



Havering

LONDON BOROUGH

AUDIT COMMITTEE

AGENDA

| | | |
|---------------|-----------------------------------|--|
| 7.30pm | Tuesday, 13 April 2010 | Havering Town Hall Main Road, Romford |
|---------------|-----------------------------------|--|

Members 8: Quorum 3

COUNCILLORS:

Conservative Group (5)

Eric Munday (C)
Frederick Thompson (V.C)
Gary Adams
Michael Armstrong
Steve Whittaker

Residents' Group (2)

Clarence Barrett
Barbara Matthews

Rainham Residents Group (1)

Mark Stewart

For information about the meeting please contact:
James Goodwin (01708) 432432
E-mail: James.Goodwin@havering.gov.uk

NOTES ABOUT THE MEETING

1. MOBILE COMMUNICATIONS DEVICES

Although mobile phones, pagers and other such devices are an essential part of many people's lives, their use during a meeting can be disruptive and a nuisance. Everyone attending is asked therefore to ensure that any device is switched to silent operation or switched off completely.

2. CONDUCT AT THE MEETING

Although members of the public are welcome to attend meetings of the Committee, they have no right to speak at them. Seating for the public is, however, limited and the Council cannot guarantee that everyone who wants to be present in the meeting room can be accommodated. When it is known in advance that there is likely to be particular public interest in an item the Council will endeavour to provide an overspill room in which, by use of television links, members of the public will be able to see and hear most of the proceedings.

The Chairman of the meeting has discretion, however, to invite members of the public to ask questions or to respond to points raised by Members. Those who wish to do that may find it helpful to advise the Committee Officer before the meeting so that the Chairman is aware that someone wishes to ask a question.

PLEASE REMEMBER THAT THE CHAIRMAN MAY REQUIRE ANYONE WHO ACTS IN A DISRUPTIVE MANNER TO LEAVE THE MEETING AND THAT THE MEETING MAY BE ADJOURNED IF NECESSARY WHILE THAT IS ARRANGED.

If you need to leave the meeting before its end, please remember that others present have the right to listen to the proceedings without disruption. Please leave quietly and do not engage others in conversation until you have left the meeting room

AGENDA ITEMS

1. CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements 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

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 an item at any time prior to the consideration of the matter.

4. MINUTES

To approve as a correct record the minutes of the Committee meeting held 2 March 2010 and to authorise the Chairman to sign them.

5. HOUSING & COUNCIL TAX BENEFIT SUBSIDY GRANT CLAIMS – report attached

6. CRB – report to follow

7. ANNUAL REPORT ON WHISTLEBLOWING – report attached

8. INTERIM PROGRESS REPORT – report attached

9. INTERNAL AUDIT CHARTER AND TERMS OF REFERENCE – report attached

10. 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.

Cheryl Coppel
Chief Executive

MINUTES OF A MEETING OF THE AUDIT COMMITTEE
Havering Town Hall, Romford
2 March 2010 (7.30pm – 8.31pm)

Present:

COUNCILLORS

Conservative Group Eric Munday. (Chairman), Frederick Thompson and Steve Whittaker

Residents' Group Clarence Barrett and Barbara Matthews.

Apologies for absence were received from Councillors Michael Armstrong and Mark Stewart.

All decisions were made with no member voting against.

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

30. MINUTES

The minutes of the meeting held on 8 December 2009, were agreed as a correct record, and signed by the Chairman.

31. IFRS UPDATE

The Committee received a report detailing the Council's progress in implementing the International Financial Reporting Standards (IFRS) for 2010/11. Officers informed the Committee that PricewaterhouseCoopers (PwC) had been commissioned to carry out a review of the Council's preparation and progress in implementing IFRS. They had commented as follows:

"We note that the Council is, in comparison to other authorities we are working with, relatively on track in respect of the transition to IFRS, it is important that the finance team continues to drive the transition project over the next few months, as resources will inevitably be focused on accounts closedown from April 2010".

The Committee were informed that significant progress had been achieved towards the completion of phase 1 of the project despite some steps having taken longer than planned. Officers advised that the late publication of CIPFA's IFRS code at the end of December contributed towards the delay.

Audit Committee 2 March 2010

The report identified six key areas where progress had been made.

The Committee **noted** the report and the actions taken to date in implementing the project plan.

32. EXTERNAL AUDIT PLAN 2009/10

Further to minute no. 21 of the meeting held on 8 December 2009 submitted their Audit Plan for 2009/10. The plan outlined their approach for the 2009/10 audit of accounts including the audit of the financial statements to be published by 30 September 2010.

In undertaking a risk assessment PwC had identified five key risks which they would need to address. These were:

- Management override of controls;
- Revenue recognition;
- Accounting for fixed assets;
- Havering Schools; and
- Business Rates Shared Service Agreement.

The Committee **noted** the report.

33. ANNUAL GRANTS CERTIFICATION 2008/9

The Committee received a report from PwC advising of the matters arising from the annual certification of grant claims for the financial year 2008/9.

The Audit Commission issues certification Instructions to set out the work required for the certification of grant claims. For 2008/9 where income was below £100,000 certification was not required and for those grants with an income below £500,000 required limited testing. This meant that in 2008/9 only 10 grant claims required testing. This was an increase of 2 over 2007/8, however, the cost of the work fell from £97,737 in 2007/8 to £89,072 in 2008/9.

PwC felt that a contributing factor to the decrease was the proactive work of the Grants Co-ordinator in ensuring that grant claims were ready for audit prior to their starting work on them. They indicated that the Council could achieve further savings in the cost of grant claim certification by:

- Addressing the qualification issues identified in their audit of the Housing Benefit Subsidy grant claim; and
- Addressing the issues which led to the amendment of 4 claims during the audit process.

The Committee were advised that none of the errors were significant but with grant certification all errors need to be corrected and reported.

The Committee **expressed concern** that the Housing Benefit and Council Tax

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claim had been qualified for the fourth consecutive year. They have **asked** that a report be submitted to the next meeting providing details of the reasons for qualification so they can be satisfied that the same errors are not re-occurring.

Officers had considered the report from PwC and prepared their response for the Committees consideration. Officers had prepared an action plan indicating how the recommendations from PwC had been addressed. The one recommendation which had been repeated related to Housing and Council Tax Benefits where testing had identified several cases where overpayments had been incorrectly classified. Officers indicated that training would be reinforced and training on overpayments was now a scheduled annual event.

The Committee noted both reports and the steps taken by officers to respond to PwC's recommendations.

34. INTERNAL AUDIT PROGRESS REPORT

Officers advised the Committee on progress in delivering the audit plan in quarter 3 of 2009/10. Nine audits had been completed in the quarter generating 26 recommendations of which 8 were high. Three of the audits were qualified.

The Committee focussed their attention on three of the audits.

- a) Integrated Youth Service – the Committee expressed surprise and concern that 43% of the sample of 30 staff did not have a Criminal Records Bureau check. Officers explained how this had come about and the changes being made to deal with the problem.

The Committee asked that a report be submitted to the April meeting providing details of how many staff require CRB checks, how many have been completed and what plans are there to ensure all checks are completed as soon as possible.

- b) Children with Disabilities – in response to questions from the Committee officers advised that the in-house service provided by the Council did not have the capacity to meet all needs, therefore, it was necessary to draw up eligibility criteria. Officers were already working to draw up a policy document.
- c) CM2000 – officers informed the Committee that CM2000 had been up and running for 12 months. This enabled the Council to pay for what is actually delivered not what we have commissioned and represented a considerable improvement over the previous system. Some changes were still required and it was expected that these would be in place by September 2010.
- d) Creditors – the Committee raised concern that two suppliers had been identified without a valid VAT number. The Committee were assured by officers that this was a case of the VAT number not be correctly entered on

Audit Committee 2 March 2010

the system not a problem with the supplier.

The Committee **noted** the report subject to the specific issues detailed above.

35. **FRAUD PROGRESS REPORT**

The Committee received a report detailing the anti fraud and corruption work undertaken by the internal audit team in the period 1 July to 31 December 2009. During this period the Team had received five tip offs from the Fraud Hotline. They had completed 16 cases and were working on a further 12. In addition there were an additional ten assignments which were on-going throughout the year.

Potential savings of over £94,000 had been identified as a result of this work and management were working to recover this money where appropriate.

The Committee **noted** the report.

36. **INTERNAL AUDIT DRAFT STRATEGY AND PLAN FOR 2010/11**

The Committee considered the revised Audit Strategy for 2010/11 and the proposed Audit Plan for the same period. The changes to the Strategy were relatively minor and accordingly the Committee **adopted** the February 2010 version of the strategy.

Officers responded to the Committees' questions regarding the Audit Plan advising that the decision not to include the Social Care and Learning complaints procedure in the proposed audit of complaints had been taken because the risks associated with their procedures was less than those for corporate complaints.

The Committee **agreed** the Audit Plan for 2010/11.



**AUDIT
COMMITTEE**

REPORT

13 April 2010

Subject Heading:

**HOUSING & COUNCIL TAX
BENEFIT SUBSIDY GRANT
CLAIMS**

Report Author and contact details:

Chris Henry
Benefits Manager
Tel: 01708 432413.

Policy context:

E-mail : chris.henry@havering.gov.uk
To provide the Committee with information
about the audits of the HB/CTB Benefit
Subsidy claims from April 2005.

Financial summary:

Not applicable

SUMMARY

At Audit Committee on 2 March 2010, Members enquired about the audit of the Benefit Subsidy Grant claim. This report provides information concerning the issues giving rise to the qualifications for audits conducted since the submission of 2005/06 Benefit Grant claim.

RECOMMENDATIONS

1. That Members note the contents of this report.
2. That Members raise any issue of concern or ask specific questions of officers where required.

REPORT DETAIL

Introduction

- 1.0 The Council is responsible for administering claims for Housing and Council Tax Benefit on behalf of the Department for Work and Pensions (DWP). The Benefits Service within Exchequer Services undertakes this function and pay new claims and process changes to customer's entitlement to housing and council tax benefit (hb/ctb). The DWP reimburse the Council during the year for this expenditure in twelve equal monthly instalments.
- 1.1 During 2008/09, Benefit Services processed 8,703 new claims and 42,823 changes to entitlement which resulted in £74.4 million expenditure. The Council can claim 100% subsidy from the DWP on HB/CTB expenditure.
- 1.2 It is anticipated the Benefit Subsidy Claim for 2009/10 will be in excess of £91 million.
- 1.3 In addition, during 2008/09 20,265 hb/ctb overpayments were created following changes to entitlement. Depending on their classification, the Council can claim a further 40% or 100% subsidy on some of these overpayments from the DWP.
- 1.4 The Benefit Subsidy Claim comprises a number of cells which categorise expenditure and overpayments by the various benefit scheme types that have been introduced since 1987. The claim also reflects the various subsidy rates due for each cell.
- 1.5 The unaudited and audited final claims must be submitted to the DWP by 31 May and 30 November respectively or the DWP will suspend monthly payments until they are received. The claim is therefore always submitted on time to avoid interruption to the Council's cash flow.
- 1.6 A prolific amount of data and evidence is reported, prepared and compiled to support the submission of the Benefit Subsidy claim. This will include data and reports reflecting systems reconciliations and balancing, hb/ctb transactions details and a variety of reports reflecting adjustments made to the benefit system which affect expenditure.

Outcome of Audits

2.0 The table below provides information about expenditure and the value of qualifications since 2005.

| Financial Year | HB/CTB Expenditure | Number and Value of Qualification | | Qualification expressed as a % of expenditure |
|-----------------------|---------------------------|--|----------|--|
| 2008/09 | £74,385,886 | 2 | £26,126 | 0.03% |
| 2007/08 | £67,594,369 | 4 | £56,692 | 0.08% |
| 2006/07 | £62,179,738 | 10 | £99,720 | 0.16% |
| 2005/06 | £55,747,224 | 4 | £281,583 | 0.5% |

2.1 External Auditors will initially test a sample of cases from various cells on the Benefits Subsidy claim to see if the entitlement giving rise to the expenditure has been worked out correctly. External Audit will also check that overpayments have been properly classified and the correct subsidy has been claimed.

2.2 If an error is found on the initial sample of cases that is tested, a further test is undertaken which includes additional samples from the same cell. If further errors are found the cell is qualified.

2.3 The auditor will extrapolate a percentage error rate across the cell based on the sample tested which is reflected in the table in paragraph 2.0 above as the value of the qualification.

2.4 For clarity, an example of a single cell qualification is set out below.

| Original Cell Total | Sample Value | Sample Error | Percentage Error Rate | Qualification Value |
|----------------------------|---------------------|---------------------|------------------------------|----------------------------|
| £436,926 | £2,978 | £82 | 2.75% | £12,015 |

2.5 In the table above, a sample worth £2,978 of the total cell value (£436,926) was tested and £82 was found to be incorrectly allocated to the cell. The percentage error rate was 2.75% ($£82 \div £2,978 \times 100$). Please note Auditors will calculate to six decimal places and then round up to two decimal places. The percentage error rate is then used to calculate the qualification value across the entire cell ($2.75 \times £436,926 \div 100$) which is £12,015.

2.6 Over the years, Benefits legislation and guidance has become more complex and challenging to administer, however the table in paragraph 2.0 above shows an increase in expenditure with a decrease in the value of qualifications which reflects an improvement in the quality of benefit

administration.

- 2.7 For comparison purposes, a survey was issued to London Local Authorities requesting information in relation to their 2008/09 Benefit Subsidy Grant claims.
- 2.8 Twelve Authorities responded to the survey and the average value of their qualifications for 2008/09 was £98,429 with a mean expenditure of £150,045,384. The average number of qualifications per authority who responded was seven.

Reasons for Qualifications

- 3.0 The Benefit Subsidy claim for 2005/06 gave rise to four qualifications. Three of the qualifications related to errors being made in the classification of overpayments and attracted a qualification value of £281,583.
- 3.1 The fourth qualification related to non-rent rebate cases being held in the rent rebate cell for which there was no subsidy implication.
- 3.2 During the audit of the 2006/07 claim, ten qualifications were noted by the External Auditor. Seven of the ten qualifications were in relation to overpayment classification and the time period over which the overpayment related. The seven overpayment error qualifications are valued at £82,751.
- 3.3 The eighth qualification related to reconciliations where rent rebate expenditure and council tax benefit expenditure did not fully reconcile within the systems. This led to a qualification value of £16,969.
- 3.4 The ninth qualification related to extended payments. An extended payment is an additional payment of hb/ctb paid for four weeks to support the claimant on their return to work. Payments had been incorrectly calculated in this cell but as it was an underpayment rather than an overpayment, there was no impact on subsidy.
- 3.5 With regard to the remaining qualification in the audit of the 2006/07 Benefit Subsidy Grant Claim, this arose following a test of cases that were in a cell on the grant claim for information purposes only and which did not attract subsidy. The Audit highlighted cases which appeared to have no referral to the Rent Officer who determine the eligible rent used in the calculation of hb/ctb. This was a system error that was subsequently resolved.
- 3.6 In relation to the audit of the 2007/08 Benefit Subsidy Grant Claim, four qualifications were noted. Two of the qualifications related to incorrectly classified overpayments with a qualification value of £56,672. A third qualification valued at £20 related to a reconciling difference in rent allowance expenditure.

- 3.7 The final qualification following the audit of the 2007/08 Benefit Subsidy Grant Claim identified cases where a previous year rate of pension had been used for the calculation of the war disablement pension. All of these cases were corrected at the time of the audit consequently, there were no subsidy implications.
- 3.8 During the audit of the 2008/09 benefit subsidy claim, two qualifications arose with regard to errors in overpayment classification. The qualification value was £26,126.

Strategy for Continued Improvement

- 4.0 Assessing hb/ctb claims is a complex process so to maximise income through maintaining accuracy, newly recruited Benefit Officers are made to undergo a rigorous training programme which last for most of their probation period. New and existing staff was also frequently trained throughout the year on revisions to procedure and legislation to ensure the correctness of the claim process.
- 4.1 Assessing hb/ctb claims is a complex process so to maximise income through maintaining accuracy, newly recruited Benefit Officers are made to undergo a rigorous training programme which last for most of their probation period. New and existing staff was also frequently trained throughout the year on revisions to procedure and legislation to ensure the correctness of the claim process.
- 4.2 A sample of the work of Benefit Officers is also monitored throughout the year to identify training needs and ensure the accuracy of the claim. This will include close scrutiny of the classification of overpayments.
- 4.3 It is apparent from the qualifications above that the classification of overpayments is an area of challenge for Benefit Processing Officers. Consequently, as a result of the above audits, a special programme was set up three years ago to provide tailored training specifically around overpayment errors and issues identified during the audit. Over the years, training has also included rent rebate and non-rent rebate cell classification and procedures for dealing with claims where there is a war disablement pension.
- 4.4 This specialised training is carried out every year following the completed audit of the previous year's claim. Initially, the benefit of the training was not immediately seen in the next claim audit because the training takes place late in the year after the previous year's completed audit. However, the training coupled with the initiatives mentioned above and below have reduced the number and value of qualifications.
- 4.5 One to one training is also provided where individual Benefit Officers are found to be making patterns of errors.

- 4.6 Subsidy monitoring takes places throughout the year, where checks are made and remedial action is taken against a sample of all cells on the benefit subsidy claim.
- 4.7 However, for the last three years and specifically since the audit of the 2005/06 benefit subsidy claim, more intense monitoring of all the overpayment cells has taken place. Corrective action is taken where misclassifications are found; training needs are identified and fed through to the annual subsidy training programme or referred to the individual Officer as appropriate.
- 4.8 Reconciliations have also attracted qualifications during audits. Where there are differences between systems it is not always possible to reconcile them before completion of the audit. However, qualifications about reconciling differences have improved significantly.
- 4.9 A number of reports are also produced during the year which identify cases where incorrectness can incur or has incurred and also subsidy integrity issues. These will be looked at and resolved by Benefit Services and the Reconciliation team to ensure the accuracy of the benefit subsidy claim.

IMPLICATIONS AND RISKS

Financial implications and risks:

The audit and subsequent qualifications of the Benefit Subsidy Grant claim will often lead to financial loss to the authority although these have been reducing year on year. By maintaining robust benefit processing arrangements and a clear strategy for intense training and monitoring, the risk of such losses will continue to reduce. However, there are no financial implications or risks arising directly from this report.

Legal implications and risks:

There are none arising directly from this report.

Human Resources implications and risks:

There are none arising from this report.

Equalities implications and risks:

There are none arising from this report

BACKGROUND PAPERS

None.

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AUDIT COMMITTEE

REPORT

13 April 2010

Subject Heading:

**ANNUAL REPORT ON
WHISTLEBLOWING**

Report Author and contact details:

Vanessa Bateman
Internal Audit & Corporate Risk
Manager Tel: 01708 43 3733
E-mail: vanessa.bateman@havering.gov.uk

Policy context:

To update the Committee on the arrangements in place and report for activity in 2009/10.

Financial summary:

N/a

SUMMARY

Robust arrangements regarding Whistleblowing, also known as 'Confidential Reporting', is a key in maintaining effective governance arrangements within the Public Sector. It is a process used to "empower the honest majority" in the fight against fraud and corruption.

The review of the Council's Whistleblowing arrangements was undertaken in March 2010. No specific actions have arisen from the review. The on-going promotion of the policy is part of the action plan to implement the anti fraud and corruption strategy.

London Borough of Havering have received 6 Whistleblowing reports in the period April 2009 – March 2010.

RECOMMENDATIONS

1 To note the contents of the report.

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| REPORT DETAIL |
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1. Whistleblowing Arrangements

1.1 The detail of the Whistleblowing reports received in 2009/10 is contained in the table below.

1.2 The Whistleblowing information is located with the Human Resources policies and procedures on the intranet. All new starters to the organisation receive a copy of the policy as part of their induction pack, which they are asked to sign a declaration indicating they have received and read. Reminders are sent to all staff in year via team briefers, pop ups and pay slip messages. Information on Whistleblowing is also included within the manager’s induction days and other training/awareness workshops.

| Case File T8oaad | Date submitted | Description | Action taken |
|----------------------------|-----------------------|--|---|
| 001 | 8 April 2009 | Allegations that a Manager was acting improperly and not adhering to Council procedures. | Manager has been interviewed and explanations sought. HR to review explanations and agree with management further action. |
| 002 | 22 July 2009 | Allegation member of staff incorrectly records flexi times for lunchtime periods | Management have reviewed staff activity during lunchtimes and have no concerns. |

| Case File T80aad | Date submitted | Description | Action taken |
|----------------------------|-----------------------|--|---|
| 003 | 29 October 2009 | <p>An anonymous allegation was raised regarding the employment of a partner/girlfriend without following interview procedures, after the officer had left the organisation.</p> <p>It was also alleged the sister had also been employed but was not qualified for the position.</p> <p>The whistleblower also indicated that expenses had been claimed without authorisation.</p> | <p>The interview process had been followed in both cases and references received.</p> <p>The manager had identified the over claim of expenses and these had not be paid.</p> |
| 004 | 18 November 2009 | <p>It has been alleged a manager has employed a relative and that the rate of pay is out of proportion with the duties of the post.</p> | <p>A preliminary investigation indicated that that the approving officer was a relative of the employed.</p> <p>Management have further investigated and an interview with officer took place in March.</p> |

| Case File T80aad | Date submitted | Description | Action taken |
|----------------------------|------------------------|--|---|
| 005 | 4 December 2009 | <p>It was reported that a member of staff was accessing personal internet sites during he working day.</p> <p>It was also alleged that the member of staff was taking lunch breaks outside of the lunch period and constantly using the telephone for personal use when the manager was not in the office.</p> | <p>The investigation found that internet use for personal reason was limited.</p> <p>Management had previously identified the unauthorised lunch breaks and taken action.</p> <p>Telephone logs identified possible misuse and the member of staff has been warned about future conduct in relation to all the above.</p> |
| 006 | 24 December 2009 | An anonymous letter alleged that two members of staff were involved in accessing personal credit references from a Council supplier at no charge and without authorisation. | Both members of staff have been subject to disciplinary action. |

1.3 The 6 Whistleblower reports in the period compares to 13 received during 2008/09.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications or risks arising directly from this report. It is good practice for such arrangements to be subject to an annual review. This ensures that they are fit for purpose, up to date and comply with the latest guidance, and reflect both the views and work of the Audit Committee.

Legal Implications and risks

None arising directly from this report

Human Resource Implications and risks

None arising directly from this report

Equality and Social Inclusion implications

None arising directly from this report

BACKGROUND PAPERS

None.

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AUDIT COMMITTEE

13 April 2010

REPORT

Subject Heading:

Interim Internal Audit Progress Report

Report Author and contact details:

Vanessa Bateman
Internal Audit & Corporate Risk Manager
Tel: 01708 - 433733
E-mail : vanessa.bateman@havering.gov.uk

Policy context:

To inform the Committee of final reports issued in quarter four 2009/10.

Financial summary:

N/A

SUMMARY

This report advises the Committee on the results of audits finalised in quarter four by the internal audit team during the period 1st January 2010 to 26th March 2010. An interim report is issued to the April Committee meeting to minimise the number of management summaries, and issues contained within.

RECOMMENDATIONS

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

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| REPORT DETAIL |
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Section 1: Final Audit Reports 1st January 2010 – 26th March 2010

Schedule 1 details the work completed in quarter four, between dates specified. Details are listed in the table below and management summaries start on page 3.

SCHEDULE 1: 2009/2010 – Audits Completed

| Report | Opinion | Recommendations | | | | Ref below |
|---|-------------|-----------------|-----------|-----------|-----------|-----------|
| | | High | Med | Low | Total | |
| Cyborg | Qualified | 2 | 8 | 2 | 12 | 2(1) |
| Oracle Financials | Unqualified | 0 | 3 | 0 | 3 | 2(2) |
| Children’s Centres | Unqualified | 0 | 2 | 0 | 2 | 2(3) |
| Council Tax | Unqualified | 0 | 1 | 1 | 2 | 2(4) |
| Integrated Children’s System (ISIS) | Qualified | 0 | 12 | 1 | 13 | 2(5) |
| Government Connect | Qualified | 9 | 7 | 0 | 16 | 2(6) |
| Budgetary Control | Unqualified | 0 | 0 | 7 | 7 | 2(7) |
| Main Accounting | Unqualified | 0 | 0 | 0 | 0 | 2(8) |
| Partnerships Follow Up | n/a | - | - | - | - | 2(9) |
| Telecommunications Follow Up | n/a | - | - | - | - | 2(10) |
| Procurement and Leasing of Vehicles Follow Up | n/a | - | - | - | - | 2(11) |
| Commissioning of Residential Placements Follow Up | n/a | - | - | - | - | 2(12) |
| IT Security and Data Management follow Up | n/a | - | - | - | - | 2(13) |
| Cemeteries and Crematorium Follow Up | n/a | - | - | - | - | 2(14) |
| Total | | 11 | 33 | 11 | 55 | |

Section 2: Management Summaries

| | |
|---------------|----------------------|
| Cyborg | Schedule 2(1) |
|---------------|----------------------|

2.1.1 Background

2.1.2 An internal audit of the Payroll process was completed in May 2009 by the Council's Internal Audit section. The focus of this audit has been the Cyborg IT application used for the management of payroll and HR processes around its usage.

2.1.3 Summary of Audit Findings

2.1.4 User access within the Cyborg system requires review to ensure that users have access in line with their job role; specifically we found that some user access between Payroll/HR users may not be in line with their job functions. The reasons for this situation have been explained following the audit and management have confirmed that the access anomalies were for a specific reason and were reversed back the same day.

2.1.5 Access controls to and within the Cyborg application require improvement and many password controls are not enforced on the system such as minimum password length and expiry period. This system weakness was identified previously by management and the new version of the system, due for implementation by February 2010, will rectify this weakness.

2.1.6 Review of user accounts identified that some accounts on Cyborg had not logged on since 2003. Although a review was performed in 2008, this did not take into account the creation date of the User ID.

2.1.7 Although there are four administrators for the Payroll/HR system, there is a reliance on one administrator for knowledge of the Payroll/HR system. This could mean that, in the absence of this officer, system processes may not be able to be performed.

2.1.8 Some Cyborg data can be viewed via the Business Objects report writing software, however, user access to this has not been reviewed and we identified some users that may not require access to this function.

2.1.9 There is currently no system enforced secondary authorisation for users' pay scales and data. Although a manual process is in place, this may not include authorisation for all changes on the system.

2.1.10 A number of employee 'skeleton' records have been created on the system, which are not required for payroll processing. Although a review is performed on an annual basis of these accounts, a review of the reason for their creation has not been performed. The Council may be paying for additional records on its license that are not required.

2.1.11 There is currently no audit trail maintained on master file changes to users' ID code.

2.1.12 It is not clear if the Payroll/HR Business Continuity Plan has been updated as the copy reviewed for this audit was outdated.

2.1.13 The security violation report detailing unsuccessful log in attempts to the system is not reviewed on a periodic basis.

2.1.14 The 'date of birth' field on the system does not include validation control to prevent the date of birth being set to a future date.

2.1.15 Review of the interface process into the BACS system identified that a number of users had access to the folder containing the BACS file. This included one user who had left the Authority two years ago and one user who has transferred to another team and no longer requires this level of access.

2.1.16 Audit Opinion

2.1.17 As a result of this audit we have raised 2 high priority, 8 medium priority and 2 low priority recommendations.

2.1.18 In order to further improve the control environment, management need to ensure that:

- Segregation of duties is applied between sensitive Payroll and HR functionality to match the current setup of roles and responsibilities within the two teams (High);
- Password controls are strengthened as the current security solution contains some controls that are not set to strong security levels to protect sensitive payroll and HR data from unauthorised access (High);
- A review is performed of all Users to ensure all users are current and valid (Medium);
- System administrator knowledge and information is shared among designated staff to provide a stronger user support base (Medium);
- Access to Business Objects reporting for Payroll and HR data is restricted to authorised staff who require this access as part of their defined job role (Medium);
- Security violation reports are reviewed appropriately on a regular and periodic basis (Medium);
- Online authorisation is used for sensitive data changes on Cyborg to strengthen the current manual authorisations (Medium);

- Skeleton employee records should be reviewed and deleted on a more regular basis, and the reason for the cause of these records is identified (Medium);
- Input validation controls should be placed on the employee 'Date of Birth' field to prevent a future date being input into the field (Medium);
- Interface file directory access should be reviewed and subsequently restricted to users who are authorised and require this access as part of their role (Medium);
- Audit trails should be maintained and reviewed for System Administrator activity and master data changes (Low); and
- An appropriately updated Exchequer Services Business Continuity Plan should be provided to the relevant staff for information and training (Low).

2.1.19 A **qualified** audit opinion has been given as the audit has found weaknesses in the system of internal control that may put the Council's objectives at risk.

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| Oracle Financials | Schedule 2(2) |
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2.2 Background

2.2.1 Oracle Financials is the key financial information system used by the Council and forms part of the Oracle e-Business Suite which is an integrated software solution and includes the application modules for Accounts Payable (AP), General Ledger (GL), Purchase Card Scheme, Customer Relationship Management (CRM) and e-Procurement. The Oracle modules available at the Council are all supported contractually under the Oracle e-Business Suite maintenance agreement and share a number of system controls relating to end user management and administration, access controls, database backups, disaster recovery provisions and Oracle's audit trail facility.

2.2.2 The Oracle Financials system has been in use at the Council since 1997 and since then there has been a series of system enhancements performed to upgrade the functionality of the application. The current version in use at the Council is V11.5.10.2. The Oracle Financials module was last audited in November 2006 with a recent audit undertaken in May 2009 of the modules used for e-Procurement and CRM.

2.2.3 The system development and management of Oracle Financials (GL/AP) is supported in-house by a team of Senior Database Engineers in the Business Systems Unit, who are designated system owners and are responsible for maintaining the technical infrastructure and database integrity. The data owner is the Head of Financial Services and the management and administration of Oracle 2.2.4 Financials end users is

performed by an experienced team of System Control and Development Officers/Administrators within the Financial Services Unit.

- 2.2.4 The Council is to extend the use of Oracle Financials to include the Accounts Receivable system, however, this module did not form part of this audit scope.

2.2.5 Summary of Audit Findings

- 2.2.6 A number of recommendations have already been made in the Oracle CRM and e-Procurement Audit Report issued in August 2009 in relation to the main user access controls for the Oracle e-Business Suite system and so will not be also raised in this report. However, in summary the previous report identified that there was no enforced policy for strong and complex password construction, no strict system enforcement of password expiry and limited password history.

- 2.2.7 As a result of this audit, the findings are listed below.
Temporary agency staff changes are not captured on the general starters/leavers list which is produced and distributed to all Council directorates from Human Resources. There is also no formal and documented procedures and process in place to inform system owners at the Council of temporary agency staff changes and also changes in permanent and temporary staff moving from one area to another across the Council.

- 2.2.8 It was identified that System Administrators can and have assigned themselves responsibilities without a formal defined and documented business case. There are defined and documented procedures in place for the proactive and periodic reviews of Oracle Financial end users. However, this does not extend to reviews of administrator rights which help to ensure that users with access to these special rights are maintained to a minimum and that they are required as part of their job role.

- 2.2.9 Audit testing identified that there are a number of high level generic accounts which have no assigned users and have no mechanism of identifying user accountability over their actions. One of these account was found to be redundant.

2.2.10 Audit Opinion

- 2.2.11 As a result of this audit we have raised 3 medium priority recommendations.

- 2.2.12 In order to further improve the control environment, management need to ensure that:

- Changes and movements in staff, in particular temporary agency staff and permanent staff moving across departments at the Council, are included in the starters and leavers report which is produced and

distributed by Human Resources on a monthly basis to all Service Units at the Council.

- A review should be performed on the System Administrator and Super User level access to Oracle Financials.
- A review should be performed of generic accounts to ensure that these are required and removed if no longer needed.

2.2.13 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.

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| Children's Centres | Schedule 2(3) |
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2.3 Background

2.3.1 A Children's Centre is a place in the community where families with children under the age of five can access a range of activities, services and information. The Centres work with parents and carers to ensure that services lead to better outcomes for children and their families, promote social inclusion and healthy and safer communities.

2.3.2 There are currently 11 Children's Centres in Havering with a further three to be developed during 2010. The centres offer different services dependent on the level of deprivation within the immediate area.

2.3.3 Funding for the Children's Centres for 2009/10 comprises £2.4m grant funding, £453k Sure Start funding and £800k capital.

2.3.4 As of January 2010, Children's Centres will be subject to inspection by Ofsted, in a similar fashion to inspections currently carried out within schools.

2.3.5 Summary of Audit Findings

2.3.6 Children's Centres have historically been Sure Start centres, financially sustained by Sure Start funding from Government. However, strategic responsibility for these centres has recently passed over to local authorities. Whilst funding continues to be provided, a recent announcement has indicated that funding may cease in 2011.

2.3.7 As with many areas of public services there is some political instability. The result of the forthcoming general election may impact on future strategies. Until such time that a decision is made in both instances, the service is continuing to drive forward plans to identify potential income streams and ensure the sustainability of the service.

2.3.8 Responsibility for ensuring Criminal Records Bureau (CRB) checks are updated every three years, set out within the Code of Conduct for Safer Recruitment does not reflect current working practices of the Human Resources team.

2.3.9 There is an overall lack of understanding of the various access permissions available within the ISIS system and what these permissions allow the user to do. Access to users is currently not being defined by the user's job requirements.

2.3.10 Audit Opinion

2.3.11 As a result of this audit we have raised two medium priority recommendations.

- Recommendations related to the need for:
 - Amendments to be made to the Code of Practice for Safer Recruitment in line with current working practices within Human Resources; and
 - Clarity of various access permissions within ISIS, including which permissions are applicable to which roles within the service.

2.3.12 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.

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| Council Tax | Schedule 2(4) |
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2.4 Background

2.4.1 The Local Government Finance Act 1992 introduced Council Tax. This replaced the Community Charge on the 1st April 1993. The money raised through the Council Tax is retained to fund Council spending.

2.4.2 All properties are subject to Council Tax and to determine the amount payable they are allocated a band according to their market value as at 1st April 1991. The bands range from A to H dictating an amount payable for each band.

2.4.3 Summary of Audit Findings

2.4.4 The audit review found that recommendations raised as part of the previous years audit have not yet been fully implemented due to staff absences and vacant posts. Whilst work is underway to implement these controls, it must be noted that generally, the weaknesses found, would be mitigated upon implementation of the previous recommendations.

- 2.4.5 The procedures manual is being updated as a result of the previous year's recommendation. Whilst full implementation is not due until March 2010 the Council Tax team have expressed concerns that this deadline may not be met.
- 2.4.6 Spot checks on officer's work have not been carried out consistently since September 2008 and were due to be resumed as a result of last year's council tax audit. They have not yet been resumed.
- 2.4.7 Testing found that debt is not always pursued in a timely fashion.
- 2.4.8 The previous Council Tax Audit recommended staff sign a declaration to demonstrate they have been informed that they are not authorised to access the accounts of friends and relatives. These declarations have yet to be introduced.
- 2.4.9 It was noted that occasions have arisen in which reports of suspected fraud received via the whistleblowers hotline have not resulted in sufficient action by the service. It is expected that changes in staffing will resolve this issue, however, a recommendation has been raised within the report to ensure this is resolved.
- 2.4.10 The Council and the Service are currently investing resources into managing exemptions and ensuring fraud is minimized. This will reduce the risk of fraud in the future and increase income collected.

2.4.11 Audit Opinion

- 2.4.12 As a result of this audit we have raised one low priority and one medium priority recommendation.
- 2.4.13 Recommendations related to;
- The need to devise a procedure to ensure minimum criteria for accuracy checking of employees' work, the results of which are submitted to the Council Tax Manager (Low); and
 - The need to establish procedures regarding preliminary investigations into all reports of suspected fraud, the results of which are reported/referred back to the Internal Audit Fraud Team (Medium).
- 2.4.14 Whilst recommendations raised as part of the previous year's audit remain outstanding, 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.

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| Integrated Children's Systems |
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| Schedule 2(5) |
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2.5 Background

- 2.5.1 The Integrated Children's System (ICS) is a conceptual framework and tool that has been developed as part of the Government's Every Child Matters initiative. The primary aim of the system is to improve outcomes for children in need. As of 2007, all Local Authorities were required to have a fully operational system in place.
- 2.5.2 The Havering Children and Young People's Service uses the Esprit ShareCare solution, known as ISIS, to manage the recording of data concerning children and young people who have had interactions with social care within Havering.
- 2.5.3 The application is locally hosted within Mercury House and managed by the Integrated Working Team in conjunction with the Business Systems function and the supplier, Esprit.
- 2.5.4 Since May 2009, the Department of Children Schools and Families have indicated that the national Integrated Children's Systems (ICS) requirements are to be relaxed and Local Authorities have been provided with more autonomy to determine how the system should best support front-line social work practices. In this regard, the Integrated Working Team is undergoing a review of the current ISIS work practices to identify potential areas for improvement.

2.5.5 Summary of Audit Findings

- 2.5.6 The IBM Tivoli Directory Server version 6 is used by Esprit, the third party supplier, to store ISIS user account details including passwords. By default, passwords are stored in clear text and it was noted that two staff members within Esprit have access to view the user account passwords of Havering users. Management feel this issue poses a low risk to the organisation but a strengthened process has been agreed.
- 2.5.7 For the purposes of user support, the System Support Officer has obtained access to a user's account through logging onto the system with their users' credentials. Formal documentation of such access having occurred and the requirement that users are forced to change their passwords following the access is not currently in place. In response to this issue a strengthened policy and procedure has been agreed.
- 2.5.8 Currently reliance is placed on a monthly leavers report received from the ICT Help Desk to disable accounts of users who may require access to the system. Accounts of leavers are only removed promptly where the user's Line Manager directly informs the Support Officer of the need to remove a specific user account. This process does not directly include all staff that remain within the Council, but no longer require access to the system. We

also identified that it is possible to access the system over the Internet without logging onto the Council's network. Action to mitigate risk has been agreed by management.

- 2.5.9 Periodic reviews of users and their access rights are not performed. Action to mitigate risk has been agreed by management.
- 2.5.10 The existing password controls do not maintain a history of users' passwords to prevent their re-use and to prevent passwords becoming well known. Account sessions only time out after a period of one hour's inactivity and users are provided with five unsuccessful logon attempts for both the initial password and their secret question before their accounts are locked. If the secret question is answered incorrectly five times, the account may only be unlocked by the System Administrator. Observation of staff working practices also revealed that staff may leave their desks unattended whilst they are still logged on to the network and to ISIS which is not permitted in the Council's Business Systems Policy. Management feel this risk is mitigated, by other controls, and therefore no further action has been agreed.
- 2.5.11 Through observation and discussion with teams within the Child Protection and Intervention unit, it was determined that data input forms in place on the system do not always align to the business needs. Consequently, MS Word and MS Excel documents are used to record information as required by the service and these are attached onto the system records. A policy has been documented to govern the use of these attachable documents; however, adherence to this policy is not always ensured. Management agree the risk and action to mitigate has been agreed.
- 2.5.12 ISIS training for staff has occurred historically but the trainer has since left the Council. Since then there has been limited staff training on the system. The system does not align to the business processes and needs. Therefore, various workarounds have been implemented resulting in some non-standard and local work practices. Management agree the risk and action to mitigate has been agreed.
- 2.5.13 Crystal Reports are used to create reporting from the system; however, due to a lack of report writing capabilities only a few reports have been written and arrangements for the regular running and distribution of these reports is still to be agreed. Suggested action to mitigate risk has been agreed by management.
- 2.5.14 At the time of the audit exit meeting and reporting, a copy of the Children and Young People's Social Care Department Business Continuity Plan had not been provided.
- 2.5.15 The Council is in the process of an Enterprise Project which involves moving the data centre to the Docklands. This will provide for a more robust disaster recovery arrangement for the ISIS application, however, currently there is limited disaster recovery for the ISIS system. Suggested action to mitigate risk has been agreed by management.

- 2.5.16 The internal support arrangements within Business Systems for the ISIS application rely on key staff and specifically the System Support Officers for many Administration tasks. The main System Support Officer is to go on maternity leave for one year and will only be returning on a part-time basis following that time. Action to address this risk is complete at the time of finalising the report.
- 2.5.17 The existing service level agreement (SLA) in place between the Council and Esprit does not adequately define the roles and responsibilities between Esprit and the Council's Business Systems department. Therefore, the agreement is in the process of being updated. Suggested action to mitigate risk has been agreed by management.
- 2.5.18 Previously, Line Management were required to indicate that the user for which access was being requested had an enhanced CRB check performed. The date of the check was required to be documented. Due to concerns being raised that the information being provided was inaccurate, the decision was taken to make this a voluntary field. Management feel other compensating controls mean this is low risk, however a further mitigating action has been agreed.

2.5.19 Audit Opinion

- 2.5.20 As a result of this audit we have raised 12 medium priority and 1 low priority recommendations. The areas for improvement are detailed below along with the outcome of management consideration.
- 2.5.21 It is noted that management have provided comprehensive and proactive responses to the recommendations presented in this audit report and intend to implement a number of actions to mitigate risk before the end of the financial year.
- 2.5.22 In order to further improve the control environment, management need to ensure that:
- Passwords are stored in an encrypted format and where the confidentiality of these passwords is compromised, the reasons for this are documented and the password is immediately changed by the user upon their next logon (Medium). Compensating action agreed.
 - User accounts are only used by the named individuals. Where these are accessed for support purposes, then this should be formally documented and the password immediately changed by the user upon their next logon (Medium). Compensating action agreed.
 - All redundant user accounts are disabled on the system and staff who no longer require access to the application are removed in a timely manner and always when leaving the Council (Medium). Recommendation agreed.

- Regular periodic reviews of user accounts on the system are performed and any discrepancies in the users listed or the access rights assigned should be immediately resolved (Medium). Recommendation agreed.
- The password controls on the system are strengthened so that a password history is maintained to prevent password re-use and a user's work session times out after a shorter period. User education should be performed to help to ensure compliance with the Council's Business Systems Policy (Medium). No action planned.
- The MS Word documents and manual notes are reviewed and standard practices are implemented across the department teams. Compensating action agreed (Medium).
- Users are provided with training and support on how to use the application and obtain the information that they require in order to perform their duties (Medium). Compensating action agreed.
- The ISIS reporting requirements are reviewed and standard reports are created and distributed to relevant, authorised managers as required to support the Council Children and Young People's Service (Medium). Recommendation agreed.
- A formal Business Continuity Plan should be supplied and documented for the continuation of the Council service for Children and Young People's in the event of a disruption to normal processing (Medium). Recommendation agreed.
- Formal and robust disaster recovery arrangements are implemented for the ISIS application and that these are tested on a periodic basis. We acknowledge that this is currently being addressed through the Council's Enterprise Project (Medium). Recommendation agreed.
- The existing support arrangements within Business Systems and Children and Young People's Services are reviewed and updated to ensure that there is sufficient support for the system from staff that have the required skills and knowledge for occasions when the main System Support Officers is not available (Medium). Complete.
- The support agreement and contract with Esprit is reviewed and updated to clearly outline the support to be provided, the monitoring of service levels and the interaction between the Children and Young People's Services, Business Systems and Esprit (Medium). Recommendation agreed.
- Consideration is given to re-establishing the requirement that Line Managers indicate the date of the staff member's enhanced CRB

check when applying for access to the system (Low). Compensating action agreed.

2.5.23 A **qualified** audit opinion has been given as the audit has found weaknesses in the system of internal control that may put the Council's objectives at risk.

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| Government Connect | Schedule 2(6) |
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2.6 Background

2.6.1 The Government Connect Secure Extranet (GCSx) is a communication network which enables local authorities to share information securely with each other, and with other public sector bodies including Central Government, NHS Trusts and criminal justice agencies. In order to be authorised to connect to the Extranet, organisations must comply with the Code of Connection (CoCo) drawn up for this purpose.

2.6.2 The need to connect and obtain approval from GCSx commenced in early 2009 as a project with the aim to have the required policies, procedures, security and controls and the necessary architecture in place before the connection deadline of September 2009. Failure to meet the deadline would have resulted in the Council not obtaining the relevant approval and therefore delaying its connection and may result in more stringent control requirements being enforced. Considerable expenditure in procurement of solutions and effort has been spent to meet the GCSx control requirements by the Council. The Council submitted its statement to version 3.2 of the Code of Connection.

2.6.3 The Council obtained its approval for connection to GCSx on 28th August 2009 and there are approximately 100 users that have the GC connection who are mainly located within the Revenues and Benefits service.

2.6.4 This was not an audit of the robustness of the security control measures. The work consisted of an independent evaluation of the accuracy of the evidence to support the code of connection submission.

2.6.5 However, as a result of our audit, we have made 16 recommendations in this report which in the main relate to meeting the requirements of the Code of Connection with some minor recommendations mainly to improve the overall control framework at the Council.

2.6.6 Summary of Audit Findings

2.6.7 Users have to acknowledge on the Council's intranet that they have understood the contents of the Business Systems Policy when accessing the internet. However, when accessing the internet directly, the user is reminded of the Council's internet policy but no mention is made of the Business Systems Policy. In addition, users have not been asked to

- positively sign an Acceptable Usage Policy or a commitment statement as recommended by Government Connect (High).
- 2.6.8 As part of the Code of Connection requirement, the Council should have an awareness training programme for handling restricted data. At the Council, the only awareness training that has been undertaken is to inform users of the on line training that every user should complete. There has been no other awareness training provided to users in support of the Code of Connection (High).
- 2.6.9 The Council's security policy is in the form of a Business Systems Policy. Although it states that it will be reviewed annually in the month of November, according to a copy supplied it was last updated in September 2008 (High).
- 2.6.10 The on line training undertaken by users at the Council covers the access and handling of 'Restricted' data. However, data at the Council has not been classified and therefore it is unclear how access to controlled data will be applied and managed (High).
- 2.6.11 Currently, there is no formal Incident Management Policy or process in place in compliance with GC requirements. During our audit a draft policy was provided, however, this has not been formally adopted (High).
- 2.6.12 The Council's Novell network logon enforces the requirement of minimum password length, password expiration period and the requirement to ensure that previous passwords cannot be used as per GC guidelines. However, it does not meet the requirement for the use of complex passwords (High).
- 2.6.13 As part of the connection to GC all users, whether new or existing, should have been vetted and verified to the Government's Baseline Personnel Security Standard (BPSS). Although the return statement to GC states that users will have been subjected to a varying degree of checks and vetting, no firm evidence was provided at the end of the audit to confirm that users have been checked to the BPSS Standard (High).
- 2.6.14 The Council has an IDS (Intrusion Detection System) installed but it only detects incoming traffic and does not block any access or traffic. Furthermore, although activity is reported by the IDS, no review of the activity log is performed. The return submitted to GC mentions the 2 IDS's and mentions the proposed setup and installation with (now ACS), the 3rd party hosting service. As this is not yet in place, and the fact that only part of the IDS solution is in place, the Council is only partly compliant with this requirement (High).
- 2.6.15 At present, audit logging and the retention of users network login activity is only partially in place. A Novell product to assist in the logging and capture of audit logs only works on some servers and the only activity recorded is the users login and logoff details. The Council is not in compliance with the

logging and auditing requirement particularly as this should have been in place when permission to connect to GC was granted (High).

- 2.6.16 One of the requirements for the GC connection is that all servers should be hardened (i.e. to ensure that the server is configured to the minimum requirements for the operation of the server and that it does not contain any security vulnerabilities) and tools should be used to check for any vulnerabilities. To meet this requirement, the Council procured a template from a 3rd party company to harden its servers. However, there is no firm evidence that the servers were hardened to this template and additionally no 3rd party tool has been used to check for any vulnerability (Medium).
- 2.6.17 One of the requirements of the Code of Connection is to have a patch management policy. The Council purchased a product called Zenworks for Novell to assist in this process of delivering software updates to IT hardware. However, this has not been installed and there is no patch management policy in place. This is in non compliance with the Code of Connection requirement (Medium).
- 2.6.18 There is a requirement of the Code of Connection that users will not be able to disable or change the personal firewall settings. A test of a sample Council owned laptop revealed that the firewall on the laptop could be disabled and its settings changed in breach of the Code of Connection requirement (Medium).
- 2.6.19 There has been no penetration test performed on the Council's network before or after the granting of connection approval by GC. In the return to GC, a statement was made about the hosting of services at a 3rd party site and some reliance being placed upon their network security. The hosting of services is still some months away and is dependent on the delivery timescales set out in the Enterprise Project and therefore the threat of attack or vulnerability still remains to the Council and as no penetration has been performed, this is in non compliance with a Code of Connection requirement (Medium).
- 2.6.20 Previously, an online change request form was used for the management of changes. However, a change system called Support Works is now in use. There is a Change Advisory Board (CAB) that meets every week to review and approve all the changes as per the Change Management Policy. However, the Change Management document is out of date as it does not reflect the use of the new change management system or the requirements of GC (Medium).
- 2.6.21 The Code of Connection requires that the VOIP (Voice over IP) system must have considered the NIST requirements (National Institute of Science and Technology). The Council's VOIP system was installed by a 3rd party company, Damovo. Although a request was made to the company for confirmation that NIST requirements were considered during the VOIP installation at the Council, no confirmation had been received at the time of this report (Medium).

2.6.22 The location of hosts (servers) and network equipment must be in a secure location. We conducted a walk around of the computer room, and although we found that servers and network equipment were stored in a secure environment, we have recommended that consideration should be given to improving the physical and environmental controls by ensuring that the cabinets housing the IT equipment are locked; the automatic suppression system is set to 'auto' when not manned; and for water sensors to be installed in the Computer Room if it is to be used for any long period to store operational IT hardware (Low).

2.6.23 Audit Opinion

2.6.24 As a result of this audit we have raised 16 recommendations including nine high priority, six medium priority recommendations and one low priority recommendation.

2.6.25 In order to meet the Code of Connection requirement, management should urgently review the statement made to GC and the issues highlighted above in our Summary of Findings and ensure that gaps and non compliant issues are addressed as a matter of priority.

2.6.26 The work consisted of an independent evaluation of the accuracy of the evidence to support the code of connection submission

2.6.27 A **qualified** audit opinion has been given as the audit has found weaknesses in the system of internal control that may put the Council's objectives at risk

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| Budgetary Control | Schedule 2(7) |
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2.7.1 Background

2.7.2 The budgetary control audit this year has focused largely on the role of the Cost Centre Manager (CCM) in controlling their budgets in the expectation that greater demands will be placed on CCM's financial competencies in the future.

2.7.3 Summary of Audit Findings

2.7.4 The audit review found that although levels of financial comprehension varied amongst CCMs, all of those interviewed as part of the sample were found to have a sound basic grasp of their financial information.

2.7.5 CCMs were found to be capable of generating reports from Oracle, although in some cases Service Finance were generating CCMs' budget monitoring reports on their behalf.

2.7.6 CCMs were found in all cases to be closely monitoring their Cost Centres' income and expenditure and all demonstrated they were keeping some form of commitment accounting. All CCMs also reported regular meetings with Activity Level Managers.

- 2.7.7 CCMs and Service Finance demonstrated the occurrence of monthly budget monitoring meetings. There is currently no correlation between the frequency of these meetings and the perceived risk as calculated in the Risk Assessment of Budgets.
- 2.7.8 It was found that these budget monitoring meetings are documented, but not in a standardised format.
- 2.7.9 Cost centres do not always appear to be closely aligned to activity drivers, although a number of CCMs had attempted to address this or were in the process of doing so at the time of the audit.
- 2.7.10 Instances of incorrectly allocated budgets and miscodings as well as profiling errors were found in all cost centres selected in the sample. In some of these cases delays in redressing these errors occurred owing to time pressures suffered by Service Finance.
- 2.7.11 Where necessary, variances in actual and forecasted budgets were explained and alerted to CMT by comprehensive completion of Key Variance Reports.
- 2.7.12 Some CCMs reported a diminished sense of control over their budgets as a result of a lack of transparency over internal charges (such as facilities management, transport and technical services charges) and their irregular and often delayed processing.
- 2.7.13 A sample of journals tested indicated detailed explanations of the transactions were provided on entry to FIS and transactions were processed in a timely and accurate fashion.
- 2.7.14 The same sample of journals revealed varying levels of authorisation were sought for journal transactions depending upon the section of Service Finance they were processed by. The same level of evidence is often retained even for journals for as little as £1.10.
- 2.7.15 There is no guidance in the Financial Framework to specify what evidence is required when processing a journal.
- 2.7.16 **Audit Opinion**
- 2.7.17 As a result of this audit we have raised seven low priority recommendations.
- 2.7.18 Recommendations related to the need to:
- Consider a tailored approach to training in order to accommodate varying degrees of CCMs' financial comprehension.
 - Consider outlining expectations of documentation for journals including commentary on a deminimus levels.

- Service Finance resources to be allocated according to the Risk Assessment of Budgets.
- Recognise key activity drivers and align budgets accordingly.
- Highlight the importance of identifying key non-financial information during the budget monitoring process with CCMs.
- Amend the current standard budget monitoring form based on feedback from Service Finance.
- Consider carrying out an exercise to 'tidy' budgets with a focus on identifying and correcting the basic and most common errors and miscodings at source.

2.7.19 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.

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| Main Accounting | Schedule 2(8) |
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2.8 Background

2.8.1 Oracle Financials is the key financial information system used by the Council and was the subject of an IT systems audit by Deloitte in December 2009. This audit was started in conjunction with the system audit and has focused on administrative processes outside of the scope of the other audit.

2.8.2 Summary of Audit Findings

2.8.3 There is no guidance in the Financial Framework to specify what supporting evidence is required for journals. A recommendation has been raised as part of the Budgetary Control audit for management to consider detailing guidance surrounding journals.

2.8.4 Audit Opinion

2.8.5 No recommendations were raised as a result of this audit.

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

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| Partnerships Follow Up | Schedule 2(9) |
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2.9.1 Introduction

2.9.2 The audit of Partnership arrangements was undertaken as part of the 2008/09 audit plan and a qualified audit report was issued in March 2009.

2.9.3 All qualified audits are followed up in the next financial year, when the majority of due dates for the audit recommendations have been reached.

2.9.4 Summary of Audit Findings

2.9.5 Below is a summary of the findings of the follow up, more detailed findings are contained in section 2 of this report.

- Recommendations 1, 2 and 3 have been implemented.

2.9.6 Conclusion

2.9.7 All actions arising from the audit have been addressed.

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| Telecommunications Follow Up | Schedule 2(10) |
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2.10 Introduction

2.10.1 The audit of telecommunications was undertaken as part of the 2008/09 audit plan and a qualified audit report was issued in April 2009.

2.10.2 All qualified audits are followed up in the next financial year, when the majority of due dates for the audit recommendations have been reached.

2.10.3 Summary of Audit Findings

2.10.4 Below is as summary of the findings of the follow up, more detailed findings are contained in section 2 of this report.

- Recommendation 1 has not reached its due date, work is underway and it is anticipated that the action will be complete by the deadline of March 2010.
- Recommendation 2 has been implemented.
- Recommendation 3 is in progress but has a revised implementation date of June 2010 as a suitable fee is still to be agreed.
- Recommendation 4 is in the process of being implemented and a revised implementation date has been set for June 2010.
- As suggested Recommendation 5 has been considered but no action has been taken as the relocation of pipes and installation of a fire suppression system is not feasible.
- Recommendation 6 has not been implemented as the system does not allow for the reconciliation of more than one supplier. The Telecommunication Services Manager stated that this recommendation being implemented is unlikely as there are no plans to change the number of suppliers used and suggested that the recommendation should be closed.

2.10.5 Conclusion

2.10.6 Some progress has been made to address the weaknesses in the system. A further follow up will be completed in June 2010 as all remaining planned actions will be complete by then.

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| Procurement and Leasing of Vehicles Follow Up | Schedule 2(11) |
|--|-----------------------|

2.11 Introduction

2.11.1 The audit of Procurement and Leasing of Vehicles was undertaken as part of the 2008/09 audit plan and a qualified audit report was issued in April 2009.

2.11.2 All qualified audits are followed up in the next financial year, when the majority of due dates for the audit recommendations have been reached.

2.11.3 Summary of Audit Findings

2.11.4 Below is as summary of the findings of the follow up, more detailed findings are contained in section 2 of this report.

- Recommendation 1 has been implemented
- Recommendation 2 has been implemented
- Recommendation 3 has been implemented
- Recommendation 4 is in progress
- Recommendation 5 has been implemented
- Recommendation 6 has been implemented
- Recommendation 7 has been implemented

2.11.5 Conclusion

2.11.6 Progress has been made to address the weaknesses in the system. The outstanding recommendation will continue to be tracked via the quarterly monitoring process and reported to CMT and Audit Committee.

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|--|-----------------------|
| Commissioning of Residential Placements Follow Up | Schedule 2(12) |
|--|-----------------------|

2.12. Management Summary

2.12.1 Introduction

2.12.2 The audit of Commissioning of Residential Placements was undertaken as part of the 2008/09 audit plan and a qualified audit report was issued in August 2009.

2.12.3 All qualified audits are followed up in the next financial year, when the majority of due dates for the audit recommendations have been reached.

2.12.4 Summary of Audit Findings

2.12.5 Below is as summary of the findings of the follow up, more detailed findings are contained in section 2 of this report.

- Recommendation 1 has been partly implemented. The last of the outstanding reviews to be undertaken are expected to be completed by April 2010.
- Recommendation 2 is still to be implemented. A new Financial Assessment and Benefit Team Manager has recently joined the team and will be responsible for implementing this recommendation. It is anticipated that this will be implemented by August 2010.
- Recommendation 3 has been implemented.
- Recommendation 4 has not reached its due date. Work is underway and it is anticipated that the August 2010 deadline is achievable.
- Recommendation 5 has been implemented.
- Recommendation 6 has been implemented.

2.12.6 Conclusion

2.12.7 Some progress has been made to address the weaknesses in the system. The outstanding recommendations will continue to be tracked via the quarterly monitoring process and reported to CMT and Audit Committee.

| | |
|--|-----------------------|
| IT Security and Data Management | Schedule 2(13) |
|--|-----------------------|

2.13 Introduction

2.13.1 The audit of IT Security and Data Management was undertaken as part of the 2008/09 audit plan and a qualified audit report was issued in April 2009.

2.13.2 All qualified audits are followed up in the next financial year, when the majority of due dates for the audit recommendations have been reached.

2.13.3 It is noted that the significant changes that have occurred regarding the structures and strategies within Business Systems means that in some cases the risks and the resulting actions identified in the original audit will now have to be considered as part of other work streams.

2.13.4 Summary of Audit Findings

2.13.5 Below is a summary of the findings of the follow up audit. More detailed findings are contained in section 2 of this report.

- Recommendation 1 was not accepted by management.
- Recommendation 2 is in progress with revised implementation date of September 2010.
- Recommendation 3 will not be implemented as a review of the Novell infrastructure indicated that a complex password cannot be supported. This recommendation will be revisited as part of the integration of Microsoft AD authentication and identity management systems within the new shared services partnership with London Borough of Newham (LBN) / East London Solutions (ELS).

- Recommendation 4 is partly implemented as secure USB devices are now being used. Checkpoint encryption rollout is in progress with a revised implementation date of June 2010.
- Recommendation 5 will not be implemented as a review of the authentication infrastructure indicated that a complex password cannot be supported. This recommendation will be revisited as part of the integration of Microsoft AD authentication and identity management systems within the new shared services partnership with LBN/ ELS.
- Recommendation 6 will not be implemented as work on this will be progressed as part of the new shared services partnership with LBN / ELS.
- Recommendation 7 is in progress with revised implementation date of September 2010.
- Recommendation 8 in progress with a revised implementation date of 31st July 2010.
- Recommendation 9 has not yet started. A revised implementation date has been set for June 2010 as GCSx work is expected to be complete, enhancing security and mitigating risks raised in the recommendation.
- Recommendation 10 is in progress with a revised implementation date of June 2010.
- Recommendation 11 has been implemented.
- Recommendation 12 is in progress with a revised implementation date of March 2010.

2.13.6 Conclusion

2.13.7 Although some progress is noted, in many areas the risk identified still remains. This is because the suggested action, which was agreed at the time of the audit, is either unachievable or not value for money given the planned changes in the IT infrastructures. In the interim period the audit area is therefore still considered to be a qualified assurance and management are accepting the risks.

As part of the 2010/11 plan IT security has been identified as a high risk area and an audit is planned. The issues raised in this audit will therefore be considered as part of the next audit review. The remaining recommendations will continue to be tracked on a quarterly basis and results reported to CMT and Audit Committee.

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|---|-----------------------|
| Cemeteries and Crematorium Follow Up | Schedule 2(14) |
|---|-----------------------|

2.14 Introduction

- 2.14.1 The audit of Cemeteries and Crematorium was undertaken as part of the 2008/09 audit plan and a qualified audit report was issued in May 2009.
- 2.14.2 All qualified audits are followed up in the next financial year, when the majority of due dates for the audit recommendations have been reached.

2.14.3 Summary of Audit Findings

2.14.4 Below is a summary of the findings of the follow up, more detailed findings are contained in section 2 of this report.

- Recommendation 1 has been partially implemented and is expected to be completed by June 2010.
- Recommendation 2 has been implemented.
- Recommendation 3 has been implemented.
- Recommendation 4 is still to be implemented.
- Recommendation 5 has been implemented.
- Recommendation 6 has been implemented
- Recommendation 7 has been implemented
- Recommendation 8 has been partially implemented. Due to the scale of the work involved and the need to identify funding and resourcing to fully implement this recommendation, a revised implementation date of April 2013 has been given.
- Recommendation 9 has been implemented.
- Recommendation 10 has been implemented.
- Recommendation 11 has been implemented.
- Recommendation 12 has been partially implemented and is expected to be completed by September 2010

2.14.5 Conclusion

2.14.6 Significant progress has been made to address the weaknesses in the system. The outstanding recommendations will continue to be tracked via the quarterly monitoring process and reported to CMT and Audit Committee.

IMPLICATIONS AND RISKS

Financial implications and risks:

Recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. There are no financial implications or risks arising directly from this report.

Legal implications and risks:

None arising directly from 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.

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AUDIT COMMITTEE

REPORT

13 April 2010

Subject Heading:

**INTERNAL AUDIT CHARTER & TERMS
OF REFERENCE**

Report Author and contact details:

Vanessa Bateman
Internal Audit & Corporate Risk
Manager Tel: 01708 433733
E-mail: vanessa.bateman@havering.gov.uk

Policy context:

The Charter and Terms of Reference
require annual review and approval by the
Audit Committee.

Financial summary:

N/A

SUMMARY

The Internal Audit Charter and Terms of Reference outline the role of Internal Audit and how the audit service will fulfil this role. The document is subject to an annual review.

The review of the Internal Audit Charter and Terms of Reference took place in March 2010.

RECOMMENDATIONS

1. To comment on the contents of the Charter and Terms of Reference for Internal Audit, changes made as part of the review have been track changed (Appendix A).
2. To approve the revised document based on any agreed changes resulting from this meeting.

REPORT DETAIL

1. Internal Audit Charter and Terms of Reference

The aim of the Audit Service is to provide an assurance function; this is set out in the Internal Audit Charter and Terms of Reference.

Cipfa's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 has been used as a source of guidance in preparing this updated document. Example documents from other authorities have also been reviewed to benchmark contents.

Only minor changes were required and the document has been track changed to demonstrate changes required.

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 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.



Havering
LONDON BOROUGH

INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

Version: March 2010

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 Executive 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.

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, the current version of which can be found here: <https://www.haverinq.gov.uk/intranet/index.aspx?articleid=5656>.

5.2 Current KPIs

- KPI 01 – The percentage of the audit plan completed against a profiled target (%).
- KPI 02 - The total number of audit briefs issued against profiled target (%).
- KPI 03 - The number of audit reviews completed to draft stage against a profiled target (%).
- KPI 04 - The number of audit reviews completed to final stage against a profiled target (%).
- KPI 05 - Management Satisfaction Survey results above average (%).

Deleted: as a percentage of the total annual number of planned reviews

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Deleted: KPI 04 - Performance against target time: 50 days max to complete an audit from start to release of a consultation draft (%). ¶
 ¶
 KPI 05 - System Audits Survey Forms Assessed (%). ¶
 ¶
 KPI 06 - Fraud Audits Survey Forms Assessed (%).¶
 ¶

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

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 of the Council 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 their s151 role.
- 6.3 To report to the Audit Committee regarding the 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
<https://www.havering.gov.uk/intranet/index.aspx?articleid=5656>
in order to maximise the value obtained from the total audit resource and minimise the overall cost of audit to the authority.
- 6.7 To work in accordance with the Internal Audit Protocol;
<https://www.havering.gov.uk/intranet/CHttpHandler.ashx?id=14658&p=0>.

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.
- 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 Executive, Group Directors and Assistant Directors, in 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.

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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 10 (e) <http://www.havering.gov.uk/CHttpHandler.ashx?id=1135&p=0> and to obtain such information and explanations from any employee or member as necessary concerning any matter under review/investigation.

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 Continuous Service Improvement & Development

9.2 Support the achievement of Value for Money for Council services by coverage in the audit plan and individual audits.

9.3 Complete the 2010/11 Annual Audit Plan by mid April 2010 within the agreed budgetary constraints.

9.4 Ensure effective and appropriate system of internal control is in place supported by robust risk management processes and complementing sound governance arrangements.

Deleted: <#>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 support management in maximising Value for Money 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.¶

10.0 INDEPENDENCE

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, Assistant 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 monthly to the Head of Financial Services and GDF&C on the progress with the audit plan and the performance against KPIs.
- 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.
- 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.
- 11.5 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 <https://www.havering.gov.uk/intranet/index.aspx?articleid=11676>. 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.

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 pro actively help line management improve the Council's internal control environment. This 'value added' work can include reviews of specific problem areas, advice and support on new developments or projects and assistance in the preparation of financial training and documentation and strategic policy documents.

13.2 To maintain the Internal Audit Team's independence consideration will be given to whether there is a conflict of interest before any consultancy assignment is accepted.

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 March 2011.

15.0 **Key Contacts**

Internal Audit & Corporate Risk Manager – Vanessa Bateman ext 3733

Head of Financial Services – Mike Stringer ext 2101