. This year there were 3 major changes to implement – 2010 Revaluation, Cross Rail and Deferred Payments – which required additional systems testing and also generated a significant increase in queries from ratepayers and managing agents. Obviously, this reduced the amount of time available to work on the schedules.</p>	<p>Revenues Manager/Head of Exchequer Services</p> <p>Timescale: 31/01/11</p>

CI Ref	Observation	Recommendations / Priority	Management Response	Responsibility (Implementation date)
HOU02	<p>HRA Subsidy Base Data Return</p> <p>During testing nine instances where Council dwellings had been wrongly classified by type were found, for example they were classified as low rise rather than high rise. Identified errors were amended by the Authority.</p>	<p>MEDIUM</p> <p>The Council should review the data held on dwellings to ensure classifications are correctly recorded.</p>	<p>Agreed</p> <p>All the errors were related to acquired properties. These were all flats above shops and a process has been put in place where Homes in Havering will check all acquired properties, prior to inclusion in the relevant base data return. Identified errors were checked and rectified on the Anite system. Moving forward, there will be an ongoing process as described.</p>	<p>HIH – Director of Finance and Corporate Services.</p> <p>Timescale: February 11 onwards</p>
PEN05	<p>Teachers Pensions Return</p> <p>Testing identified two instances where there was insufficient evidence to show that a teacher had ‘opted in’ (pre-2007) or been given the option to ‘opt out’ (post 2007) of the pension scheme.</p>	<p>LOW</p> <p>Sufficient documentation should be held by the Authority and made readily available to auditors as evidence that the teacher is correctly included/excluded from the Teachers’ Pension scheme.</p>	<p>Agreed</p> <p>The HR procedure information is issued to teachers at the commencement of their employment advising them of the conditions of the Teacher’s Pension scheme. The possibility that they had not kept a copy of this on a few cases presents a minimal risk. All are automatically put into the scheme they do not have to opt in.</p> <p>The opt out is very minimal risk. The HR procedure is to notify starters of the terms of the scheme. All new starters will be aware from their payslip, that contributions are being taken, if they did not want to be in the scheme they can advise HR of that fact. They would then be advised of the appropriate procedure to follow.</p> <p>I will remind HR of the requirement to advise teachers of the terms of the scheme.</p>	<p>Payroll Manager/Head of Exchequer Services</p> <p>Timescale: Reminder will be issued February 2011.</p>

CI Ref	Observation	Recommendations / Priority	Management Response	Responsibility (Implementation date)
EYC02	<p>Sure Start, Early Years and Childcare Grant –</p> <p>The monthly budget monitoring of expenditure to ensure to ensure appropriate allocation of the grant to capital and revenue headings is not formally documented.</p>	<p>LOW</p> <p>PwC recommend that the Council adequately document the monitoring process for Sure Start expenditure, to enable them to validate the operation of this control and gain assurance from it. This would reduce the level of testing they would need to perform.</p>	<p>Agreed</p> <p>Minutes of Budget Monitoring meetings with spending managers are currently prepared with Action Points. These Minutes will be expanded to provide further detail of discussions and to include projected over/under spending as well as action to be taken on these.</p>	<p>Early Years Finance Manager/Head of Learning and Achievement/Head of Children and Young People</p> <p>Timescale: 17/02/11</p>

Certification Report (2009/10)

Report to Those Charged With Governance

*Certification Report to those
charged with governance
2009/10*

February 2011



The Members of the Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford
RM1 3BB

18 February 2011

Ladies and Gentlemen

Subject: Annual Certification Report (2009/10)

We are pleased to present our Annual Certification Report summarising the results of our 2009/10 certification work. We look forward to presenting it to members on 1 March 2011. The purpose of this report is to provide a high level overview of the results of our 2009/10 certification of claims and returns at the London Borough of Havering that is accessible for members and other interested stakeholders. Our fees for the 2009/10 certification work are summarised in Appendix A.

Results of Certification work

During the period June to December 2010 we certified ten claims and returns worth a total of £170m. Of these, four were amended following certification work undertaken and one required a qualification letter to set out significant issues arising from the certification of the claim/return. We set out further details in the attached report.

We identified a number issues relating to the Authority's arrangements for preparation of claims and returns. We have not included every issue identified here, but instead focus on those which have (or could have) a material impact on the amount of a claim or return or on the accounts.

We ask the Audit Committee to consider:

- The adequacy of the proposed management action plan for 2009/10 set out in Appendix B, and;
- The adequacy of progress made in implementing the prior year action plan (Appendix C).

Yours faithfully,

PricewaterhouseCoopers LLP

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Introduction

Introduction

Scope of work

Grant-paying bodies pay billions of pounds in grants and subsidies each year to local authorities and often require certification, by an appropriately qualified auditor, of the claims and returns submitted to them. Certification work is not an audit but a different kind of assurance engagement. This involves applying prescribed tests, as set out within Certification Instructions (“CIs”) issued to us by the Audit Commission, which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

The Audit Commission is required by law to make certification arrangements for grant-paying bodies when requested to do so and sets thresholds for claim and return certification, as well as the prescribed tests which we as local government appointed auditors must undertake. We certify claims and returns as they arise throughout the year to meet the certified claim/return submission deadlines set by grant-paying bodies.

We consider the results of certification work when performing other Code of Audit Practice work at the Authority, including for our conclusions on the financial statements and on value for money.

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body and on the Audit Commission’s website. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns

In November 2010 the Audit Commission updated the ‘Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns’. This is available from the Audit Commission’s website. The purpose of this statement is to summarise the Audit Commission’s framework for making certification arrangements and to assist grant-paying bodies, authorities, and the Audit Commission’s appointed auditors by summarising their respective responsibilities and explaining where their different responsibilities begin and end.

Results of Certification Work

Results of Certification Work

Claims and returns certified

A summary of the claims and returns certified during the year is set out below. In one case a qualification letter was required to set out significant issues arising from the certification of the claim/return. Three other claims/returns were amended following the certification work undertaken. All deadlines for submission of certified claims/returns were met.

Claims and returns certified in 2009/10

CI Ref	Title	Form	Original Value (£)	Final Value ¹ (£)	Amendment	Qualification
BEN01	Housing and Council Tax Benefit Subsidy	MPF 720A	90,986,006	90,986,752	✓	✓
HOU01	Housing Subsidies & Grants	0904	-£6,801,739	-£6,801,739	✓	
HOU02	HRA Subsidy Base Data Return	09B2	N/A	N/A	✓	
LA01	National Non Domestic Rates Return	NNDR3	62,892,547	62,892,828	✓	
RG31	Wildspace – Rainham to the River	SGE	821,660	821,660		
PEN05	Teachers' Pensions Return	TR17	16,285,037	16,285,037		
RG31	Childcare Affordability Programme	SGE	61,385	61,385		
CFB06	Pooling of Housing Capital Receipts	2009 PO1-4	1,405,821	1,405,821		
EYC02	Sure Start, Early Years and Childcare grant	AFS	5,062,131	5,062,131		
HOU21	Disabled Facilities	2009 D3	574,000	574,000		

¹ Some amendments have no impact on the overall value of the claim.

Issues arising

The following issues were identified which are discussed below. These issues could have a material impact on the amount of a claim or return.

Weaknesses in internal control

The risks of not addressing these issues and our recommendations for improvement are set out in the table below.

Internal control issues

Claim/Return (deadline)	Issue	Risk to the Authority	Recommendation
Sure Start, Early Years and Childcare Grant (EYCO2)	The monthly budget monitoring of expenditure to ensure appropriate allocation of the grant to capital and revenue headings is not formally documented.	The failure to adequately evidence controls results in the costs of certification being higher than otherwise required.	LOW We recommend that the Council adequately document the monitoring process for Sure Start expenditure, to enable us to validate the operation of this control and gain assurance from it. This would reduce the level of testing we would need to perform.

Non compliance with regulations/ terms and conditions

The risks of not addressing these issues and our recommendations for improvement are set out in the table below.

Compliance issues

Claim/Return	Issue	Risk to the Authority	Recommendation
Housing and council tax benefits subsidy (BEN 01)	Errors were identified in the calculation of claimant's weekly income for nine cases sampled. This resulted in the Authority overpaying benefits totalling £179.49	The return has been amended to reflect the reduced subsidy income due to the Authority for 2009/10. If these errors recur they could have a financial impact on the subsidy receivable and cause misstatement to the financial statements. Due to the errors identified we were required to perform additional testing of 40 claimants which resulted in a higher audit fee.	HIGH We recommend that refresher training is provided to benefits staff to ensure that they are fully aware of the process for calculating claimant's weekly income. This should be reviewed as part of the spot checks by management.

Claim/Return	Issue	Risk to the Authority	Recommendation
National Non Domestic Rates Return (LA01)	The CI requires that the NNDR3 must include all information received by 31 January and must also include information received after that date, up to the date that the contribution is calculated, if it is reasonably practical to do so. This year the Authority included all information received up to 31 January (i.e. as at 27 January 2010) but did not include information received after that date which would impact the detail at 31 January 2010.	There is a risk that the rateable values used in the return are not the most accurate up to 31 January 2010.	MEDIUM We understand that new data is received on a weekly basis. The Authority should consider whether it is feasible to ensure that all information is included up to the reporting date.
HRA Subsidy Base Data Return (HOU02)	During testing we found nine instances where Council dwellings had been wrongly classified by type, for example they were classified as low rise rather than high rise. Identified errors were amended by the Authority.	Incorrect classification of dwelling type impacts on the level of housing subsidy awarded to the Authority and as such the subsidy payment may be over or understated.	MEDIUM The Council should review the data held on dwellings to ensure classifications are correctly recorded.
Teachers' Pensions Return (PEN05)	Our testing identified two instances where there was insufficient evidence to show that a teacher had 'opted in' (pre-2007) or been given the option to 'opt out' (post- 2007) of the pension scheme.	There is a risk that contributions are being made for teachers' who are not or do not want to be a part of the Teachers' Pension scheme.	LOW Sufficient documentation should be held by the Authority and made readily available to auditors as evidence that the teacher is correctly included / excluded from the Teachers' Pension scheme.

Weaknesses in financial reporting

We did not identify any risks of not addressing financial reporting issues.

Prior year recommendations

We have reviewed progress made in implementing the certification action plan for 2008/09. Details can be found in Appendix C. Overall the Authority has made good progress.

Appendices

Appendix A

Certification Fees

The fees for certification of each claim/return are set out below:

Claim/Return	2009/10 (£)	2008/09 (£)	Comment
Housing and Council Tax Benefit Subsidy (BEN01)	41,921	53,905	Building on our experiences from the prior year we worked with Havering to ensure appropriate audit team continuity and agree deadlines to ensure the certification was completed well in advance of the deadline. The decrease in costs is also accredited to the staff at Havering who helped to compile the additional information we needed in a timely manner.
Housing Subsidies & Grants (HOU01)	6,280	5,965	
HRA Subsidy Base Data Return (HOU02)	6,460	6,095	
National Non Domestic Rates Return (LA01)	6,025	5,700	
Wildspace – Rainham to the River (RG31)	4,033	-	
Teachers' Pensions Return (PEN05)	2,545	2,413	
Childcare Affordability Programme (RG31)	2,114	2,013	
Pooling of Housing Capital Receipts (CFB06)	3,995	3,755	
Sure Start, Early Years and Childcare grant (EYC02)	5,733	5,475	
Disabled Facilities (HOU21)	1,827	1,738	
Youth Officer (RG31)	-	2,013	
Total	80,933	89,072	

These fees reflect the Authority's current performance and arrangements for certification. It may be possible to reduce fees should the Authority improve its performance by implementing the recommendations made in Appendix B.

Appendix B

2009/10 Management Action Plan

Claim/Return (deadline)	Observation	Recommendation	Management response	Responsibility (Implementation date)
<ul style="list-style-type: none"> Housing and council tax benefits subsidy (BEN 01) 	<p>Errors were identified in the calculation of claimant's weekly income for nine cases sampled. This resulted in the Authority overpaying benefits totalling £179.49.</p>	<p>HIGH</p> <p>We recommend that refresher training is provided to benefits staff to ensure that they are fully aware of the process for calculating claimant's weekly income. This should be reviewed as part of the spot checks by management.</p>	<p>Agreed</p> <p>Refresher took place for all Benefit staff in December 2010.</p> <p>Reviews are undertaken as part of the random claim processing check undertaken by management.</p>	<p>Responsible Officer</p> <p>Benefits Manager/Head of Exchequer Services</p> <p>Timescale</p> <p>15/12/2010</p>
<ul style="list-style-type: none"> National Non Domestic Rates Return (LA01) 	<p>The CI requires that the NNDR3 must include all information received by 31 January and must also include information received after that date, up to the date that the contribution is calculated, if it is reasonably practical to do so. This year the Authority included all information received up to 31 January (i.e. as at 27 January 2010) but did not include information received after that date which would impact the detail at 31 January 2010.</p>	<p>MEDIUM</p> <p>We understand that new data is received on a weekly basis. The Authority should consider whether it is feasible to ensure that all information is included up to the reporting date.</p>	<p>Agreed</p> <p>Where possible we try to complete as many schedules as possible before year end but the major priority through February/March will always be annual billing. This year there were 3 major changes to implement – 2010 Revaluation, Cross Rail and Deferred Payments – which required additional systems testing and also generated a significant increase in queries from ratepayers and managing agents. Obviously, this reduced the amount of time available to work on the schedules.</p>	<p>Responsible Officer</p> <p>Revenues Manager/Head of Exchequer Services</p> <p>Timescale</p> <p>31/01/2011</p>

Claim/Return (deadline)	Observation	Recommendation	Management response	Responsibility (Implementation date)
<ul style="list-style-type: none"> HRA Subsidy Base Data Return (HOU02) 	<p>During testing we found nine instances where Council dwellings had been wrongly classified by type, for example they were classified as low rise rather than high rise. Identified errors were amended by the Authority.</p>	<p>MEDIUM</p> <p>The Council should review the data held on dwellings to ensure classifications are correctly recorded.</p>	<p>Agreed</p> <p>All the errors were related to acquired properties. These were all flats above shops and a process has been put in place where Homes in Havering will check all acquired properties, prior to inclusion in the relevant base data return. Identified errors were checked and rectified on the Anite system. Moving forward, there will be an ongoing process as described.</p>	<p>Responsible Officer</p> <p>HIH – Director of Finance and Corporate Services</p> <p>Timescale</p> <p>February 2011 onwards</p>
<ul style="list-style-type: none"> Sure Start, Early Years and Childcare Grant (EYC02) 	<p>The monthly budget monitoring of expenditure to ensure appropriate allocation of the grant to capital and revenue headings is not formally documented.</p>	<p>LOW</p> <p>We recommend that the Council adequately document the monitoring process for Sure Start expenditure, to enable us to validate the operation of this control and gain assurance from it. This would reduce the level of testing we would need to perform.</p>	<p>Agreed</p> <p>Minutes of Budget Monitoring meetings with spending managers are currently prepared with Action Points. These Minutes will be expanded to provide further detail of discussions and to include projected over/under spending as well as action to be taken on these.</p>	<p>Responsible Officer</p> <p>Early Years Finance Manager/Head of Learning and Achievement/Head of Children and Young People</p> <p>Timescale</p> <p>17 Feb 2011</p>

Claim/Return (deadline)	Observation	Recommendation	Management response	Responsibility (Implementation date)
<ul style="list-style-type: none"> Teachers' Pensions Return (PEN05) 	<p>Our testing identified two instances where there was insufficient evidence to show that a teacher had 'opted in' (pre-2007) or been given the option to 'opt out' (post- 2007) of the pension scheme.</p>	<p>LOW Sufficient documentation should be held by the Authority and made readily available to auditors as evidence that the teacher is correctly included / excluded from the Teachers' Pension scheme.</p>	<p>Agreed The HR procedure information is issued to teachers at the commencement of their employment advising them of the conditions of the Teacher's Pension scheme. The possibility that they had not kept a copy of this on a few cases presents a minimal risk. All are automatically put into the scheme they do not have to opt in. The opt out is very minimal risk. The HR procedure is to notify starters of the terms of the scheme. All new starters will be aware from their payslip, that contributions are being taken, if they did not want to be in the scheme they can advise HR of that fact. They would then be advised of the appropriate procedure to follow.</p> <p>I will remind HR of the requirement to advise teachers of the terms of the scheme.</p>	<p>Responsible Officer Payroll Manager/Head of Exchequer Services</p> <p>Timescale Reminder will be issued February 2011</p>

Appendix C

2008/09 Management Action Plan – Progress made

Claim/Return	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
<ul style="list-style-type: none"> RG31: Youth Offer Grant RG31: Childcare Affordability Grant HOU21 	Grants below the audit commission threshold of £500,000 are subject to Part A audit testing only.	MEDIUM The level of working papers required for grants that are below the threshold can be significantly reduced to include only evidence that is required in accordance with Part A testing only.	Agreed Finance created a working paper checklist in line with PwC's recommendation. The Grant Management Protocol has been updated to reflect the changes.	Responsible Officer Claim Compilers/All Heads of Service Timescale 31/03/2010	Implemented
<ul style="list-style-type: none"> BEN01 	Audit Testing identified several cases where overpayments had been incorrectly classified.	HIGH Ensure procedures are in place, and sufficient training is given to staff, to enable overpayments to be correctly classified as either local authority error, eligible excess benefit or technical excess benefit.	Agreed Procedures are already in place to correctly classify overpayments however there were a small number of human errors. Training on this will be reinforced and training on overpayments is now a scheduled annual event.	Responsible Officer Benefits Manager/Head of Exchequer Services Timescale 31/03/2010	Implemented
<ul style="list-style-type: none"> BEN01 	A full listing of uncashed cheques was not included in the working paper packs.	LOW We recommended that listings of all uncashed cheques which are processed during the financial year are included in the working papers for audit testing.	Agreed A listing of uncashed cheques during the year will be provided as part of the working papers.	Responsible Officer Benefits Manager Timescale 31/03/2010	Implemented

Claim/Return	Issue	Recommendation	Management response	Responsibility (Implementati on date)	Recommendation Status
<ul style="list-style-type: none"> LA01 	<p>Havering operate a shared service scheme with Barking and Dagenham. We were unable to easily obtain access to individual claimant records, in addition variances identified in recalculations could only be resolved by Barking and Dagenham staff members.</p>	<p>MEDIUM The Barking and Dagenham relevant contacts should be made aware of the start dates for the certification work, and their contact details should be recorded on the working paper files.</p>	<p>Agreed The Revenues Manager will ensure that the relevant contacts at Barking and Dagenham will be made aware of the start dates of the certification work and that the details shall be recorded on the working paper file.</p>	<p>Responsible Officer Revenues Manager/Head of Exchequer Services Timescale 31/03/2010</p>	<p>Implemented</p>
<ul style="list-style-type: none"> PEN05 	<p>Checks on the accuracy and validity of the pensionable pay for teacher's whose contributions and deductions are processed by an external payroll provider were not being reperformed by the payroll team.</p>	<p>MEDIUM Spot checks should be performed over the information obtained by external payroll providers. These should be collated by the payroll team and be provided for audit.</p>	<p>Agreed The type of spot check that is being asked for was previously carried out by the Audit Commission as part of the external audit of the TR17. However, we appreciate a different approach is being taken therefore we will put these checks in place on a quarterly basis. We will also ask for a quarterly breakdown of the elements of pay and total pensionable and non pensionable pay. Furthermore as a one-off exercise we will ask for a listing of all elements of pay and whether they are treated as pensionable or non pensionable.</p>	<p>Responsible Officer Pensions Manager/Head of Exchequer Timescale 31/03/2010</p>	<p>Implemented from 01/06/2010</p>

Claim/Return	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
<ul style="list-style-type: none"> HOU01 HOU02 	<p>The working papers were good. However, further details needed to be requested by the audit team to enable completion of the audit testing.</p>	<p>MEDIUM</p> <p>Where external systems, such as Anite, are used, ensure that screen prints to support figures on the grant claim are included in the working paper files.</p> <p>In addition, a detailed explanation of all the systems used in the compilation of the claim (e.g. Keystone) and where the information on these systems comes from should also be included.</p>	<p>Agreed</p> <p>A detailed explanation of all the systems used in the compilation of the claim and where the information comes from will be included in future working paper files. After a post audit meeting with the relevant officer we have agreed on a more streamlined process for the 2009/10 audit which should result in a speedier response for information from our ALMO.</p> <p>Where possible, screen prints will be taken. Other supporting figures that rely on large data sets will be provided on a CD.</p>	<p>Responsible Officer Head of Housing</p> <p>Timescale 31/03/2010</p>	Implemented
<ul style="list-style-type: none"> EYC02 	<p>Working papers were very good, however, the summary of how the grant claim is compiled is considered to be brief and required lengthy discussions to understand this process.</p>	<p>LOW</p> <p>More thorough and detailed notes of the compilation method should be included in the working paper file. The “control environment assessment” on the certification instructions is a good basis to determine the level of detail required. This will reduce staff time required during the audit testing.</p>	<p>Agreed</p> <p>This has been planned as part of the process for completing the 2009/10 Audit File</p>	<p>Responsible Officer Early Years Finance Manager/Head of Learning and Achievement</p> <p>Timescale 31/03/2010</p>	Implemented

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AUDIT COMMITTEE

1 March 2011

REPORT

Subject Heading:	International Financial Reporting Standards and close-down – Project plan Update
	Contact: Mike Board Designation: Corporate Finance Manager Telephone: (01708) 432217 E-mail address: mike.board@havering.gov.uk
Policy context:	This report advises the Audit Committee of the progress to date in implementing International Financial Reporting Standards in Local Authority Accounting.
Financial summary:	There are no financial implications arising directly from the application of the IFRS code. However, the more complex accounting and valuation requirements of the code will create on-going cost pressures.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

This report advises the Audit Committee of the progress to date in preparing for the implementation of International Financial Reporting Standards in Local Authority Accounting and the closure timetable 2010/11. The report also considers the

potential impact of changes in the accounts and audit regulations affecting the process for approving the accounts.

RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to implement the project plan.

REPORT DETAIL

1. Background

Local Authorities will be required to prepare their statutory accounts on an IFRS (International Financial Reporting Standards) basis for the first time in 2010/11.

The published Statement of Accounts will change fundamentally from the existing format. A project plan was developed to achieve IFRS implementation and regular progress reports have been made to this Committee during 2010.

2. Implementation Timetable

The Council will publish its 2010/11 Statement of Accounts on an IFRS basis in 2010/11 including comparative data for 2008/09 and 2009/10. The project plan for IFRS implementation is set out in three key stages.

These stages are as follows:

- i) Restate the closing Balance Sheet as at 31 March 2009 on an IFRS basis.
- ii) Restate the 2009/10 accounts on an IFRS basis for comparative purposes.
- iii) Prepare the 2010/11 accounts on an IFRS basis.

The summary timetable is attached which sets out the progress against key tasks required (appendix A). Key staff have been identified and responsibility assigned to each of the individuals concerned. A more detailed schedule is used by Finance staff which sets out the steps required to complete each of the three phases.

The potential impact of the changes in the accounts and audit regulations is discussed at paragraph 3.5 below.

3. Progress to Date

3.1. Phase 1 – restating the 2009/10 Balance Sheet

This phase of the project; to re-state the Balance Sheet as at 31 March 2010 in IFRS format was completed in accordance with the timetable. The data has been audited by our external auditors, PricewaterhouseCoopers as part of the interim audit arrangements.

3.2. Phase 2 – restating the 2010/11 accounts.

The 2009/10 accounts have now been successfully re-stated in an IFRS format and the information has been audited by our external auditors, PricewaterhouseCoopers.

This comparative data for 2009/10 (and 2008/09) is required to be disclosed in the published statutory accounts for 2010/11.

3.3. Phase 3 - 2010/11 closure of accounts

The final phase of the programme is to integrate the IFRS project into the annual closure programme for 2010/11. The project will also need to take into account the implications of the transformation agenda and in particular the introduction of Oracle ERP.

The 2010/11 closure programme has now been drafted and reflects the IFRS requirements. The interim audit of the 2008/09 and 2010/11 restatements provide the Council with additional confidence in its approach towards the closure of the 2010/11 accounts.

3.4 Progress against matters raised by the external auditors in the Report to Management (ISA260)

The following matters were raised by PwC in their report to this Committee in September 2010. These matters relate closely to the IFRS project plan and management therefore undertook to report back on these issues as part of its routine progress reports.

PwC Recommendations	Updated Management Response
<p>IFRS implementation The Authority has a project plan in place for the transition to IFRS. Since the plan was developed the Authority has embarked on an ambitious transformation programme which may impact upon the Authority's ability to deliver the IFRS plan. Audit</p>	<p>The Authority recognises the risks associated with delivering a number of projects over the same timescale. It recognises that resources must be earmarked for the completion of the project.</p>

<p>Committee should continue to monitor progress on the implementation of IFRS at each of its committee meetings over the next 12 months.</p>	<p>Phases 1 & 2 the IFRS plan have been completed and are now subject to external audit. Phase 3 has been integrated within the closure timetable 2010/11.</p>
<p>Assets under construction We would recommend that the capital accounting team and the property valuation team have a high level briefing of what assets would meet the criteria for disclosure as an asset under construction. This would allow the property value team to provide more useful information for the purpose of capital accounting.</p>	<p>A series of meetings have taken place between valuation and finance staff to agree the criteria to be applied in 2010/11. The process has been discussed with PwC in order to confirm that the policy is acceptable.</p>
<p>Enhancement expenditure We recommend that management and capital project managers provide the property valuation team with sufficient information to enable them to make clear judgements on the value that capital expenditure adds to individual assets. This will allow assets to be accurately valued as at the year end.</p>	<p>The matter has been addressed during the series of November meetings between finance and valuation staff and an approach agreed which will be applied to the 2010/11 valuations. The process has been discussed with PwC in order to confirm that the policy is acceptable.</p>
<p>Fixed Asset Register The Authority should consider whether the current level of detail held on the fixed asset register is sufficient for the purpose of capital accounting under IFRS.</p>	<p>The Asset Register is capable of handling the increased levels of information required under IFRS. Finance staff have agreed the specific arrangements with the external valuers for the identification and valuation of assets. The process has been discussed with PwC in order to confirm that the approach is acceptable</p>
<p>Surplus assets There should be controls in place between the capital accounting and property valuation team which ensures that when surplus assets are identified that a valuation is performed as at that date to ensure the asset is valued at its net realisable value.</p>	<p>Finance and valuation staff have considered the identification and valuation of surplus assets and agreed an approach for 2010/11. The process has been discussed with PwC in order to confirm that the policy is acceptable</p>

3.5 Accounts and Audit Regulations

The Government has recently consulted on the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended. The amended regulations are expected to be approved prior to the completion of the 2010/11 accounts.

The proposed arrangements include a revised process for the approval of the accounts as set out below:

- no later than 30 June following the financial year end the responsible financial officer must certify the presentation of the annual accounts in accordance with the current requirements of regulation 10(2).
- the annual accounts must be published with the audit opinion and certificate, and before that must have been approved by members. The body must use its best endeavours to secure approval and publication by no later than 30 September
- the responsible financial officer must re-certify the presentation of the annual accounts before member approval is given.

As a consequence, it would no longer be necessary for the Audit Committee to approve the draft accounts in June. A further update will be provided to the committee when the regulations have been approved.

Financial Implications and risks:

The Government has issued regulations which mitigate the impact of many of the technical accounting changes arising from IFRS and as such the Council should not experience any increased financial pressures from changes in accounting policy or practice. However, the more complex accounting and valuation requirements of the code will generate additional work and will give rise to increased cost pressures during the implementation phase of the project and on an ongoing basis. These pressures will continue to be monitored and reported upon as their impact becomes clearer.

The 2009/10 valuation work is estimated at between £5,000 and £10,000 and will be met from contingency.

Legal Implications and risks:

Section 21 of the Local Government Act 2003 requires that accounting practices including the Statement of Accounts be undertaken in accordance with proper practices set out in relevant regulations. The Local Authority must also have regard to the code of Practice on Local Authority Accounting for 2010/11 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1st April 2010.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

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CHERYL COPPELL
Chief Executive

Background Papers List

SUMMARY IFRS TIMETABLE					
Stage	Description	Lead Officer	Start Date	Target End date	Actual completion date
1.0	Identification and reclassification of leases	Mike Board/Mark White	05/08/2009	22/02/2010	22/02/2010
1.1	Asset valuation and disclosure	Mark White	05/08/2009	22/02/2010	22/02/2010
1.2	PPP - review of disclosure requirements	Nigel Foster	05/08/2009	01/12/2009	01/12/2009
1.3	Employee benefits accruals	Nigel Foster	05/08/2009	01/12/2009	01/12/2009
1.4	Identification of embedded leases, new PFI or other potential On-Balance sheet financing	Mike Board	01/09/2009	01/12/2009	31/12/2009
1.5	Balance sheet in IFRS format	Mike Board	16/12/2009	08/03/2010	09/03/2010
1.6	Progress report to Audit Committee	Mike Board	01/09/2009	02/03/2010	02/03/2010
1.7	Staff training and updates	Mike Board/ Owen Sparks	on-going	On going	On going
1.8	Review of accounting policies	Mike Board	05/08/2009	31/12/2009	08/01/2010
1.9	Initial review of systems implications	Mike Board	05/08/2009	31/12/2009	31/12/2009
Stage 1	Restate 1/4/09 Balance Sheet in IFRS format	Mike Board	05/08/2009	08/03/2010	09/03/2010
2.0	Produce skeleton format of accounts in IFRS format	Mike Board	01/01/2010	30/12/2010	30/12/2010
2.1	Restate accounting policies and related practices	Mike Board	01/01/2010	15/12/2010	14/01/2011
2.2	Asset accounting and capital accounting	Mark White	01/01/2010	30/11/2010	30/11/2010
2.3	Update Leasing schedules	Mike Board/Mark White	01/04/2010	30/09/2010	30/09/2010
2.4	PPP and embedded leases-disclosures	Nigel Foster / Mike Board	01/04/2010	30/10/2010	15/11/2010
2.5	Employee benefits accruals	Nigel Foster	01/04/2010	30/10/2010	15/11/2010
2.6	Systems changes including "chart of accounts"	Mike Board/ Owen Sparks	30/06/2010	30/12/2010	on-going
2.7	Staff Training	Mike Board/ Owen Sparks	on-going	on-going	on-going
2.8	Progress reports to Audit Committee	Mike Board/ Owen Sparks	on-going	on-going	on-going
2.9	WGA returns in IFRS format	Mark Jarvis	01/04/2010	30/09/2010	30/09/2010
2.10	Completion of re-statement of Accounts in IFRS format	Mike Board	30/06/2010	30/12/2010	30/12/2010
Stage 2	Restate 2009/10 Accounts in IFRS format	Mike Board	01/04/2010	31/12/2010	31/12/2010
3.0	IFRS compliant systems reports produced	Mike Board/ Owen Sparks	01/01/2011	01/06/2011	
3.1	Asset valuation and capital accounting	Mark White	01/09/2011	30/05/2011	
3.2	Leasing Register updates	Mark White	28/02/2011	30/04/2011	
3.3	Accounting policies final review	Mike Board	01/01/2011	31/03/2011	
3.4	Staff Training	Mike Board/ Owen Sparks	on going	on going	
3.5	Progress reports to Audit Committee	Mike Board/ Owen Sparks	on going	on going	
3.6	Employee benefits accruals	Nigel Foster	01/04/2011	30/04/2011	
3.7	Embedded leases-disclosures	Nigel Foster	30/08/2010	30/04/2011	
3.8	Full closure programme 2010/11 - IFRS format	Mike Board	01/01/2011	30/06/2011	
Stage 3	Produce 2010/11 Accounts in IFRS format	Mike Board	01/04/2011	30/06/2011	