



# Havering

LONDON BOROUGH

## AUDIT COMMITTEE AGENDA

|               |                                  |  |
|---------------|----------------------------------|--|
| <b>7.30pm</b> | <b>Tuesday,<br/>2 March 2010</b> | <b>Havering Town Hall<br/>Main Road, Romford</b> |
|---------------|----------------------------------|--|

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. HEALTH AND SAFETY

The Council is committed to protecting the health and safety of everyone who attends meetings of its Committees.

At the beginning of the meeting, there will be an announcement about what you should do if there is an emergency during its course. **For your own safety and that of others at the meeting, please comply with any instructions given to you about evacuation of the building, or any other safety related matters**

## 2. 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.

## 3. 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 8 December 2009 and to authorise the Chairman to sign them.

### **5. IFRS UPDATE – report attached**

### **6. EXTERNAL AUDIT PLAN 09/10 – report attached**

### **7. EXTERNAL AUDIT ANNUAL GRANTS CERTIFICATION REPORT – report attached**

### **8. ANNUAL GRANTS REVIEW – report attached**

### **9. INTERNAL AUDIT PROGRESS REPORT – report attached**

### **10. FRAUD PROGRESS REPORT – report attached**

### **11. INTERNAL AUDIT STRATEGY & 2010/11 PLAN – report attached**

## **12. 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**  
**8 December 2009 (7.30pm – pm)**

**Present:**

**COUNCILLORS**

**Conservative Group** David Grantham (Chairman), Gary Adams, Frederick Thompson and Eric Munday.

**Residents' Group** \*Ray Morgon.

Apologies for absence were received from Councillors Clarence Barrett (substitute \*Councillor Ray Morgon) 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.

**19. MINUTES**

The minutes of the joint meeting of the Audit and Pensions Committee held on 15 September 2009 and of the meeting held on 15 September 2009, were agreed as a correct record, and signed by the Chairman.

**20. ANNUAL REVIEW OF AUDIT COMMITTEE EFFECTIVENESS**

The Committee reviewed the outcome of the recent survey regarding the effectiveness of the Audit Committee and the proposed actions. For this review members of the Audit Committee had been independently asked to complete a survey, based on the guidance provided by CIPFA but also acknowledging the principles applied within the private sector.

The Committee noted the results of the survey and agreed that :

1. Officers investigate the options available for e-training;
2. Officers review the order of business for each meeting to ensure the more important reports are considered first; and
3. The balance of detail in the reports is correct.

Audit Committee 8 December 2009

## 21. ANNUAL AUDIT LETTER

PricewaterhouseCoopers (PwC) had issued their Annual Audit Letter for 2008/9 and attended the meeting to report on the content thereof. The Audit Commission required PwC to assess the overall arrangements the Authority has in place in the following three areas:

- Managing Finances;
- Governing the Business; and
- Managing Resources.

The results of PwC's findings were considered and the Committee **noted** that an unqualified conclusion had been issued on the Authority's arrangements for its use of resources. The Committee did, however, highlight the need to strengthen data security and business continuity arrangements.

PwC had also reviewed the Annual Governance Statement and found no areas of concern in terms of content of the statement.

Attention was drawn to the Transition to International Financial Reporting Standards (IFRS) and the Committee noted that the Authority was already working to meet these requirements.

The Committee **noted** that officers had already responded to the two key recommendations and had taken action to meet these.

PwC advised the Committee that they had received one objection from a local resident and they had held an initial meeting with him. Following that meeting they had written to him outlining the scope of their investigations. Until they had resolved this issue, which could take two to three months, they would be unable to issue the Certificate of Completion.

## 22. RESPONSE TO ISA260

The Committee considered the Authority's response to the issues raised by PwC. Officers' consideration of the issues raised had been undertaken in the context of the potential impact, risk and value for money implications of each recommendation. Members concerns were concentrated on the issue of the Authorisation of Journals. The Committee listened to officers views and asked PwC for their comments. In conclusion they agreed that the measures being undertaken by officers should be sufficient to meet the external auditor's requirements.

The Committee **noted** the report and **endorsed** the actions put forward by officers to address the issues raised by the external auditors.

## 23. TREASURY MANAGEMENT UPDATE

Officers reported the latest monitoring information with respect to the treasury

Audit Committee 8 December 2009

management function and performance to date against all the prudential limits approved by Council in March 2009. The report also sets out the current treasury management risk register and treasury management procedure checklist. The Committee **noted** that the annual rate of return on deposits was currently 2.49% against the budgeted figure of 1.5%. This had been achieved because of the rate of return on historic deposits which were in excess of 6%.

Officers advised the committee that agreement had been reached earlier this month on the terms of the deal that will compensate creditors of the old Landsbanki (including local authorities) in relation to assets transferred to the new Landsbanki. Whilst it was too early to say when the Council would be receiving dividend payments the suggestion was we would receive a significant percentage of the money owed.

The situation with the Heritable Bank was somewhat simpler with the first dividend to creditors being paid in July, a further dividend payment was expected before the end of the year. Current expectations of repayment were still 80p in the pound.

The Committee **noted** the report.

## 24. ANNUAL REVIEW OF RISK MANAGEMENT ARRANGEMENTS

The Committee received a report providing details of the annual review of risk management arrangements as well as providing an update on developments during the last year and new initiatives going forward. Officers advised the Committee that they had been working with a representative from Zurich Municipal (ZM), the Council's insurers, throughout the current financial year to challenge the Risk Management arrangements and strengthen where possible.

A significant change to risk management in 2008/9 included the further integration of risk management in the service planning process and the introduction of new service plan templates. Service plans have been included onto the Havering Performs (HP) system in 2009/10, this meant that risk was not reported in the same way. Long term it was intended to have risk reported alongside performance in HP.

Work with ZM had focussed on updating the current Risk Management strategy to reflect these changes and to consider its robustness in light of the new challenges the Council will face under the CAA regime.

The Committee **considered** and **approved** the key changes to the strategy, **noted** the further actions planned and the additional work planned and **agreed** that further training for members should be arranged prior to the next meeting.

## 25. HOUSING BENEFIT FRAUD PROGRESS REPORT

Officers submitted a report advising the Committee of the work and performance undertaken by the Benefit Investigation Section during the period 1 April to 31

Audit Committee 8 December 2009

September 2009. In this period the Section had received 315 referrals compared to 355 in the same period last year. 58% had been received from Internal Departments with the majority, has anticipated, coming from the Benefit processing teams.

The National Fraud Initiative had been run this year, commencing in March 2009 when a total of 2,273 original matches involving housing Benefit and Council Tax Benefit were identified. 114 had been identified for further investigation. At the time of the meeting officers informed the Committee that 84 investigation files had been opened which had so far resulted in one administrative penalty and one caution which had raised a total of £83,000 in benefit overpayments. In addition there had been eight successful prosecutions to date, but there were currently 25 cases at Court or being considered for legal action.

The Committee were informed that overpayments were identified and classified as fraudulent following a sanction. The value of fraudulent housing benefit overpayments generated for the first half of the 2009 financial year totalled £184,482. A balance of £146,772 remained outstanding of which £63,709 was the subject of arrangements.

The Committee were given details of successful prosecutions and were advised that the Council was working with the Department of Works and Pensions in jointly investigating 25 cases where HB/CTB and another benefit were involved.

The Committee **noted** the report.

## 26. INTERNAL AUDIT PROGRESS REPORT

Officers advised the Committee that during quarter 2 they had completed 13 audits, two of which were qualified. Summaries of the completed audits and the management response were provided for the Committees information.

The Committee noted that additional resources were being put in place in Communications to strengthen the system of control in response to the qualified opinion. Officers updated members on progress with the implementation of the audit recommendations in respect of the qualified opinion for the Server Virtualisation Initiative. 4 of the recommendations had been partly implemented and five were on-going. Officers anticipated that all the recommendation would be implemented by the end of December.

Officers agreed to provide details of the progress in implementing the outstanding recommendation on Cash and Bank to members.

The Committee **noted** the report and the responses provided by officers.



Audit Committee 8 December 2009

## **27. ADULT SOCIAL SERVICES REVIEW**

It was reported that last year a Review Panel comprising members of this Committee, the Corporate and Adult Services Overview and Scrutiny Committees had met to investigate the budget problems experienced in 2007/8. The Review Panel had reconvened in October 2009 to ensure that all the recommendations had been implemented. The Panel had expressed satisfaction that all the recommendations had been implemented and had confidence that the systems now in place would prevent any further significant problems.

The Chairman advised the Committee that she had spoken to most of the residents of the two Residential Care Homes which had been closed and they all seemed content with where they are now.

The Committee **noted** the report.

## **28. EXCLUSION OF THE PUBLIC**

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

## **29. REPORT ON THE JOINT AUDIT COMMITTEE AND OVERVIEW AND SCRUTINY COMMITTEE PANEL ON HOMES IN HAVERING (HiH) FINANCIAL MATTERS**

A number of questions were raised by the Committee to which officers responded. Certain issues discussed by the Committee, and decisions reached, are recorded in the appendix to these minutes, containing exempt information and not available to the press or public.

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## AUDIT COMMITTEE

2 March 2010

## REPORT

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

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

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

### SUMMARY

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

**RECOMMENDATIONS**

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

**REPORT DETAIL**

**1. Background**

In 2007, the Government announced that the accounts of all Government Departments and Local Government would in future be prepared in accordance with International Financial Reporting Standards (IFRS).

Central Government departments will prepare accounts on an IFRS basis for the first time in 2009/10. Local Authorities will follow in 2010/11. The UK private sector has already adopted IFRS.

**2. Implementation Timetable**

Although the Council will not be required to publish IFRS based accounts until 2010/11 it will be necessary to produce information at a much earlier stage in order to comply with the Central Government timetable. The project plan has been prepared in three clear stages representing the key milestones within the overall project. These are as follows:

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

The summary timetable is attached which sets out the progress against key tasks required (Appendix A). A more detailed schedule is also attached which sets out the steps required to complete each of the three phases. Phases two and three will continue to be adapted in the light of experience from completing the earlier phase(s) of the programme.

### 3. Progress to Date

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published the IFRS based Code of Practice on Local Authority Accounting in late December 2009.
- 3.2 Finance staff have received training via CIPFA's finance advisory network. This training programme will continue throughout the implementation phase and provides invaluable advice on delivering IFRS conversion.
- 3.3 Our external auditors, PricewaterhouseCoopers (PwC) have been advised of progress throughout the implementation period. Following the restatement of the Council's Balance Sheet as at 31 March 2009 (the phase 1 project) it is anticipated that the auditors will carry out an interim audit of the work undertaken to date.
- 3.4 PwC were also commissioned to carry out a review of the Council's preparation and progress in implementing IFRS. PwC have 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"*. A full copy of the report is attached at Appendix 'B'.
- 3.5 Significant progress has been achieved towards the completion of phase 1 of the project despite some steps having taken longer than planned. The late publication of CIPFA's IFRS code to the end of December contributed towards the delay. The expected date for completing phase 1 of the project is now 8<sup>th</sup> March. However, the phase 1 project will be completed well in advance of the year end and crucially does not impact upon the planned completion of later phases.
- 3.6 Progress against the summary IFRS timetable is considered below.
- a) Asset valuation and disclosure  
All asset valuations carried out on or after 1<sup>st</sup> April 2010 will need to be made in accordance with IFRS. The new standards require the separate valuation of land, buildings and major components. Asset valuations will continue to be carried out on a five year rolling cycle but it will be necessary to carry out an annual review to ensure that the value of assets is not materially over or understated.  
The five year rolling programme of valuations is carried out by external valuers. The additional valuation requirements of IFRS are expected to have cost implications on an on-going basis.  
In relation to the specific requirements of the phase 1 project; Non Operational Assets as disclosed in our Balance Sheet as at 31 March 2009 will need to be re-categorised in accordance with the IFRS code. These are in the process of being re-valued.

- b) Identification and treatment of leases  
The accounting treatment and disclosure of leases is liable to change under the IFRS code. It is expected that most of our leased vehicles and equipment will be affected. The analysis of contract and lease payment histories has proved a time consuming exercise although this piece of work is nearing completion.
- c) Embedded Leases  
It has also been necessary to carry out a review of service contracts to determine whether they include an embedded lease. No such arrangements have been identified.
- d) Public Private Partnership (PPP)  
The Council entered into a Public Private Partnership (PPP) in 2003 lasting fifteen years, the accounting treatment of which will be affected by the IFRS code. Officers have completed a review of this contract and the related historical data and determined the correct IFRS accounting entries.
- e) Service Concession contracts involving the provision of assets.  
A further review of service contracts has been carried out to determine whether they include any assets which need to be included on the Council's Balance Sheet. No such arrangements have been identified.
- f) Accrual of employee benefits (e.g. leave carried forward at year end)  
Under IFRS the Council will have to accrue for employee benefits not taken but paid for at the year end. Officers have collected sample data which has been used as a basis of calculating the accrual.

**Financial Implications and risks:**

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

**Legal Implications and risks:**

1(2) of the Local Government Act 2003 requires that the Statement of Accounts be prepared in accordance with proper practices. The code of Practice on Local Authority Accounting for 2010/11 (based upon International Financial Reporting Standards) represents the proper practices applicable with effect from 1<sup>st</sup> April 2010.

**Human Resources Implications and risks:**

None arising directly

**Equalities and Social Inclusion Implications and risks:**

None arising directly

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**CHERYL COPPELL**  
**Chief Executive**

**Background Papers List**

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| IFRS Phase 2 - Restate 2009/10 accounts in IFRS format |                            |  |                   |                 |                 |                            |   |
|--|----------------------------|--|-------------------|-----------------|-----------------|----------------------------|---|
| No.  | Key Areas                  | Action Required  | Target Start Date | Target End Date | Completion Date | Lead Officer/ Project Lead | Comments  |
| 2.0  | Draft accounts             | Produce skeleton format of accounts in IFRS format                           | 01/01/2010        | 30/08/2010      |                 | Mike Board                 |   |
|  |                            | Comparison of SORP 2009 to IFRS and Cipa Code                                | 16/12/2009        | 31/01/2010      | 31/01/2010      | Mike Board                 | documents received on 29/12/09  |
|  |                            | Set out skeleton format of primary statements                                | 01/01/2010        | 31/03/2010      |                 | Mike Board                 |   |
|  |                            | Confirm segmental format for notes (based upon Internal reporting structure) | 01/01/2010        | 31/03/2010      |                 | Mike Board                 |   |
|  |                            | Set out skeleton format of ancillary statements (HRA, Collection fund etc)   | 01/01/2010        | 31/03/2010      |                 | Mike Board/Nigel Foster    |   |
|  |                            | Set out skeleton format of notes to the accounts                             | 01/01/2010        | 30/08/2010      |                 | Mike Board                 |   |
|  |                            | Set out skeleton format of Group Accounts and notes                          | 01/01/2010        | 30/08/2010      |                 | Mike Board                 |   |
|  |                            | Set out skeleton format of other statements (foreword etc)                   | 01/01/2010        | 30/08/2010      |                 | Mike Board                 |   |
|  |                            | segmental report & reconciliation  | 30/06/2010        | 30/08/2010      |                 | Mike Board                 |   |
|  |                            | Subjective analysis & reconciliation   | 30/06/2010        | 30/08/2010      |                 | Mike Board                 |   |
| 2.1  | Policies                   | Restate accounting policies and related practices                            | 01/01/2010        | 31/03/2010      |                 | Mike Board                 |   |
|  |                            | Comparison of SORP 2009 to IFRS and Cipa Code                                | 16/12/2009        | 31/01/2010      | 31/01/2010      | Mike Board                 |   |
|  |                            | Approval of MRP policy   | 01/01/2010        | 31/03/2010      |                 | Mike Board/Mark White      |   |
|  |                            | Agreement of de minimus levels with PwC                                      | 01/01/2010        | 31/03/2010      |                 | Mike Board                 | Required for various issues including leasing, asset components and accruals                            |
|  |                            | Finalise policy statement  | 01/01/2010        | 31/03/2010      |                 | Mike Board                 |   |
| 2.2  | Assets                     | Asset accounting and capital accounting                                      | 01/01/2010        | 30/08/2010      |                 | Mark White                 |   |
|  |                            | Accounting policy agreed for component recognition inc de minimus levels     | 01/01/2010        | 31/03/2010      |                 | Mark White/Garry Green     |   |
|  |                            | Capital Grants - analyse 09/10 movements                                     | 30/06/2010        | 30/08/2010      |                 | Mark White                 | Shadow accounts required in 09/10   |
|  |                            | Investment properties - update for 09/10 activity                            | 30/06/2010        | 30/08/2010      |                 | Mark White/Garry Green     | Shadow accounts required in 09/10   |
|  |                            | Assets held for Sale - review 09/10 decisions and activity                   | 30/06/2010        | 30/08/2010      |                 | Mark White/Garry Green     | Shadow accounts required in 09/10   |
|  |                            | Intangible assets - review 09/10 activity                                    | 30/06/2010        | 30/08/2010      |                 | Mark White                 | Shadow accounts required in 09/10   |
| 2.3  | Leases                     | Update Leasing schedules & calculate 2009/10 disclosures                     | 01/04/2010        | 30/08/2010      |                 | Mike Board/Mark White      |   |
|  |                            | Identify and assess new leases arising in 2009/10                            | 01/04/2010        | 30/07/2010      |                 | Mike Board/Mark White      | shadow accounts 09/10   |
|  |                            | Identify leases terminating in 2009/10                                       | 01/04/2010        | 30/07/2010      |                 | Mike Board/Mark White      | shadow accounts 09/10   |
|  |                            | Update leasing records for Property  | 01/04/2010        | 30/07/2010      |                 | Garry Green                | shadow accounts 09/10   |
|  |                            | Update leasing register for Plant, equipment and vehicles                    | 01/04/2010        | 30/07/2010      |                 | Mike Board/Mark White      | shadow accounts 09/10   |
|  |                            | Update leasing register for Schools  | 01/04/2010        | 30/07/2010      |                 | David Allen                | shadow accounts 09/10   |
|  |                            | Calculate 2009/10 adjustments required                                       | 30/06/2010        | 30/08/2010      |                 | Mike Board/Mark White      |   |
|  |                            | Finalise lease accounting disclosures  | 30/06/2010        | 30/08/2010      |                 | Mike Board/Mark White      |   |
|  |                            |  |                   |                 |                 |                            |   |
| 2.4  | PPP                        | PPP and embedded leases-disclosures  | 01/04/2010        | 30/08/2010      |                 | Nigel Foster               |   |
|  |                            | Update PPP records for 2009/10 activity                                      | 01/04/2010        | 30/05/2010      |                 | Nigel Foster               | PPP entries to be made in FIS. SORP 2009 requires PPP to be included in accounts on same basis as IFRS. |
|  |                            | Review of new service contracts arising in 2009/10                           | 01/04/2010        | 30/06/2010      |                 | Nigel Foster               |   |
|  |                            | Calculate 2009/10 accounting adjustments for embedded leases if any          | 30/06/2010        | 30/08/2010      |                 | Nigel Foster               |   |
| 2.5  | Employee benefits          | Calculate Employee benefits accruals for 2009/10                             | 01/04/2010        | 30/08/2010      |                 | Nigel Foster               |   |
|  |                            | Reversal of 2008/09 accruals   | 01/04/2010        | 30/08/2010      |                 | Nigel Foster               |   |
|  |                            | Calculation of 2009/10 accrual based upon agreed policy                      | 01/04/2010        | 30/08/2010      |                 | Nigel Foster               |   |
| 2.6  |                            | Systems changes including "chart of accounts"                                | 30/06/2010        | 31/12/2010      |                 | Mike Board/ Owen Sparks    |   |
|  |                            |  |                   |                 |                 |                            |   |
| 2.7  | Staff Training             | CIPFA FAN  |                   |                 |                 | Mike Board/ Owen Sparks    |   |
|  |                            | Network Discussion Group   |                   |                 |                 | Mike Board/ Owen Sparks    |   |
|  |                            |  |                   |                 |                 |                            |   |
| 2.8  |                            | Progress reports to Audit Committee  | on-going          | on-going        |                 | Mike Board/ Owen Sparks    |   |
|  |                            |  |                   |                 |                 |                            |   |
| 2.9  | WGA returns in IFRS format | WGA returns in IFRS format   | 01/04/2010        | 30/09/2010      |                 | Nigel Foster               |   |
|  |                            | Receipt of 2009/10 WGA worksheets form DCLG                                  | 01/04/2010        | 31/05/2010      |                 | Mark Jarvis                |   |
|  |                            | Completion of WGA return   | 01/07/2010        | 30/08/2010      |                 | Mark Jarvis/ Nigel Foster  |   |
|  |                            | Audit and return of WGA to DCLG  | 30/08/2010        | 30/09/2010      |                 | Mark Jarvis/ Nigel Foster  |   |

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# London Borough of Havering

## International Financial Reporting Standards

### Assessment of Progress



# Contents

| <b>Section</b>  | <b>Page</b> |
|---|-------------|
| Executive Summary.....                                      | 3           |
| Matters discussed and issues arising at the workshop: ..... | 5           |

# Executive Summary

## The purpose of this report

This report presents the findings of the preliminary study performed by PricewaterhouseCoopers LLP (“PwC”) to assess the completeness of the London Borough of Havering’s (“the Council”) assessment of, and project plan for, the implementation of International Financial Reporting Standards (“IFRS”). We also note any specific issues that arose at a workshop, conducted by PwC on 6 November 2009, and provide recommendations accordingly.

The matters included in this report are those that came to our attention as a result of our assessment of the Council’s project plan, our understanding of IFRS as interpreted by the draft CIPFA IFRS based Code, and issues raised at the workshop. Consequently our comments should not be expected to include all possible issue that a more extensive investigation might identify. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any other third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

Our work has been carried out in accordance with the Engagement Letter dated 29 October 2009.

## The implementation of IFRS

In order to prepare IFRS compliant accounts in 2010/11, the Council will need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures. It will need to restate its 2009/10 comparative figures and report these together with its 2010/11 figures on an IFRS basis. In order to restate the 2009/10 closing balances under IFRS the Council will need to recalculate its opening balance sheet at 1 April 2009 using IFRS and construct an IFRS compliant comparative balance sheet at 31 March 2010.

It is anticipated that CIPFA will issue an IFRS based Code on 16 December 2009. We understand that it is the intention of Central Government to legislate to mitigate any negative effects IFRS might have on the General Fund, but we note that to date, no legislation to that effect has been passed.

## Key Findings

It is crucial that Local Authorities begin their IFRS transition projects early. We are pleased that the Council has taken a number of steps to begin its project already, including the completion of a detailed project plan, which has been updated since the workshop we delivered on 6 November, and an impact assessment. This document considers the key areas where IFRS will have an impact on the Council’s accounts, the actions required to address the technical issues, whether any changes to systems and accounting policies will be required and whether there might be a budgetary impact.

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 resource will inevitably be focused on accounts closedown from April 2010.

The finance team is aware that IFRS is not just an issue for the finance department and has begun discussions with the valuation, HR and corporate property teams to ensure that issues are addressed.

We expect that the vast majority of work in respect of gathering and assessing information will be complete by 31 March 2010, to enable the restatement of the 2009/10 accounts into an IFRS format by 31 December 2010. The Council's project plan conforms to this expectation.

The workshop with Officers helped to draw attention to a number of matters that should be considered a high priority over the coming months. These are:

- The identification of arrangements that fall to be accounted for under IFRIC 12 or IFRIC 4;
- Component depreciation for fixed assets;
- Calculation of the holiday pay accrual for non-schools and schools staff; and
- A review of leases to assess whether they fall to be accounted for as operating leases or finance leases.

### Categorisation of Findings

Each recommendation has been allocated a risk rating to reflect the degree of importance in the context of the Council's conversion to IFRS. The definition of ratings is as follows:

| Risk          | Definition   |
|---------------|--|
| <b>High</b>   | Significant numerical impact expected or significant time required to undertake sufficient analysis in order to restate on an IFRS basis. Changes to underlying Balance Sheet values and impact on Income and Expenditure account anticipated. |
| <b>Medium</b> | Some impact expected but mainly in the area of additional disclosures.   |
| <b>Low</b>    | Minimal impact expected but some different/ additional disclosures likely  |

We would like to take this opportunity to thank your staff for their assistance and the co-operation extended to us during the course of this review.

**Matters discussed and issues arising at the workshop:**

| No. | Observation   | Recommendation   | Risk | Management Response  |
|-----|---|--|------|--|
| 1   | <p><b>IFRIC 12 – Service Concessions (Contracts involving the provision of assets and services)</b></p> <p>IFRIC 12 is applicable to arrangements that involve:</p> <ul style="list-style-type: none"> <li>the provision of an asset whose purpose is the provision of a public service;</li> <li>constructed or acquired specifically for the arrangement's purpose, along with</li> <li>significant management and operational services associated with the asset.</li> </ul> <p>The Council has one Public Private Partnership ("PPP") arrangement for the provision of energy at three secondary schools that will need to be considered against IFRIC 12. However, other contractual arrangements the Council has entered into may fall within the scope of the standard.</p> <p>In the NHS, for example, we noted that the "legal charges" that Primary Care Trusts ("PCTs") had on various properties fell to be accounted for under IFRIC 12.</p> <p>If a contractual arrangement falls within the scope of IFRIC 12 and meets the tests of control in IFRIC 12, the assets constructed or acquired for the arrangement's purpose and the Council's liability to make payments under the contract must be brought into the Council's balance sheet.</p> | <p>The Council should assess whether it has entered into any contracts or other arrangements that fall within the scope of IFRIC 12.</p> <p>Should any arrangements be identified, the Council should prepare an assessment of whether they meet the tests of control in IFRIC 12.</p> | High | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Identification of potential service concessions has been included in the IFRS timetable. This is not expected to be a significant issue for LBH. However, Group Finance Managers have been asked to discuss this matter with service managers and to identify any arrangements which might be classed as a service concession.</p> <p>Collection of data required for the revised treatment of PPP has now been concluded.</p> <p><b>Owner:</b> Mike Board</p> <p><b>Timescale:</b> Initial identification complete by 18 December</p> |

| No. | Observation   | Recommendation   | Risk        | Management Response   |
|-----|---|--|-------------|---|
| 2   | <p><b>IFRIC 4 – Embedded leases</b></p> <p>This standard requires that contractual arrangements (or informal arrangements that the Council has entered into) be assessed as to whether or not they constitute an embedded or “implicit” lease, despite not having the legal form of a lease.</p> <p>We expect the Council to have many arrangements that need to be considered under IFRIC 4, although in practice it is unlikely that many will fall to be accounted as leases. The challenge for the Council will be to fully document the process it undertakes to perform the assessment appropriately. This is a difficult area as it requires the finance team to liaise with all services to develop an understanding of any novel arrangements that exist.</p> <p>In our experience arrangements with the third sector, Housing Associations and Primary Care Trusts should be considered under IFRIC 4.</p> <p>In the NHS we noted that the “legal charges” that Primary Care Trusts (“PCTs”) had on various properties fell to be accounted for under IFRIC 4 where they did not meet the tests of control in IFRIC 12.</p> | <p>The Council should review all of its existing contractual arrangements to determine if they should be accounted for as leases under IFRS.</p> <p>This workstream should begin immediately, as our experience of IFRS conversions elsewhere in the public sector are that leasing arrangements (and, in particular, embedded leases) can be the most problematic to assess.</p> <p>The challenge with this workstream will be to approach Officers in services with a non-accountancy background in such a way that they understand what is being asked of them, so that they provide meaningful information for the IFRS transition team.</p> | <b>High</b> | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Identification of embedded leases has been included in the IFRS timetable. All service managers have been asked to identify contractual arrangements which might contain an embedded lease. Finance staff have also reviewed the contract register to identify contracts which might include embedded leases. Initial responses have been received and Finance staff are in the process of following these up to obtain additional information. We do not expect to find many arrangements meeting this definition.</p> <p><b>Owner:</b> Nigel Foster</p> <p><b>Timescale:</b> Initial identification complete by 16 December</p> |



| No. | Observation  | Recommendation   | Risk | Management Response  |
|-----|--|--|------|--|
| 3   | <p><b>IAS 16 – Property, Plant and Equipment (Component Depreciation)</b></p> <p>IAS 16 requires that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.</p> <p>While the CIPFA Code allows this requirement to be met prospectively, from 1 April 2010 (and only in relation to enhancement and acquisition expenditure incurred, and revaluations carried out), rather than as a prior period adjustment upon conversion to IFRS, it will potentially be onerous for the Council to identify components in future years.</p> <p>This requirement applies to all property, plant and equipment held by the Council, whether held at historical cost or re-valued amount, including Council Dwellings and Infrastructure assets.</p> | <p>An accounting policy and methodology for identifying components should be put in place and agreed in principle with PwC. This could include a de minimus for identifying components.</p> <p>The Council should ensure that its capital programme for the 2010/11 financial year is analysed in advance of 1 April 2010, so that potential component replacements are identified.</p> <p>The Council should also ensure that assets which are subject to revaluation in 2010/11 are split into components.</p> | High | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>It is planned to agree the accounting policy on asset valuation and component accounting between Finance and Valuers by 31 March 2009.</p> <p>Valuers will review the 2010/11 programme at month 9 to identify any material increases in value arising from current year spending.</p> <p>Corporate Finance are also working with our suppliers (Technology Forge) to ensure that the Asset Register is upgraded and is capable of recording material components</p> <p><b>Owner:</b> Mark White / Gary Green</p> <p><b>Timescale:</b> 31 March 2010</p> |
| 4   | <p><b>IAS 17 - Leases</b></p> <p>The assessment of whether a lease should be classified as a finance lease or an operating lease is more subjective under IFRS than UK GAAP. It is also likely that more leases will be classified as finance leases.</p> <p>At the workshop, Officers, including those from Corporate Property, were confident that the Council was well placed to a) identify all of the leases the Council has entered into as lessee or lessor and II) carry out the assessment of each lease as required by IAS 17. We note that the assessment of leases can be technically challenging, especially where</p>  | <p>The Council should review its existing lease arrangements to determine if they should be accounted for as operating leases or finance leases under IFRS. This applies to both lessee and lessor situations.</p> <p>A pragmatic approach to this review may be possible where the Council can group together types of lease, rather than reviewing all of its leases individually. This approach, if adopted,</p>  | High | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>There are a significant number of leases in place. Education finance staff and Valuers are in the process of gathering the required information on Schools and Property related leases. Corporate finance have collated information relating to vehicles</p>   |

| No. | Observation  | Recommendation  | Risk | Management Response  |
|-----|--|---|------|--|
|     | <p>leases are old and documentation scarce.</p> <p>Our experience of IFRS conversions elsewhere in the public sector are that leasing arrangements can be the most problematic to assess.</p>  | <p>should be discussed and agreed with the external audit team.</p>   |      | <p>plant and equipment.</p> <p>The timetable has been drafted to reflect the additional workflow requirements. Initial identification and recognition is planned to be carried out by 31 December 2009. Further work is planned in order to maintain and update leasing records throughout the implementation period.</p> <p>Further work is required to establish reasonableness of materiality levels and agree these with our external auditors</p> <p><b>Owner:</b> Mike Board</p> <p><b>Timescale:</b> 31 December 2009</p> |
| 5   | <p><b>IAS 19 - Employee benefits</b></p> <p>Under IFRS, the Council will be obliged to accrue an amount in its balance sheet for untaken holiday pay. Other benefits, such as flexi-time and time off in lieu, are also within the scope of this requirement.</p> <p>HR does not a central system for recording Officers' annual leave entitlement, but the annual leave year at the Council matches the financial year, which makes it easier to calculate the accrual.</p> <p>At the workshop, Officers commented that an accrual had been calculated by identifying a random selection of employees, up to a total of 15% of the population of employees at the Council. An exercise is also underway to identify the accrual relating to teachers.</p> <p>In subsequent years we envisage that this exercise will be</p> | <p>The Council should liaise with the external audit team at the earliest opportunity so that it can review the Council's methodology. It will be important for the Council to demonstrate that the sample it has selected for non-school staff is statistically valid.</p> | High | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>A sample of employees has been taken to identify employee benefits to be accrued as at 31 March 2009. The final position and approach will be notified to our external auditors</p> <p><b>Owner:</b> Nigel Foster</p> <p><b>Timescale:</b> 31 December 2009</p>  |

| No. | Observation   | Recommendation   | Risk          | Management Response   |
|-----|---|--|---------------|---|
|     | less onerous as the accrual is not expected to fluctuate significantly.   |  |               |   |
| 6   | <p><b>Accounting for capital grants</b></p> <p>Under IFRS, capital grants will be recognised in the Income and Expenditure account when and to the extent that the grant conditions are met and the monies spent.</p> <p>In practice, in most cases, this will mean that the capital grant is recognised in full in the Income and Expenditure account when the asset is acquired.</p> <p>For capital financing purposes, the amount of capital grant thus recognised will be reversed out of the Income and Expenditure account into the Capital Adjustment Account.</p> <p>Where capital grant has been received but the underlying capital expenditure has not yet been incurred, the grant will be recognised in a holding account similar to a receipt in advance.</p> | <p>The Council should put systems in place to ensure that information for capital grants is captured so that the new disclosure requirements in the CIPFA Code are met.</p>  | <b>Medium</b> | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>The information required to identify and disclose the receipt and use of capital grants can be identified from existing accounting records. Coding structures and accounting policies are planned to be updated to ensure compliance with IFRS</p> <p><b>Owner:</b> Mark White</p> <p><b>Timescale:</b> 31 December 2009</p>  |
| 7   | <p><b>IFRS 8 – Segmental Reporting</b></p> <p>The draft CIPFA Code allows this requirement to be met disclosures based on an authority’s internal management reporting, for example departments, directorates or portfolios. At the workshop Officers commented that existing management reporting arrangements will provide the information to meet this standard.</p> <p>The existing requirements for the service expenditure analysis in accordance with BVACOP are also retained.</p>  | <p>The Council will need to consider if more than one presentation is used for internal management reporting. If this is the case, it should select the presentation most commonly used by the individual or group within the authority (for example cabinet, board or senior directors) when considering the allocation of financial resources.</p> | <b>Medium</b> | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Internal reporting is based upon the internal management structure. It is planned to produce a report which reconciles the high level internal management report to the Comprehensive Income and Expenditure statement. A reconciliation is already undertaken as part of year end closure which can be adapted to produce the IFRS disclosures</p> <p><b>Owner:</b> Mike Board</p> |

| No. | Observation  | Recommendation  | Risk          | Management Response   |
|-----|--|---|---------------|---|
|     |  |   |               | <b>Timescale:</b> 31 March 2010   |
| 8   | <p><b>IAS 40 - Investment Properties</b></p> <p>An investment property is one that is used solely to earn rentals or for capital appreciation or both.</p> <p>Gains and losses in the fair value of investment properties are recognised in the income and expenditure account, although the existing regulations are thought to cover the subsequent reversal of these entries.</p> <p>Property held by a lessee under an operating lease may be accounted for as an investment property if, and only if, the property would otherwise meet the definition of an investment property. This classification is available on a property by property basis. The lease shall be accounted for as if it were a finance lease.</p> | <p>The Council will need to undertake a review of its fixed assets, including those held under leases, to determine if any meet the definition of an investment property.</p> | <b>Medium</b> | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Valuers are in the process of identifying properties meeting this definition</p> <p><b>Owner:</b> Mark White / Gary Green</p> <p><b>Timescale:</b> 31 December 2009</p> |

| No. | Observation   | Recommendation  | Risk          | Management Response  |
|-----|---|---|---------------|--|
| 9   | <p><b>IFRS 5 – Assets held for sale</b></p> <p>IFRS requires that assets are classified in the balance sheet at “held for resale” is when the asset is available for immediate sale in its present condition and the sale of the asset is highly probable.</p> <p>To be highly probable management should be committed to a plan to sell and be actively looking for a buyer and to complete the plan. The sale should be expected to be completed within 1 year of the date.</p> | <p>Assets held for resale at 1 April 2009, 1 April 2010 and 31 March 2011 will need to be identified, separately classified on the balance sheet.</p> <p>The Council should add a specific workstream to its project plan to address this standard.</p> | <b>Medium</b> | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>Valuers are in the process of identifying properties meeting this definition.</p> <p><b>Owner:</b> Mark White / Gary Green</p> <p><b>Timescale:</b> 31 December 2009</p>   |
| 10  | <p><b>IAS 27 – Consolidated financial statements</b></p> <p>The SORP’s definition of an associate focused on ‘the ability to exercise’ significant influence whereas under the IFRS Code the focus is on the ‘power to participate in the financial and operating policy decisions of the investee’. This could mean some differences in interpretation of those entities brought into the group accounts.</p>  | <p>While no issues were identified at the workshop, the Council will need to consider its arrangements with other entities, particularly if it has any “reserved rights”, and assess these under IAS 27..</p>   | <b>Medium</b> | <p><b>Agreed</b></p> <p><b>Action:</b></p> <p>It is planned to review all of the returns which we received in advance of 2008/09 to reconsider whether any of those organisations might meet the revised conditions. The 2009/10 closure guidance will also be updated to enable the identification of new organisations which might require consolidation</p> <p><b>Owner:</b> Mike Board</p> <p><b>Timescale:</b> 31 December 2009</p> |
| 11  | <p><b>IAS 38 – Intangible Assets and SIC 32 – Web-site costs</b></p> <p>IFRS requires strict criteria to be met before an internally generated intangible asset may be recognised. Provided these criteria are met, the Council may recognise an internally generated intangible asset.</p> <p>The CIPFA IFRS Code notes that for local authorities, a web site whose primary purpose is to provide information about</p>   | <p>The Council will need to assess the costs it plans to capitalise as intangible assets against the criteria in IAS 38.</p> <p>The Council will also need to assess if costs associated with its website are accounted for correctly.</p>              | <b>Low</b>    | <p><b>Agreed</b></p> <p><b>Action:</b> The potential for capitalising internally generated intangibles is minimal. Planned spending on developing the website will need to be considered against IAS 38 criteria</p>   |

| No. | Observation  | Recommendation | Risk | Management Response  |
|-----|--|----------------|------|--|
|     | <p>services and objectives does not provide an economic or service benefit. Expenditure on such a web site cannot be recognised as an intangible asset but should instead be charged to revenue.</p> |                |      | <p><b>Owner:</b> Mark White<br/> <b>Timescale:</b> 31 March 2010</p> |



# AUDIT COMMITTEE

# REPORT

2 March 2010

**Subject Heading:**

**EXTERNAL AUDIT PLAN 2009/10**

**Report Author and contact details:**

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**Policy context:**

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

**Financial summary:**

N/A

## SUMMARY

The attached report, Appendix 'A', advises the Audit Committee of the proposed External Audit Plan for 2009/10. A separate report on the proposed fee has previously been considered by the Committee.

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

## RECOMMENDATIONS

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

**REPORT DETAIL**

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

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

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

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

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

The Committee received a report in June 2009, summarising the proposed external audit fee, and containing the audit fee letter from PwC. The attached plan confirms the details of the proposed fee as follows:

The total audit fee from the 2008/09 plan was £342,450. The fee now proposed for the 2009/10 audit is £346,731. This represents an increase of 1.25%. In addition, a further change of £105,000 will be made for the certification of claims and returns, the same level as for 2008/09, and £38,500 for the pension fund audit.

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



| Element   | 2009/10 Fee<br>£ | 2008/09 Fee<br>£ |
|---|------------------|------------------|
| Audit of accounts   | 247,724          | 244,665          |
| Use of Resources, Data Quality and Value for Money Conclusion | 99,007           | 97,785           |
| Total   | 346,731          | 342,450          |
| Certification of claims and returns                           | 105,000          | 105,000          |
| Pension Fund  | 38,500           | 38,000           |

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

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

**Legal implications and risks:**

None arising directly from this report

**Human Resources implications and risks:**

None arising directly from this report

**Equalities implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

London Borough of Havering 09/10 Audit Plan – PricewaterhouseCoopers

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December 2009

# London Borough of Havering 2009/10 Audit Plan

The Members  
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14 December 2009

Dear Members

We are pleased to present you with our audit plan for the year ending 31 March 2010. The plan sets out the basis of our approach to the audit and our audit and reporting timetable. We have developed the plan through our discussion of key issues with management and by building on the work done in our first year as your auditors. Discussion of our plan with you ensures that we understand the issues facing the Council and that we agree on mutual needs and expectations to provide the highest level of service quality. We welcome any comments you may have or any additional areas in which you seek assurance from the audit process.

We very much look forward to working with Havering Council again and look forward to the opportunity of discussing the plan with you.

In the mean time, if you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either David Braithwaite or Ciaran McLaughlin.

Yours sincerely

PricewaterhouseCoopers LLP

# Contents

|   |    |
|---|----|
| Introduction .....                                | 4  |
| Risk assessment .....                             | 6  |
| Our approach to the audit.....                    | 11 |
| Our team and independence .....                   | 14 |
| Communicating with you .....                      | 16 |
| Audit budget and fees.....                        | 17 |
| Matters affecting future accounting periods ..... | 20 |
| Appendix A: Other engagement information .....    | 22 |

*In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Introduction

## **The purpose of this plan**

We wrote to the Director of Finance in March 2009 setting out the proposed audit fee for 2009/10, in line with the Audit Commission's requirements. In that letter we promised to produce a detailed plan for the financial accounts audit later in 2009.

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

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

Based upon discussion with management and our understanding of the Authority and the local government sector, we have noted in the next section relevant recent developments and other operational and financial risks. Our Plan has been drawn up to consider the impact of these developments and risks and to set out the work we need to perform to ensure we obtain appropriate assurance over the financial statements.

We would like to thank officers of the Authority for their help in putting together this plan.

## **Period covered by this plan**

This plan outlines our approach for the 2009/10 audit of accounts including the audit of the financial statements to be published by 30 September 2010. We have also outlined our proposed approach and timetable for the Use of Resources assessment work which will be reported to the Audit Commission in Summer 2010, which will form part of the 2010/11 fee to be agreed with Management in Spring 2010. We have, however, set out the indicative timetable for completing the use of resources assessment on pages 9 and 10 of this plan.

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

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was last updated in July 2008. This is supported by the Statement of responsibilities of auditors and of audited bodies (the Statement) which was updated in April 2008. Both documents are available from the Chief Executive.

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

Our reports and audit letters follow the Statement and are in line with the Code. Although Annual Audit Letters and reports may be addressed to officers or members of the Authority, they are prepared for the sole use of

the audited body. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

# Risk assessment

## Planning of our audit

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

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

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

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

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

We have also included a short section at the end of this report covering the imminent changes to the Local government accounting arrangements required by the move to International Financial Reporting Standards, and the introduction of the Carbon Reduction Commitment.



**Risk assessment results**

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

| Audit related risks  | Audit approach  |
|--|---|
| <b>Management override of control</b>  |   |
| <p>Auditing Standards require us to consider management override of control as a significant risk on all audits. The inherent risk arises primarily because management may be in a position to directly or indirectly manipulate accounting records by overriding established controls that otherwise appear to be operating effectively. Management override of internal controls increases the risk of fraudulent financial reporting in the preparation of the accounts.</p> <p>We raised a control point on authorisation of journals in our report on the 2008/09 report on accounts and have noted the management response which places reliance on the existing controls.</p> | <p>To address this risk we will:</p> <ul style="list-style-type: none"> <li>• document and test the key internal controls in place over the preparation of the accounts and the key balances within them.</li> <li>• understand and perform additional procedures on material journal entries.</li> </ul> |

| Audit related risks   | Audit approach   |
|---|--|
| <p><b>Revenue recognition</b></p>   |  |
| <p>Auditing Standards also require us to consider revenue recognition as a significant risk on all audits and to consider both income and expenditure recognition when considering the assumed risk relating to revenue recognition.</p> <p>Material misstatements in financial reporting may result from an overstatement of revenues (e.g., through premature income recognition or deferral of expenditure) or an understatement of income (e.g., through incorrectly shifting recognition to a later period). In the context of the current economic climate and pressure on budgets particular risk areas affecting local authority accounts are:</p> <ul style="list-style-type: none"> <li>• collectability of income and management judgements on the provision for bad and doubtful debts.</li> <li>• valuation and recording of liabilities around the year end.</li> </ul> | <p>To address this risk we will:</p> <ul style="list-style-type: none"> <li>• document and test the key internal controls in place over the preparation of the accounts and the key balances within them.</li> <li>• test for unrecorded liabilities at year end.</li> <li>• perform cut-off testing to ensure that income and expenditure are recorded in the correct financial year.</li> <li>• consider the principles behind material estimates made by management and review these judgements for reasonableness;</li> <li>• undertake additional tests as necessary based on findings from our controls and detailed testing and the findings from relevant Internal Audit work in the year.</li> <li>• Review the budget and outturn for the year to identify any unusual transactions and ensure that they have been correctly accounted for.</li> </ul> |

| Audit related risks  | Audit approach  |
|--|---|
| <b>Accounting for Fixed Assets</b>   |   |
| <p>Testing carried out as part of our 2008/09 Audit of the Authority's accounts identified a small number of historic issues with its fixed asset accounting. The nature and size of the Council's current capital programme means that this issue will arise annually and will need to be assessed and addressed by management. The issues include the need to:</p> <ul style="list-style-type: none"> <li>account for assets under the course of construction in accordance with the requirements of the Statement of Recommended Practice for Local Authorities</li> <li>ensure that capital works during the year are assessed by qualified valuers to determine if they have enhanced the value of the assets, in accordance with FRS15; and</li> <li>review the Council's current accounting policy in respect of Infrastructure capital expenditure to ensure it is compliant with the SORP requirements in relation to replacement/enhancement expenditure.</li> </ul> | <p>We will:</p> <ul style="list-style-type: none"> <li>update our documentation and evaluation of the Council's fixed asset and capital accounting arrangements, to the extent required by Auditing Standards;</li> <li>review the capital programme and capital expenditure around year end to ensure that assets under the course of construction are properly accounted for;</li> <li>review the valuation reports for capital expenditure during the year to ensure that all expenditure resulting in enhancements to the asset in terms of value or useful economic life are appropriately accounted for; and</li> <li>review the Authority's treatment of infrastructure asset capital expenditure to ensure that it is accounted for in accordance with the requirements of the SORP.</li> </ul> |
| <b>Having Schools</b>  |   |
| <p>As part of our audit of the Authority's accounts we seek to obtain confirmation of bank account balances for all of the Authority's bank accounts, including those operated by schools.</p> <p>In order for the banks to release the required information to us as the Authority's auditors, authorisation is required from the bank mandate signatories. At present, this is a burdensome process of obtaining the authorisation from the individual schools. To date, sufficient authorisation has still not been provided to the banks.</p>  | <p>We will</p> <ul style="list-style-type: none"> <li>liaise with management to ensure that the banks have sufficient authorisation and request our bank confirmations during March 2010.</li> <li>liaise with Education Finance to ensure that all new bank accounts opened or old accounts closed during the year are reflected in the confirmation requests submitted.</li> <li>review the work of Education finance to monitor and reconcile the year end bank reconciliation across all the Authority's schools.</li> </ul>  |

| Audit related risks   | Audit approach   |
|---|--|
| <b>Business Rates Shared Service Agreement</b>  |  |
| <p>The Authority should include in its shared service arrangement the provision of assurance over the operation of the systems and processes operated by the shared service provider. We understand that the service agreement will be reviewed to ensure that adequate risk management arrangements are in place. The Authority will ensure that sufficient comfort can be obtained through the controls and processes that deliver services to its resident businesses.</p> | <p>We will review the revised arrangements put in place by management to ensure that it has appropriate assurance over the operation of the service.</p> |

# Our approach to the audit

## Code of Audit Practice

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

- Accounts including a review of the Annual Governance Statement; and
- The arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources (Value for Money Conclusion)

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

## Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the

accounts into components. We assess the risk characteristics of each component to determine the audit work required.

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

We also aim to rely on the work done by internal audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.

## Whole of government accounts

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

### Value for Money Conclusion

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

This conclusion is based on relevant criteria, covering particular areas of the Authority's arrangements which the Audit Commission have specified under the Code. The criteria cover three themes, Managing Finances, Governing the Business and Managing Resources, and are set out in Key Lines of Enquiry. The applicable criteria are specified by the Audit Commission each year, but where a 'no' judgement is made in one year, that criterion automatically applies in the following year, whether or not it is specified.

When forming our opinion we will seek to rely on:

- Any self assessment you have performed against the criteria;
- Your internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Authority.

As noted above, our opinion will be issued as part of the audit opinion on your 2009/10 financial statements.

### Mandatory work for 2009/10

#### Use of Resources Assessment

From April 2009, the Audit Commission implemented comprehensive area assessment (CAA), jointly with the other public service inspectorates. The

use of resources assessment completed in Summer 2009 was carried out as part of our 2009/10 audit work. That work is now completed and Management are implementing actions to continue the improvement in their arrangements.

Our use of resources judgements in 2010 will form part of our 2010/11 audit plan and will serve two purposes: as a basis for our Value for Money conclusion in the 2009/10 Opinion and as an input into the results of CAA which will be reported in autumn 2010. Further details of the scope and scale of this work will be reported to Management before the end of the current financial year.

The outline timetable for that work is set out in the following table. More detail will be included in our 2010/11 fee letter to Management.

| Element of work   | Timing       |
|---|--------------|
| PwC to undertake early assessment of KLoE 3.3 (Workforce Planning) requirements to identify a baseline position and availability of supporting documentation.   | Nov-Dec 2009 |
| PwC conduct risk analysis of the existing scores to identify ones we feel where scores could be increased and any where additional information may be required to maintain scores, for example those areas where discretion was applied to scoring in 2009. | Jan 2010     |
| Round table discussion of the risk areas and agreement on timing for when PwC would expect to obtain supporting information and outline any case studies which need to be followed up.  | Feb 2010     |
| Fieldwork to review case studies  | Feb-Mar 2010 |
| PwC submit indicative scores, and discuss with Management.  | Apr 2010     |

| Element of work  | Timing       |
|--|--------------|
| PwC complete any detailed work required to finalise scoring and produce scores for discussion and agreement at Round table at the end of June 2010. Including specific data quality spot check work and discussion with the Council. | May-Jun 2010 |
| PwC submit scores for national quality assurance process.  | Jul 2010     |

**Local government pension fund accounts**

We will prepare a separate audit plan for work on the pension fund in 2009/10. This and other matters relating to the pension fund audit will be presented to those charged with governance for the pension fund, as well as to the officers and Members of the Authority.

# Our team and independence

| Audit Team   | Responsibilities   |
|--|--|
| <p><b>Engagement Partner/Director</b><br/> <i>David Braithwaite*</i><br/>                     Tel: 020 7804 2369<br/>                     david.braithwaite@uk.pwc.com</p> | <p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, approving the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p> |
| <p><b>Engagement Senior Manger</b><br/> <i>Ciaran McLaughlin*</i><br/>                     Tel: 020 7213 5253<br/>                     ciaran.t.mclaughlin@uk.pwc.com</p>  | <p>Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Audit Memorandum and Annual Audit Letter.</p>   |
| <p><b>Audit Manager: Accounts</b><br/> <i>Keeley Gibbons*</i><br/>                     Tel: 020 7212 3440<br/>                     keeley.m.gibbons@uk.pwc.com</p>         | <p>Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the use of resources.</p>   |

| Audit Team   | Responsibilities   |
|--|--|
| <p><b>Audit Manager: Use of Resources</b><br/> <i>Alexandra Sutherland*</i><br/>                     Tel: 020 7212 7908<br/>                     alexandra.sutherland@uk.pwc.com</p> | <p>Manager on the audit responsible for co-ordinating the use of resources audit programme including preparing and presenting reports.</p> |

Team member was also a member of the team for the 2008/09 audit.

## Our team members

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

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



### **Independence and objectivity**

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

### **Other services provided to the Authority**

In addition to our audit under the Code, the Firm has also undertaken other work for you on International Financial Reporting Standards ("IFRS"). This relates to an assessment of the impact IFRS will have on the Authority. Our fee for this work is £6,000.

### **Relationships and Investments**

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

### **Independence conclusion**

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

# Communicating with you

## Communications Plan and timetable

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

| Stage of the audit   | Output   | Date               |
|----------------------|--|--------------------|
| Audit planning       | Audit Fee letter   | 23 June 2009       |
|                      | Audit Plan   | 8 December 2009    |
| Audit reports        | <b>Audit Memorandum incorporating specific reporting requirements under Auditing Standard (ISA (UK&amp;I) 260), including:</b> <ul style="list-style-type: none"> <li>• Any expected modifications to the audit report</li> <li>• Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust</li> <li>• Material weaknesses in the accounting and internal control systems identified as part of the audit</li> <li>• Our views about the qualitative aspects of your accounting practices and financial reporting</li> <li>• Any other relevant matters of governance interest and</li> <li>• Summary of findings from our use of resources audit work to support our value for money conclusion.</li> </ul> | TBC September 2010 |
|                      | <b>Opinion on the Financial Statements including Value for Money Conclusion</b>  | TBC September 2010 |
|                      | <b>Auditor Use of Resources Assessment</b>   | TBC September 2010 |
| Other public reports | <b>Annual Audit Letter</b><br>A brief summary report of our work, produced for Members and to be available to the public.  | TBC December 2010  |

# Audit budget and fees

The Audit Commission has provided indicative audit fee levels for London Boroughs for the 2009/10 financial year, which depend upon the level of expenditure and potential risk. Based on your expenditure, the indicative fee scale for audit for the Authority is £320,825.

The proposed scales of fees do not include provision for review of the accounting treatment of PPP schemes, as a result of the transition to IFRS. The Audit Commission's guidance on fee scales recognises that the scope, and therefore the costs, of such reviews will depend upon the nature and complexity of the scheme and may need to be reflected in a variation to the scale fee. Based on anticipated immateriality of the PPP scheme with Johnson Control Systems Limited for the provision of an energy project at three secondary schools, we anticipate that any additional fees for reviewing the accounting treatment to be minimal. We will be able to advise you of the value of these fees once we have seen the final guidance from CIPFA on accounting for PPP schemes under IFRS and the Councils own accounting treatment proposals.

The fee proposed for 2009/10 is 8 per cent above the scale fee. In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09. In our audit fee letter dated 31 March 2009, we therefore agreed an audit fee of £346,731 (excluding the pension fund audit, grants and VAT), which is broken down as follows:

|                  | 2009/10        | 2008/09        |
|------------------|----------------|----------------|
| Accounts         | 247,724        | 244,665        |
| Use of Resources | 99,007         | 97,785         |
| <b>Total</b>     | <b>346,731</b> | <b>342,450</b> |

Our experiences from the 2008/09 audit of the Council's accounts did not identify any additional significant risk issues for us to address.

Our fee for accounts work includes the following:

- Audit of the financial statements for 2009/10
- Work on whole of government accounts for 2009/10

Our fee for use of resources work includes the following:

- 2009 Use of Resources assessment, supporting the Comprehensive Area Assessment (CAA) (Completed September 2009)
- Value for Money Conclusion for 2009/10
- Follow up of previous work

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the following work of inspectors and internal audit in respect of our Value for Money conclusion:
  - CQC Adult Social Care Assessment for 2008/09
  - ALMO Inspection Report 2009
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2010; and
- Our Value for Money conclusion and accounts opinion being unqualified.

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

### **Certification of grant claims**

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree this with the Group Director Finance and Commerce and his team. Although we have not yet formally completed all the grant claim related work for 208/09 early indications are that our audit fee for the work will be below the £105,000 originally indicated in the 2009/10 fee letter to the Group Director Finance and Commerce.

# Matters affecting future accounting periods

## Transition to International Financial Reporting Standards (IFRS)

There are proposed changes to the basis of financial reporting which are being introduced across the public sector. The Council will need to be aware of the additional requirements for assets and transactions that will be required to comply with IFRS from this date.

The implementation of IFRS in the local government sector will occur in 2010/11. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009.

The 2009/10 financial statements will continue to be prepared in accordance with UK GAAP, however balances and transactions appearing in them will need to be restated under IFRS as comparatives in the 2010/11 financial statements. In order for this to happen, opening balances as at 1 April 2009 will need to be restated. Preparation for conversion should already be underway at the Authority, as recommended in CIPFA's LAAP Bulletin 80, published in March 2009.

In addition, in advance of full adoption, the 2009 SORP adopts IFRS accounting principles for PFI schemes and similar service arrangements. Under IFRS there is an expectation that more of these types of schemes will be accounted for as "on balance sheet", in contrast with current practice under UK GAAP and the SORP, where many schemes are predominately accounted for as "off balance sheet". This is not a major risk for the Council, which only has one PPP scheme at present.

As the implementation of IFRS requires the financial statements to be prepared in accordance with a new set of financial standards, there is an increased risk that the accounts could be misstated. We will therefore work

closely with the Authority to ensure that you are aware of the main differences between IFRS and UK GAAP and to resolve any accounting issues on a timely basis.

The Authority will need to ensure that it has a good grasp of the changes to accounting requirements and that it has robust plans in place to enable collection and processing of the information needed to comply with the new requirements.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

We have undertaken a workshop with Management in November 2009 to assess the adequacy of the Council's own impact assessment for the introduction of IFRS. The findings from this review will be reported to

management shortly and will be built into the Council's project plans for implementation.

### **Sustainability and the Carbon Reduction Commitment**

All public organisations are facing increasing pressure to improve the use of not only financial but also natural resources. This includes not only the new area of assessment as part of Use of Resources, but also the future implementation of a form of carbon trading through the Carbon Reduction Commitment (CRC) as well as a move towards a requirement for regular reporting by public sector organisations on their approach to implementing sustainable strategies and practices and their performance against key measures (such as carbon reduction targets).

To address these challenges, there is a greater need for organisations to develop a comprehensive, integrated approach to sustainability supported by a clear strategy which is coordinated with the organisation's aims and objectives. Without such an approach, there is a risk that organisations may not achieve cost savings and environmental benefits or reap synergies and address potential conflicts between Value for Money and Sustainable Development.

The lack of a structured and integrated approach to sustainability and the use of natural resources may, as a result, present a number of significant risks to the achievement of required targets and create a risk of financial loss in respect of the CRC and in not realising the scope for efficiencies.

We assessed the Authority's arrangements in relation to its use of natural resources as part of our Use of Resources review completed in summer 2009.

We will discuss with relevant officers the potential impact on the Authority of the CRC and any cost or accounting implications that derive from this.

# Appendix A: Other engagement information

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

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

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

## Electronic communication

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

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

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

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

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



### **Appointed auditor**

David Braithwaite, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although he is not a partner.

### **Access to audit working papers**

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

### **Quality arrangements**

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

### **Events arising between signature of accounts and their publication**

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

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

### **Freedom of Information Act**

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





# AUDIT COMMITTEE

# REPORT

2 March 2010

**Subject Heading:**

**Report Author and contact details:**

**EXTERNAL AUDIT ANNUAL GRANTS  
CERTIFICATION REPORT 2008/09**

Ciaran McLaughlin

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PricewaterhouseCoopers

Vanessa Bateman

Internal Audit & Corporate Risk Manager

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**Policy context:**

The Audit Committee are required to note the results of the Annual Grant Certification process.

**Financial summary:**

N/A

## SUMMARY

The attached report, Appendix '1', advises the Audit Committee of the matters arising from the annual certification of grant claims for the financial year 2008/09.

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

An accompanying report has been produced by officers to set out the actions being taken. The Committee may wish to consider these two reports together.

**RECOMMENDATIONS**

1. To note the contents of the reports.
2. To raise any issues of concern and ask specific questions of PwC and/or officers where required.

**REPORT DETAIL**

The attached report from PwC includes:

- Executive Summary containing introduction, scope of work and summary of findings.
- Appendix A - Summary of certified grant claims 2008/09.
- Appendix B – Observations and recommendations.

PwC will be at the meeting to present the report and highlight any issues for the Committee's attention. As is customary, an accompanying report has been produced by the Council's Grants Co-ordinator, setting out the officer response to the report and actions being taken. Given the degree of overlap between these reports, it may be appropriate to consider them together, to facilitate discussions on the outcome.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

Qualified grant claims may lead to the Council having to repay grant income and delays leading to late certification of claims can result in the suspension of grant income. Recommendations arise during audits undertaken and managers have the opportunity to agree or disagree recommendation based on the associated risks and the financial and resource costs of the action.

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

**Legal implications and risks:**

None arising directly from this report

**Human Resources implications and risks:**

None arising directly from this report

**Equalities implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

Report to Management: Matters arising from the certification of grant claims  
2008/09

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Government and Public Sector

February 2010

# London Borough of Havering

## Report to Management: Matters arising from the certification of grant claims for 2008/09



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

2 February 2010

Ladies and Gentlemen

**Matters arising from the certification of grant claims in 2008/09**

We are pleased to present our first Annual Grant Certification Report summarising the results of our 2008/09 certification work. We very much look forward to the opportunity of discussing the report with you.

In the meantime, if you would like to discuss any aspect of our report please do not hesitate to contact either David Braithwaite or Ciaran McLaughlin.

We would like to take this opportunity to thank all of the staff who assisted us in the completion of our work.

Yours faithfully

PricewaterhouseCoopers LLP



# Contents

| <b>Section</b>                                     | <b>Page</b> |
|--|-------------|
| Executive Summary .....                            | 4           |
| Appendix A: Summary of 2008/09 grants.....         | 6           |
| Appendix B: Observations and recommendations ..... | 8           |

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

*In April 2008 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Executive Summary

## Introduction

1. In accordance with our appointment as the Council's external auditors by the Audit Commission, we are responsible for the certification of the Council's grant claims and returns to third parties. We have now completed the certification of the Council's 2008/09 claims and we set out in this report the matters arising from our work.
2. The purpose of this report is to provide a high level overview of the results of certification work we have undertaken at the London Borough of Havering between June and December 2009 that is accessible for members and other interested stakeholders

## Scope of work

3. Grant-paying bodies pay billions of pounds in grants and subsidies each year to local authorities and often require certification, by an appropriately qualified auditor, of the claims and returns submitted to them. Certification work is not an audit but a different kind of assurance engagement. This involves applying prescribed tests, which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.
4. The Audit Commission is required by law to make certification arrangements for grant paying bodies when requested to do so and sets thresholds for claim and return certification, as well as the prescribed tests which we as local government appointed auditors must undertake. We certify claims and returns as they arise throughout the year to meet the audited claim/return submission deadlines set by grant paying bodies.

## Summary of Findings

5. The Audit Commission issues Certification Instructions to set out the work required for the certification of grant claims. These instructions include a de minimis threshold for the certification of claims, which meant that for 2008/09 claims where income was below £100,000, they did not need to be certified. In addition, claims below £500,000 only required limited testing.
6. In 2008/09, the total number of grant claims that required certification by us was 10. This was due to 2 new grant claims requiring certification. Despite the increase in the number of claims, the cost of the grant certification work fell from £97,737 in 2007/08 (source: LBH Grants Co-ordinator) to £89,072 in 2008/09.
7. The Grants Co-ordinator has been very proactive in ensuring that grant claims were ready for audit prior to our starting to work on them. This has helped to keep the overall cost of the claims to a minimum. We believe that the Council could achieve further savings in the cost of grant claim certification by:
  - a. Addressing the qualification issues identified in our audit of the Housing Benefit Subsidy grant claim; and
  - b. Addressing the issues which led to the amendment of 4 claims during the audit process.

8. We would recommend that officers who prepare grant claims and associated working papers for audit should undertake a self review before submitting working papers to the Grants Co-ordinator to confirm accurate completion of the claim and to ensure that supporting working papers necessary for the completion of the audit, including the reconciliation of the grant claims to the general ledger, are retained for audit. We will continue to share the Certification Instructions (that provide a framework for our testing of every grant claim) with relevant officers to facilitate this process.
9. We have now certified all of the claims which have been brought to our attention. A list of certified claims is set out in Appendix A.
10. Where we have identified specific controls or processes that could be improved, we have included recommendations in this report. Implementation of these recommendations should help to minimise the risk of future errors, amendments and qualified audit certifications. These matters are set out in Appendix B.

## Arrangements for 2009/10

11. On receipt of the updated Certification Instruction index for 2009/10, which will confirm the certification deadlines, we will provide this detail to the Council and discuss arrangements for the preparation and certification of 2009/10 claims.

## Acknowledgements

12. We would like to express our appreciation for the help and co-operation that we received from the Council's staff, in particular the Grants Co-ordinator, during the course of our audit work.

## Explanation of priorities

### **High – Major issues for the attention of senior management**

Immediate action is required to address a serious weakness in control.

### **Medium – Important issues to be addressed by management in their areas of responsibility**

Action should be taken within an appropriate timeframe to address a significant weakness in control.

### **Low – Problems of a more minor nature which provide scope for improvement**

Action is desirable to strengthen or supplement existing controls. Management should take action as resources permit.

# Appendix A: Summary of 2008/09 grants

This table summarises the results of the certification of 2008/09 grant claims.

| Grant Claims                  | 2008/09<br>(Number) | 2008/09<br>(%) | 2007/08<br>(Number) | 2007/08<br>(%) |
|-------------------------------|---------------------|----------------|---------------------|----------------|
| Qualified                     | 0                   | 0              | 2                   | 25             |
| Amended                       | 3                   | 30             | 3                   | 37.5           |
| Both Amended and Qualified    | 1                   | 10             | 2                   | 25             |
| Neither Amended nor Qualified | 6                   | 60             | 1                   | 12.5           |
| <b>Total</b>                  | <b>10</b>           | <b>100</b>     | <b>8</b>            | <b>100</b>     |

Set out below is a detailed breakdown of the grant claims certified.

| CI Ref | Grant Claim                                 | Qualified | Amended |
|--------|---|-----------|---------|
| BEN01  | Housing and Council Tax Benefits            | ✓         | ✓       |
| HOU02  | HRA Subsidy Base Data                       |           | ✓       |
| HOU01  | HRA Subsidy                                 |           | ✓       |
| LA01   | National Non Domestic Rates Return          |           | ✓       |
| EYC02  | Sure Start, Early Years and Childcare Grant |           |         |
| CFB06  | Pooling of Capital Receipts                 |           |         |
| PEN05  | Teachers Pensions Return                    |           |         |
| RG31   | Youth Offer Grant                           |           |         |
| RG31   | Childcare Affordability Programme           |           |         |
| HOU21  | Disabled Facilities Grant                   |           |         |

The following table summarises the number of grants certified within the certification deadline.

|                         | 2008/09<br>(Number) | 2008/09<br>(%) | 2007/08<br>(Number) | 2007/08<br>(%) |
|-------------------------|---------------------|----------------|---------------------|----------------|
| Certified by deadline   | 10                  | 100            | 5                   | 62             |
| Uncertified by deadline | 0                   | 0              | 3                   | 38             |
| <b>Total</b>            | <b>10</b>           | <b>100</b>     | <b>8</b>            | <b>100</b>     |

Set out below are details of the certification fees for each grant claim.

| Claim/Return      | 2007/08<br>Fee | 2008/09<br>fee | Explanation of significant<br>difference  |
|-------------------|----------------|----------------|---|
| BEN01             | £62,490        | £53,905        | Additional 40+ testing was carried out by the Authority; this reduced the amount of testing that was required by the auditor. |
| HOU02             | £5,994         | £6,095         |   |
| HOU01             | £7,484         | £5,965         |   |
| LA01              | £5,366         | £5,700         |   |
| EYC02             | £5,508         | £5,475         |   |
| CFB06             | £3,788         | £3,755         |   |
| PEN05             | £1,559         | £2,413         |   |
| RG31: Youth Offer | -              | £2,013         |   |
| RG31: CAP         | -              | £2,013         |   |
| HOU21             | £1,741         | £1,738         |   |
| Planning Costs    | £3,807         | -              | In 2008/09 planning costs have been allocated to the specific claims above.   |
| <b>Total</b>      | <b>£97,737</b> | <b>£89,072</b> |   |

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# Appendix B: Observations and recommendations

| Ref  | Observation   | Recommendations / Priority  | Claims to which this relates   | Management Response  |
|--|---|---|--|--|
| <b>Grants under the Audit Commission threshold of £500,000</b> |   |   |  |  |
| 1  | Grants below the audit commission threshold of £500,000 are subject to Part A audit testing only. | <p>The level of working papers required for grants that are below the threshold can be significantly reduced to include only evidence that is required in accordance with Part A testing only.</p> <p><b>MEDIUM</b></p> | <p>In 2008/09:<br/>                     RG31: Youth Offer Grant<br/>                     RG31: Childcare Affordability Grant<br/>                     HOU21: Disabled Facilities Grant</p> | <p><b>Agreed</b></p> <p>Finance have created a working paper checklist in line with PwC's recommendation. The Grant Management Protocol has been updated to reflect the changes.</p> <p>These documents can be found on the intranet via route Standard Procedures / Financial Procedures.</p> <p>Please note that the working papers that support Part A testing may vary for grant to grant.</p> <p>Officers should refer to the Audit Commission Certification Instruction to ascertain level of evidence required.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Claim Compilers/All Heads of Service</p> |

| Ref                                   | Observation  | Recommendations / Priority  | Claims to which this relates | Management Response  |
|---------------------------------------|--|---|------------------------------|--|
| <b>Comments on the working papers</b> |  |   |                              |  |
| 2                                     | <p><b>Housing and Council Tax Benefits - BEN01</b></p> <p>We noted that working papers were generally very good and easy to follow, however a full listing of uncashed cheques was not included in the working paper packs.</p>  | <p>We would recommend that a listing of all uncashed cheques which are processed during the financial year is also included for audit testing (as required dependent on 2009/10 certification instructions)</p> <p><b>LOW</b></p> | BEN01                        | <p><b>Agreed</b><br/>A listing of uncashed cheques during the year will be provided as part of the working papers.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Benefits Manager</p>   |
| 3                                     | <p><b>National Non Domestic Rates Return – LA01</b></p> <p>Havering operate a shared service scheme with Barking and Dagenham, however, we were unable to obtain easy access to individual claimant records.</p> <p>In addition, many explanations for discrepancies between PwC re-calculations, and calculations performed by Barking and Dagenham (on behalf of Havering) could only be resolved by Barking and Dagenham staff members.</p> | <p>The Barking and Dagenham relevant contacts should be made aware of the start dates for the grant audit, and their contact details should be recorded on the working paper files.</p> <p><b>MEDIUM</b></p>                      | LA01                         | <p><b>Agreed</b><br/>The Revenues Manager will ensure that the relevant contacts at Barking and Dagenham will be made aware of the start dates of the grant audit and that the details shall be recorded on the working paper file.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Revenues Manager/Head of Exchequer Services</p> |



| Ref | Observation   | Recommendations / Priority  | Claims to which this relates | Management Response   |
|-----|---|---|------------------------------|---|
| 4   | <p><b>Teachers Pension – PEN05</b></p> <p>The working papers were generally easy to follow and comprehensive, and followed the practice agreed with the previous auditors in 2007/08.</p> | <p>In the interests of further improving efficiency and reducing the costs of the audit it would be particularly helpful if checks on the accuracy and validity of the pensionable pay for teacher's whose contributions and deductions are processed by an external payroll provider were collated by the payroll team and be provided for audit.</p> <p>Management can use the certification instruction requirements to ensure that their proposed spot checks will retain the appropriate information.</p> <p><b>MEDIUM</b></p> | PEN05                        | <p><b>Agreed</b></p> <p>The type of spot check that is being asked for was previously carried out by the Audit Commission as part of the external audit of the TR17.</p> <p>However, we appreciate a different approach is being taken therefore we will put these checks in place on a quarterly basis.</p> <p>We will also ask for a quarterly breakdown of the elements of pay and total pensionable and non pensionable pay. Furthermore as a one-off exercise we will ask for a listing of all elements of pay and whether they are treated as pensionable or non pensionable.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Pensions Manager/Head of Exchequer</p> |

| Ref | Observation  | Recommendations / Priority  | Claims to which this relates | Management Response  |
|-----|--|---|------------------------------|--|
| 5   | <p><b>Housing Subsidy Base Data and Housing Subsidy- HOU02 and HOU01</b></p> <p>The working papers were good. However, further details needed to be requested to enable completion of the audit testing.</p> | <p>Where external systems, such as Anite, are used, ensure that screen prints to support figures on the grant claim are included in the working paper files.</p> <p>In addition, a detailed explanation of all the systems used in the compilation of the claim (e.g. Keystone) and where the information on these systems comes from should also be included.</p> <p><b>MEDIUM</b></p> | <p>HOU01<br/>HOU02</p>       | <p><b>Agreed</b><br/>A detailed explanation of all the systems used in the compilation of the claim and where the information comes from will be included in future working paper files. After a post audit meeting with the relevant officer we have agreed on a more streamlined process for the 2009/10 audit which should result in a speedier response for information from our ALMO. Where possible, screen prints will be taken. Other supporting figures that rely on large data sets will be provided on a CD.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Head of Housing</p> |

| Ref   | Observation  | Recommendations / Priority   | Claims to which this relates | Management Response   |
|---|--|--|------------------------------|---|
| 6   | <p><b>Sure Start, Early Years and Childcare Grant – EYC02</b></p> <p>Working papers were very good, however, the summary of how the grant claim is compiled is considered to be brief and required lengthy discussions to understand this process.</p> | <p>More thorough and detailed notes of the compilation method should be included in the working paper file. The “control environment assessment” on the certification instructions is a good basis to determine the level of detail required. This will reduce staff time required during the audit testing.</p> <p><b>LOW</b></p> | EYC02                        | <p><b>Agreed</b><br/>This has been planned as part of the process for completing the 2009/10 Audit File</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Early Years Finance Manager/Head of Learning and Achievement</p>   |
| <b>Specific Grant Recommendations (where qualified)</b> |  |  |                              |   |
| 7   | <p><b>Housing and Council Tax Benefits - BEN01</b></p> <p>Audit Testing identified several cases where overpayments had been incorrectly classified.</p>   | <p>Ensure procedures are in place, and sufficient training is given to staff, to enable overpayments to be correctly classified as either local authority error, eligible excess benefit or technical excess benefit.</p> <p><b>HIGH</b></p>   | BEN01                        | <p><b>Agreed</b><br/>Procedures are already in place to correctly classify overpayments however there were a small number of human errors. Training on this will be reinforced and training on overpayments is now a scheduled annual event.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Benefits Manager/Head of Exchequer Services</p> |

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# AUDIT COMMITTEE

# REPORT

2 March 2010

**Subject Heading:**

**2008/2009 AUDIT REPORT OF GRANT  
CLAIMS AND RETURNS**

**Report Author and contact details:**

Lilian Thomas, Grants Co-ordinator

Tel: 01708 431057

[Lillian.thomas@havering.gov.uk](mailto:Lillian.thomas@havering.gov.uk)

**Policy context:**

The Audit Committee are required to review the outcome of the Authority's grant claims process for audited grant claims relating to the financial year 2008/09.

**Financial summary:**

No direct financial implications to report.

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

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

**SUMMARY**

The 2008/2009 audit process was completed by the Audit Commission's representative, PricewaterhouseCoopers.

This report updates the Committee of the position regarding the final version of the 2008/2009 audit report of grant claims and returns and subsequent Action Plan for the 2009/10 process.

The 2009/10 Action Plan can be found at Appendix 1.

**RECOMMENDATIONS**

The Committee is recommended to:

1. review the outcomes of the 2008/2009 grant claims process.
2. raise any issues of concern with officers on specific grant claims
3. note the year-on-year grant claims performance
4. otherwise note the report.

**REPORT DETAIL**

**Overall summary of the 2008/2009 audited grant claims compared to 2007/2008.**

**1. Performance**

- 1.1 Grant Funding Body conditions and guidelines determine whether a grant requires external audit. The Audit Commission publishes an index of grants over £100k that require audit annually. Most Specific Grants are subject to Chief Finance Officer Certification only.

The total number of grants over £100k, requiring audit certification, rose to ten (10) for 2008/2009 as two (2) new grant claims were identified as requiring audit certification. This is compared to eight (8) for 2007/2008.

- 1.2 All ten (10) claims due for 2008/2009 have now been certified.
- 1.3 There were four (4) (40%) amended claims for 2008/2009 and also four (4) (50%) for 2007/2008. The amendments for 2008/2009 related to three (3) errors in calculation and one (1) change of date.
- 1.4 One (1) (10%) claim was qualified for 2008/2009 in comparison to three

(3) (38%) for 2007/2008.

The grant claim qualified was BEN 01 - Housing Benefits and Council Tax. This was also qualified in 2005/2006, 2006/2007 and 2007/2008.

The agreed recommendations regarding the above can be found in the 2009/2010 Action Plan (see Appendix 1).

- 1.5 All ten (10) (100%) claims for 2008/2009 achieved their Audit Commission certification deadline whereas in 2007/2008 three (3) (38%) missed their certification deadlines.

|                       | 2007/2008 |            | 2008/2009 |            |
|-----------------------|-----------|------------|-----------|------------|
|                       | No.       | %          | No.       | %          |
| Submitted by due date | 8         | 100        | 10        | 100        |
| Submitted late        | 0         | 0          | 0         | 0          |
| <b>Total claims</b>   | <b>8</b>  | <b>100</b> | <b>10</b> | <b>100</b> |

|                     |          |            |           |            |
|---------------------|----------|------------|-----------|------------|
| Amended claims      | 4        | 50         | 4         | 40         |
| Claims not amended  | 4        | 50         | 6         | 60         |
| <b>Total claims</b> | <b>8</b> | <b>100</b> | <b>10</b> | <b>100</b> |

|                     |          |            |           |            |
|---------------------|----------|------------|-----------|------------|
| Qualified claims    | 3        | 38         | 1         | 10         |
| Unqualified claims  | 5        | 62         | 9         | 90         |
| <b>Total claims</b> | <b>8</b> | <b>100</b> | <b>10</b> | <b>100</b> |

|                         |          |            |           |            |
|-------------------------|----------|------------|-----------|------------|
| Certified by deadline   | 5        | 62         | 10        | 100        |
| Uncertified by deadline | 3        | 38         | 0         | 0          |
| <b>Total claims</b>     | <b>8</b> | <b>100</b> | <b>10</b> | <b>100</b> |

## **2. Recommendations**

- 2.1 The 2009/2010 Recommendations/Action Plan is attached as Appendix 1 and contains a number of issues identified during the 2008/2009 audit process for implementation during 2009/2010.
- 2.2 PricewaterhouseCoopers have identified seven (7) recommendations to address in the 2009/2010 Action Plan. Similarly there were seven (7) recommendations within the Audit Commission's 2008/2009 Action Plan. Recommendation number 7 of Appendix 1 is a repeated recommendation.
- 2.3 Of the 7 recommendations identified during the 2007/2008 audit process

- 6 have been addressed.
- the remaining 1 recommendation identified in 2007/2008 was repeated in 2008/2009, this being:  
 BEN01 – Housing and Council Tax Benefits  
 Classification of Overpayments  
 Performance has improved, however, the Head of Service reported that training on overpayments will be reinforced and that this training is now scheduled as an annual event.

The Grants Co-ordinator will raise any outstanding issues with the claim compiler when reviewing the 2009/2010 working papers and in particular where there is a repeated recommendation.

**3. Audit Fees**

3.1 The following table records audit fees paid each year:

| Paid in 2006/2007 re 2005/2006 audits | Paid in 2007/2008 re 2006/2007 audits | Paid in 2008/2009 re 2007/2008 audits | Paid in 2009/2010 re 2008/2009 audits |
|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| £145,000                              | £102,000                              | £98,000                               | £89,000                               |
| No of Grant Claims Audited<br>23      | No of Grant Claims Audited<br>12      | No of Grant Claims Audited<br>8       | No of Grant Claims Audited<br>10      |

3.2 The Audit Commission audited Havering’s grant claim files up to 2007/2008. Audit costs decreased year on year. During the period 2005/2006 to 2007/2008 fees decreased by 32%. During this period the number of grant claims that required external audit diminished from 23 to eight (8).

In 2008/2009 the number of grant claims due for audit rose to ten (10) compared to eight (8) in 2007/2008. The decrease in audit fees is attributed in part to the good standard of working papers submitted to the new Audit Commission appointed auditors PricewaterhouseCooper. Although two (2) extra grant claims required external audit these costs were offset by savings within the other eight (8) audited grants.

3.3 The annual Audit Commission index for 2009/2010 has not yet been received although it is anticipated that nine (9) grants shall require Audit



Commission certification for the period. The Childcare Capability Grant for 2009/2010 is below the £100k deminimis and will not be subject to external audit.

**4. Other Grant Issues**

4.1 In 2009/2010 £9.02 million of former Specific Grants along with some new funding streams have been funded via the Area Based Grant (ABG). This is a non-ring fenced general grant which provides revenue funding to support the Community Strategy. The ABG is reported within the Annual Statement of Accounts.

4.2 For grant claims that require Chief Finance Officer Certification a mini audit is carried out by the Grants co-ordinator prior to certification. In 2009/2010 there were 58 grant claims relating to 2008/2009, totalling £15.1m that fell into this category, compared to 33 grant claims relating to 2007/2008, totalling £10.1m.

4.3 The Grants Co-ordinator reviews the working papers to verify the accuracy of the grant claim prior to submission to the Chief Finance Officer for certification. This process ensures a good control environment, that the high standard of working papers is maintained, and also encourages best practice. Of the 58 grant claims for 2008/2009 requiring Chief Finance Officer Certification 55 met the grant funding body deadlines.

4.4 In Year Achievements:

- During 2009/2010 the grants co-ordinator delivered 2 grant claim workshops to both service and finance staff. One to one training was also delivered upon request.
- The Grant Management Protocol has been updated and placed on the Intranet.

4.5 Future Planned Developments

- Further training/workshops to claim compilers, to be delivered before the 2009/2010 audit process begins.

**IMPLICATIONS AND RISKS**

**Financial Implications and risks:**

For 2008/2009 specific grant claims provided £156m in funding for the Council and poor performance in submitting claims puts the Council's Comprehensive Area Assessment (CAA) and income at risk.

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

These outcomes are mitigated by having the grants co-ordinator post in place, as this ensures that all grant claims are robustly examined before submission and that any queries are taken back through a consistent route.

**Legal implications and risks**

None rising directly from this report.

**Human Resources implications and risks**

None rising directly from this report.

**Equalities and Social Inclusion implications**

None rising directly from this report.

**BACKGROUND PAPERS**

# Appendix 1: Action Plan 2009/2010

| Ref  | Observation   | Recommendations / Priority  | Claims to which this relates   | Management Response   |
|--|---|---|--|---|
| <b>Grants under the Audit Commission threshold of £500,000</b> |   |   |  |   |
| 1  | Grants below the audit commission threshold of £500,000 are subject to Part A audit testing only. | <p>The level of working papers required for grants that are below the threshold can be significantly reduced to include only evidence that is required in accordance with Part A testing only.</p> <p><b>MEDIUM</b></p> | <p>In 2008/09:<br/>                     RG31: Youth Offer Grant<br/>                     RG31: Childcare Affordability Grant<br/>                     HOU21: Disabled Facilities Grant</p> | <p><b>Agreed</b></p> <p>Finance have created a working paper checklist in line with PwC's recommendation. The Grant Management Protocol has been updated to reflect the changes.</p> <p>These documents can be found on the intranet via route Standard Procedures / Financial Procedures.</p> <p>Please note that the working papers that support Part A testing may vary from grant to grant.</p> <p>Officers should refer to the Audit Commission Certification Instruction to ascertain the level of evidence required.</p> <p><b>Timescale</b><br/>2009/10</p> <p><b>Responsible Officers</b><br/>Claim Compilers/All Heads of Service</p> |

| Ref                                   | Observation   | Recommendations / Priority  | Claims to which this relates | Management Response  |
|---------------------------------------|---|---|------------------------------|--|
| <b>Comments on the working papers</b> |   |   |                              |  |
| 2                                     | <p><b>Housing and Council Tax Benefits - BEN01</b></p> <p>We noted that working papers were generally very good and easy to follow, however a full listing of uncashed cheques was not included in the working paper packs.</p>   | <p>We would recommend that a listing of all uncashed cheques which are processed during the financial year is also included for audit testing (as required dependent on 2009/10 certification instructions)</p> <p><b>LOW</b></p> | BEN01                        | <p><b>Agreed</b><br/>A listing of uncashed cheques during the year will be provided as part of the working papers.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Benefits Manager/Head of Exchequer Services</p>  |
| 3                                     | <p><b>National Non Domestic Rates Return – LA01</b></p> <p>We understand that Havering operate a shared service scheme with Barking and Dagenham, however, we were unable to obtain easy access to individual claimant records.</p> <p>In addition, many explanations for discrepancies between PwC re-calculations, and calculations performed by Barking and Dagenham (on behalf of Havering) could only be resolved by Barking and Dagenham staff members.</p> | <p>The Barking and Dagenham relevant contacts should be made aware of the start dates for the grant audit, and their contact details should be recorded on the working paper files.</p> <p><b>MEDIUM</b></p>                      | LA01                         | <p><b>Agreed</b><br/>The Revenues Manager will ensure that the relevant contacts at Barking and Dagenham will be made aware of the start dates of the grant audit and that the details shall be recorded on the working paper file.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Revenues Manager/Head of Exchequer Services</p> |

| Ref | Observation   | Recommendations / Priority   | Claims to which this relates | Management Response  |
|-----|---|--|------------------------------|--|
| 4   | <p><b>Teachers Pension – PEN05</b></p> <p>The working papers were generally easy to follow and comprehensive, however, there were not sufficient details available to detail how Havering have sufficient comfort over the accuracy and validity of external data from schools which operate their own pension schemes.</p> | <p>A summary note over how Havering have comfort over all external teacher pension schemes operated independently by schools should be included within the working paper files.</p> <p><b>MEDIUM</b></p> | <p>PEN05</p>                 | <p><b>Agreed</b><br/>The type of spot check that is being asked for was previously carried out by the Audit Commission as part of the external audit of the TR17.</p> <p>However, we appreciate a different approach is being taken therefore we will put these checks in place on a quarterly basis.</p> <p>We will also ask for a quarterly breakdown of the elements of pay and total pensionable non-pensionable pay. Further as a one-off exercise we will ask for a listing of all elements of pay and whether they are treated as pensionable or non pensionable.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Pensions Manager/Head of Exchequer</p> |

| Ref | Observation  | Recommendations / Priority   | Claims to which this relates | Management Response  |
|-----|--|--|------------------------------|--|
| 5   | <p><b>Housing Subsidy Base Data and Housing Subsidy- HOU02 and HOU01</b></p> <p>The working papers were good. However, further details needed to be requested to enable completion of the audit testing.</p>   | <p>Where external systems, such as Anite, are used ensure that screen prints to support figures on the grant claim are included in the working paper files.</p> <p>In addition, a detailed explanation of all the systems used in the compilation of the claim (e.g. Keystone) and where the information on these systems comes from should also be included.</p> <p><b>MEDIUM</b></p> | <p>HOU01<br/>HOU02</p>       | <p><b>Agreed</b><br/>A detailed explanation of all the systems used in the compilation of the claim and where the information comes from will be included in future working paper files. After a post audit meet with the relevant officer we have agreed on a more streamlined process for the 2009/10 audit which should result a speedier response for information from our ALMO. Where possible, screen prints will be taken. Other supporting figures that rely on large data sets will be provided on a CD.</p> <p><b>Timescale</b><br/>31/03/2010</p> <p><b>Responsible Officer</b><br/>Head of Housing</p> |
| 6   | <p><b>Sure Start, Early Years and Childcare Grant – EYC02</b></p> <p>Working papers were very good, however, the summary of how the grant claim is compiled is considered to be brief and required lengthy discussions to understand this process.</p> | <p>More thorough and detailed notes of the compilation method should be included in the working paper file. The “control environment assessment” on the certification instructions is a good basis to</p>  | <p>EYC02</p>                 | <p><b>Agreed.</b><br/>This has been planned as part of the process for completing the 2009/10 Audit File.</p>  |

| Ref   | Observation   | Recommendations / Priority  | Claims to which this relates | Management Response   |
|---|---|---|------------------------------|---|
|   |   | determine the level of detail required. This will reduce staff time required during the audit testing.<br><br><b>LOW</b>  |                              | <b>Timescale</b><br>31/03/2010<br><br><b>Responsible Officer</b><br>Early Years Finance Manager/Head of Learning and Achievement  |
| <b>Specific Grant Recommendations (where qualified)</b> |   |   |                              |   |
| 7   | <b>Housing and Council Tax Benefits - BEN01</b><br><br>Audit Testing identified several cases where overpayments had been incorrectly classified. | Ensure procedures are in place, and sufficient training is given to staff, to enable overpayments to be correctly classified as either local authority error, eligible excess benefit or technical excess benefit.<br><br><b>HIGH</b> | BEN01                        | <b>Agreed</b><br>Procedures are already in place to correctly classify overpayments however there were a small number of human errors. Training on this will be reinforced and training on overpayments is now a scheduled annual event.<br><br><b>Timescale</b><br>31/03/2010<br><br><b>Responsible Officer</b><br>Benefits Manager/Head of Exchequer Services |

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# AUDIT COMMITTEE

2 March 2010

# REPORT

**Subject Heading:**

Internal Audit Progress Report

**Report Author and contact details:**

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**Policy context:**

To inform the Committee of progress to deliver the audit plan in quarter three of 2009/10.

**Financial summary:**

N/A

## SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 1<sup>st</sup> October 2009 to 31<sup>st</sup> December 2009.

## RECOMMENDATIONS

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

**REPORT DETAIL**

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

|   | <b>Page</b> |
|---|-------------|
| <b>Section 1    Audit Work 01 October – 31<sup>st</sup> December 2009</b>   | <b>4</b>    |
| A summary of the progress made to deliver the plan in quarter three is detailed in this section of the report.                          |             |
| <b>Section 2    Management Summaries</b>  | <b>5</b>    |
| Summaries of all final reports issued in quarter three.   |             |
| <b>Section 3    Budget &amp; Resource Information</b>   | <b>19</b>   |
| The budgetary and resource position at the end of December are included for information.  |             |
| <b>Section 4    Key Performance Indicators</b>  | <b>20</b>   |
| The actual performance against target for key indicators is included.   |             |
| <b>Section 5    Outstanding Audit Recommendations Tables</b>  | <b>21</b>   |
| The details regarding status, as at the end of December, of all outstanding recommendations are included within tables for information. |             |

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

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

**Section 1 Audit Work 1<sup>st</sup> October 2009 – 30<sup>th</sup> December 2009**

At the end of December 61% of the audit plan had been delivered. This was against a target for the period of 69%. This is due to sick leave being higher than anticipated, for one officer following an operation, and the difference in the expected profile of annual leave to actual.

Schedule 1 details the work completed in quarter 3. Details are listed in the table below and management summaries under Section 2 starting on page 5.

**SCHEDULE 1: 2009/2010 – Audits Completed**

| Report                     | Opinion     | Recommendations |           |          |           | Ref below |
|----------------------------|-------------|-----------------|-----------|----------|-----------|-----------|
|                            |             | High            | Med       | Low      | Total     |           |
| Data Quality               | Unqualified | 0               | 4         | 0        | 4         | 2(1)      |
| Children With Disabilities | Qualified   | 1               | 4         | 0        | 5         | 2(2)      |
| Integrated Youth Services  | Qualified   | 4               | 3         | 1        | 8         | 2(3)      |
| Housing Benefit            | Unqualified | 0               | 0         | 1        | 1         | 2(4)      |
| Climate Change             | Unqualified | 0               | 1         | 0        | 1         | 2(5)      |
| CM2000                     | Qualified   | 3               | 1         | 0        | 4         | 2(6)      |
| Creditors                  | Unqualified | 0               | 0         | 0        | 0         | 2(7)      |
| Pensions                   | Unqualified | 0               | 1         | 0        | 1         | 2(8)      |
| Payroll                    | Unqualified | 0               | 2         | 0        | 2         | 2(9)      |
| <b>Total</b>               |             | <b>8</b>        | <b>16</b> | <b>2</b> | <b>26</b> |           |

In quarter three audit testing was also undertaken on transactions processed through the Nucleus debtors system before the change over to the new Oracle system. The findings will be considered as part of the scope of the audit of the new system planned for March 2010.

**Section 2 Management Summaries**

|                     |                      |
|---------------------|----------------------|
| <b>Data Quality</b> | <b>Schedule 2(1)</b> |
|---------------------|----------------------|

**2.1 Background**

2.1.1 The Council has a Data Quality Strategy and Policy in place communicating the corporate expectations with regards data quality and providing guidance to officers with regards how this should be achieved.

2.1.2 A Performance Management Group (PMG) exists and is attended by representatives of all directorates although at the time of the audit taking place had not met in recent months. Although responsibility is identified as management in all policies and procedures, PMG also have a key role to play in ensuring data quality levels are fit for purpose and maintained.

2.1.3 How the organisation ensures its data meets the 6 principals set out by the audit commission were central to this audit:

- Accuracy;
- Completeness;
- Reliability;
- Timeliness;
- Relevance; and
- Validity.

2.1.4 Agreement was reached at PMG that the audit would focus on the Culture and Community directorate to supplement a Data Quality Review by the Directorate Policy and Performance Team that was ongoing in this area at the time of the audit. This review aimed to assess the quality of data supporting performance data reported within the directorate and make recommendations for areas requiring improvement where necessary. The following services were selected for testing during the audit in order to compliment the work carried out by the Culture and Community Performance Team:

- Communications;
- Culture and Leisure; and
- Housing and Public Protection.

**2.1.5 Summary of Audit Findings**

2.1.6 Outdated and inconsistent information was found within the Data Quality Strategy and Policy

- 2.1.7 Some objectives in the Culture and Community Performance Management Framework are not measured with SMART performance measures.
- 2.1.8 Targets were found to be low in some cases and / or not challenging the service enough and were not all reviewed on a regular basis.
- 2.1.9 Although the findings of this work and the recommendations are aimed at specific individuals it is suggested that all of the officers involved with Performance Management Group consider the need for action in their own areas and report the outcome of this audit and any resulting local issues to Senior Management
- 2.1.10 **Audit Opinion**
- 2.1.11 As a result of this audit we have raised four medium priority recommendations.
- 2.1.12 The recommendations relate to:
- Updating the current Data Quality Strategy and Policy.
  - Ensuring SMART performance measures are in place.
  - Updating targets to challenge services performance.
  - Considering the outcome of this audit, and it's relevance, in other directorates.
- 2.1.13 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.

|                                   |                      |
|-----------------------------------|----------------------|
| <b>Children With Disabilities</b> | <b>Schedule 2(2)</b> |
|-----------------------------------|----------------------|

**2.2 Background**

2.2.1 The Children with Disabilities Team specialises in providing services to children and young people up to the age of 18, with a permanent and / or substantial disability or terminal illness.

2.2.2 Various services are available from the team including support, advice and guidance, respite care and short breaks as well as access and information to other available support networks such as Crossroads and Family Link.

2.2.3 In May 2007, the Department of Health launched the “Aiming High for Disabled Children” (AHDC) programme. The programme aims to provide disabled children and their families with better support through:

- Access and empowerment;
- Responsive services and timely support; and
- Improving quality and capacity.

2.2.4 At the time of the audit the Children with Disabilities team were supporting approximately 240 service users.

**2.2.5 Summary of Audit Findings**

2.2.6 The legislation under which the team supports disabled children is not clearly set out within the management information retained. Eligibility criteria is vague and open to interpretation.

2.2.7 Guidance has not been established to assist staff in assessing the most appropriate level of support.

2.2.8 The Council has adopted a policy that service users in this area are not subjected to means testing.

2.2.9 Division of the financial responsibilities for the various budgets has lead to confusion over authorisation of expenditure, cross budget spending and responsibility for budget monitoring.

2.2.10 At the time of the audit the team were forecasting an overspend of approximately £80k, during the audit management confirmed that there is a plan to resolve this within current service budget constraints.

- 2.2.11 The overall complexities of the service structure and the lack of a robust management information system has led to a lack of sufficient information being available on which to base decisions.



2.2.12 **Audit Opinion**

2.2.13 As a result of this audit we have raised four medium and one high priority recommendations.

2.2.14 Recommendations related to the need for:

- Clarity regarding legislative and policy requirements that determines the type and level of support the authority provides to children with disabilities (High);
- Tighter thresholds (Medium);
- Independent quality checks (Medium);
- Clarity over financial processes and responsibilities (Medium); and
- Availability of management information, including key information relating to children and payments made (Medium).

2.2.15 A **qualified** audit opinion has been given as weaknesses have been identified in the system of control, which could prevent the achievement of the team's objectives.

|                                  |                      |
|----------------------------------|----------------------|
| <b>Integrated Youth Services</b> | <b>Schedule 2(3)</b> |
|----------------------------------|----------------------|

**2.3 Background**

2.3.1 Integrated Youth Services provide a range of services, in the Borough, across three localities each of which is headed by a Locality Manager.

2.3.2 An integrated service implies one governance and management structure for the whole service to enable effective jointed up strategy, planning and liaison.

2.3.3 The current budget for Integrated Youth Services is £4,675,430 which is made up of core monies and grants. There is also a £5 million capital project currently in progress to build a new youth centre with the support of the Young People's Project Board.

2.3.4 The service has recently undergone a restructure.

**2.3.5 Summary of Audit Findings**

2.3.6 The induction guidance and Procedures Handbook are out of date and as a result are not issued to new employees.

2.3.7 43% of a sample of 30 staff did not have a Criminal Records Bureau check. This was not in line with managements expectations.

2.3.8 Supervision meetings are not carried out regularly and consistently across the service.

2.3.9 There is a lack of cost centre transparency and budget responsibility.

2.3.10 The 'user funds' involve large sums of money but expenditure procedures are not always consistent and funds are not always audited each year.

2.3.11 Services are provided by voluntary sector partnerships for which data is not captured and therefore goes unreported.

2.3.12 Youth workers do not always appropriately decipher between attendees and participants which results in an under-reporting of the extent of service provision.

2.3.13 Administrators are unsure of which projects they are responsible for inputting under the restructure which is causing them to delay inputting.

2.3.14 Youth workers sometimes store data in their own personal cabinets potentially rendering the information inaccessible to others.

2.3.15 **Audit Opinion**

2.3.16 As a result of this audit we have raised four high, three medium and one low priority recommendations.

2.3.17 Recommendations relate to the need for:

- An updated Procedures Handbook and Induction Guide(High);
- A revision of how expectations regarding CRB checks are to be fulfilled (High);
- A consistent approach to supervisions across the service (Medium);
- A restructuring of budgets to allow for greater transparency and devolved accountability (High);
- Training to facilitate the budget devolution (High);
- Revision of the procedures pertaining to 'user funds' (Medium);
- Capturing of sufficient, accurate and timely data (Medium); and
- Storage of data in an accessible way (Low).

2.3.18 A **qualified** audit opinion has been given as weaknesses have been identified in the system of control, which could result in key risks materialising.

|                         |                      |
|-------------------------|----------------------|
| <b>Housing Benefits</b> | <b>Schedule 2(4)</b> |
|-------------------------|----------------------|

**2.4 Background**

2.4.1 Housing Benefit is governed by the guidelines issued from the Department of Work and Pensions (DWP) and subject to review from the DWP's own appointed inspectorate.

2.4.2 Havering's Housing Benefit Service, aims to help residents of the Borough on low incomes by providing means tested funding to assist residents in paying their rent.

**2.4.3 Summary of Audit Findings**

2.4.4 It was noted that the quantity of accuracy checking varies from month to month and across teams which could lead to errors or overpayment going undetected and claimants not being properly assessed.

**2.4.5 Audit Opinion**

2.4.6 As a result of this audit we have raised one low priority recommendation which relates to the need to devise a minimum criteria of random accuracy checking to be carried out on the employee's work.

2.4.7 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.

|                       |                      |
|-----------------------|----------------------|
| <b>Climate Change</b> | <b>Schedule 2(5)</b> |
|-----------------------|----------------------|

**2.5 Background**

2.5.1 The Climate change Action Plan has been developed to take proactive steps in reducing the council's impact on the environment. Havering's Climate Change Action Plan sets out how the council will address the challenge of climate change over the next three to five years.

2.5.2 The plan is estimated to cost £1.46 Million of which the majority will be met through external grants and by existing budgets. With this initial cost, a potential saving of 10% to 15% could be made.

2.5.3 The over arching target for the Council is:

- To reduce Havering Council's CO2 emissions by 7%
- To contribute to reducing Havering Borough's carbon emissions through engagement of the community and partners

2.5.4 The Service has completed two projects. The first project being the introduction of new photo-cells into Havering's street lights, adjusting the times of illumination and the power output levels depending on the prevailing ambient light conditions. The second project involved the replacement of an old boiler in the west wing of the Town Hall that was thought to be no better than 70% efficient. The service has also been influential to have much of the Council's vehicle fleet switch to bio-diesel fuels.

**2.5.5 Summary of Audit Findings**

2.5.6 The Service submits a business case for each new project to the Climate Change Working Group (CCWG). CCWG has delegated authority from the Council's Cabinet to manage the use of the capital and revenue budgets provided to reduce the Council's CO2 emissions. This is to be done on an 'invest to save' basis, but Cabinet has permitted greater discretion for longer / increased payback periods.

- 2.5.7 The financial saving identified as being forthcoming is ring-fenced into a separate cost centre.
- 2.5.8 The Environmental Strategy Service provides input into Corporate Asset Management and Schools Liaison Groups but projects are normally placed into effect using only the minimum building regulation standards. It is felt that a more formal protocol should be explored to permit the Environmental Strategy Service to provide greater input and emphasis on the need to consider CO2 reductions and sustainability in asset management and construction projects.
- 2.5.9 **Audit Opinion**
- 2.5.10 As a result of this audit one low priority recommendations has been raised.
- 2.5.11 The recommendation relates to :
- Service to explore the establishment of a formal protocol for input by the Environmental Strategy Team into the Asset Management and construction standards / projects.
- 2.5.12 An **unqualified** audit opinion has been given as the audit found that the system of control is generally in place and action is already in-hand to address outstanding service risks.

|               |                      |
|---------------|----------------------|
| <b>CM2000</b> | <b>Schedule 2(6)</b> |
|---------------|----------------------|

**2.6 Background**

CM2000 is an interface allowing the various computer systems involved in the assessment, procurement and payment of 'Care in the Community' services to act in a joined up way, offering benefits to the Council, the care provider and the client.

2.6.1 Audit were asked to conducted a review at the point when CM2000 went live, approximately one year ago, and this is the first full review following implementation.

2.6.2 Following the Council's assessment of a client, a recommended provision of care is made, agreed and entered onto SWIFT. Upon receiving confirmation from the nominated care provider that they have the capacity to deliver the care required, it is commissioned through CM2000. CM2000 records the agreed level of care provision and automates the monitoring of delivery, payment and recharge.

2.6.3 The individual care worker logs their attendance, at a clients premises, on arrival using a free phone telephone number and personal identification number. Later they log out in a similar way. Log-ins / outs, or Auras, are scored with the timings and reported as performance data.

2.6.4 Care provider will submit invoices weekly. Provided the invoice matches the logged information and is within the agreed care package provision, the provider is paid via BACS.

**2.6.5 Summary of Audit Findings**

2.6.6 CM2000 now manages the provision of commissioned homecare, currently from 13 providers. Access to the system is user restricted and password protected, however CM2000 is administered externally under a service level agreement. At the time of the audit, due to changes in key personnel, no service level agreement documentation could be provided by management. Therefore the

obligations placed upon the Council within this document or what safeguards were offered by the external administrator to protect sensitive and vital Council data could not be readily determined. During the audit a copy of the service level agreement terms was obtained.

- 2.6.7 A segregation of functions is maintained between homecare teams using the system, with each effectively checking the others inputs / updates of data.
- 2.6.8 Payments to care providers are an automated process. The uploads into Oracle are checked by the Financial Systems team.
- 2.6.9 Although not a budgeting tool, CM2000 does provide performance and cost information for management consideration.
- 2.6.10 The system permits good comparison performance data to be collected on each care provider and to track the delivery of individual client's care packages.
- 2.6.11 Within the CM2000 system, care is only commissioned from 13 providers, however 17 differing payment records exist within Service Finance. This could result in a loss of management confidence in the data resulting in delayed or ineffective decision making.
- 2.6.12 During discussions with the project manager it was highlighted that no consideration has yet been given to the business continuity arrangements against a failure in CM2000 or what obligations the Council can expect of the system's administrators should a disaster happen.
- 2.6.13 **Audit Opinion**
- 2.6.14 As a result of this audit we have raised three high and one medium level recommendations
- 2.6.15 The recommendations raised relate to:
- The information security adequacy of the CM2000 service agreement terms (High);
  - Compliance with the Council's service level obligations (High);
  - Reconciliation of CM2000 Homecare and Service Finance provider identities and records (Medium); and
  - Dovetailing internal measures with that of the CM2000 business continuity plan (High).
- 2.6.16 A **qualified** audit opinion has been given as weaknesses have been identified in the systems of control or compliance, which could



result in key risks materialising including failure to detect error or fraud.

|                  |                      |
|------------------|----------------------|
| <b>Creditors</b> | <b>Schedule 2(7)</b> |
|------------------|----------------------|

**2.7 Background**

2.7.1 Creditor's payments through the Council's bank account for 2008/09 were almost £400 million.

2.7.2 During the period 1<sup>st</sup> April 2009 to 31<sup>st</sup> October 2009 over 53,000 invoices were paid with a net total of over £235 million.

**2.7.3 Summary of Audit Findings**

2.7.4 Two suppliers in the sample did not have valid VAT numbers at the time of the audit but both suppliers were notified in order that this may be resolved and copies of the invoices were provided to the payments team to follow up.

**2.7.5 Audit Opinion**

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

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

|                 |                      |
|-----------------|----------------------|
| <b>Pensions</b> | <b>Schedule 2(8)</b> |
|-----------------|----------------------|

**2.8 Background**

2.8.1 The London Borough of Havering (LBH) has a partnership arrangement with the London Borough of Redbridge in order to reduce costs and share knowledge and data

**2.8.2 Summary of Audit Findings**

2.8.3 Communication and control of data flow between the Human Resources (HR), Payroll and Pension teams was again identified as an issue in this audit, however, the proposed implementation of an E-HR system will help to address this in future.

2.8.4 Reports used to carry out checks and reconciliation on the Pension Fund to FIS are currently all received from the same source, however steps are being taken to amend this process. Furthermore, the information sent by the Pensions Team to finance is not generated by the AXISE system but is a manual record which increases the risk of human error in the data.

2.8.5 Further audit testing on the secondary checks carried out by pension's staff on final salary calculations, showed the need to manually check the data received from Payroll.

**2.8.6 Audit Opinion**

2.8.7 As a result of this audit we have raised one medium priority recommendation.

2.8.8 The recommendation relates to the need for:

- A review of the level of errors on Pensions Remuneration Forms.

- 2.8.9 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.

|                |                      |
|----------------|----------------------|
| <b>Payroll</b> | <b>Schedule 2(9)</b> |
|----------------|----------------------|

**2.9 Background**

- 2.9.1 Havering Council's total payments for Salaries and Wages for 2008/09 amounted to £194,175,475

**2.9.2 Summary of Audit Findings**

- 2.9.3 Previous audit work has noted an ongoing issue with the checking of Pension Remuneration forms and as a result the accuracy of final salary calculations. This has been identified as a training issue by the Payroll Manager and highlighted in the Pensions audit report. Although in the past subsequent controls later in the process has meant that errors have been detected and risks have not materialised, the actions agreed with management seek to ensure controls to detect errors become more efficient going forward.

- 2.9.4 Sample testing of overtime indicated some abnormally high payments and this was a trend over a period of time in some cases. Although it is not the responsibility of Payroll to challenge this and all claims are signed by a manager, a report had in the past been provided to Human Resources to allow them to review and take action as required. At the time of the audit, due to changes in personnel, this process had ceased however evidence was provided that the Payroll Manager had identified this prior to the audit and was preparing to reinstate this control.

**2.9.5 Audit Opinion**

- 2.9.6 As a result of this audit we have raised two medium recommendations.

- 2.9.7 Recommendations related to the need for:

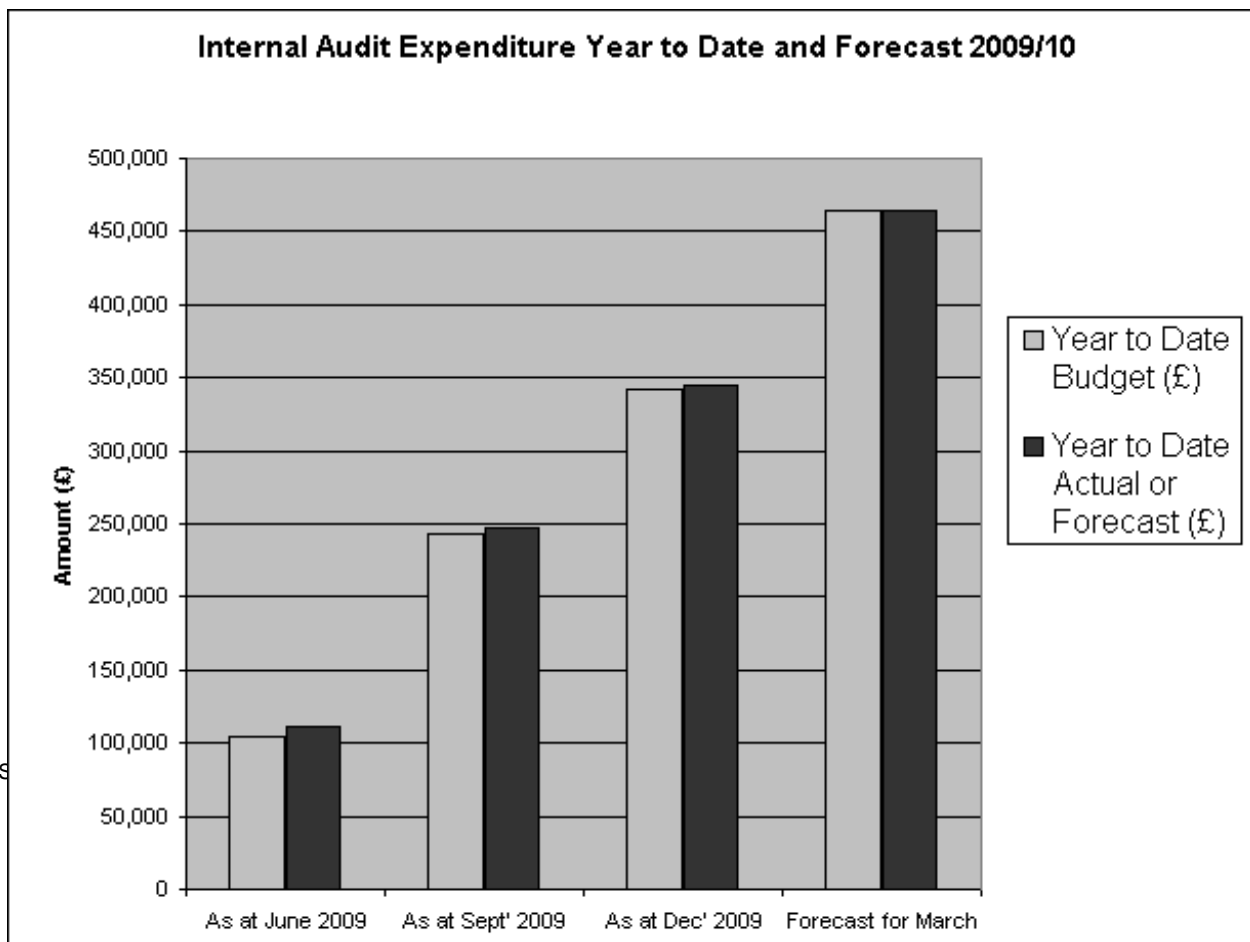
- A review of the level of errors on Pensions Remuneration Forms.
- Training for payroll staff to help reduce the errors on Pensions Remuneration Forms.

2.9.8 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.

**Section 3 Budget & Resource Information**

Internal Audit (F620) 2009/10 Year to Date Expenditure and Forecast as at Dec' 2009

|                                     | <b>As at June 2009</b> | <b>As at Sept' 2009</b> | <b>As at Dec' 2009</b> | <b>Forecast for March 2010</b> |
|-------------------------------------|------------------------|-------------------------|------------------------|--------------------------------|
| Year to Date Budget (£)             | 104,901                | 243,294                 | 341,416                | 463,850                        |
| Year to Date Actual or Forecast (£) | 110,971                | 247,534                 | 344,212                | 463,850                        |
| Variance (£)                        | <b>6,070</b>           | <b>4,240</b>            | <b>2,796</b>           | <b>0</b>                       |



Quarter 1 variance due to incorrect budget profiling which has since been resolved.

Quarter 2 overspend due to full fraud campaign budget spent in first two quarters and IDEA training.

Quarter 3 overspend due to increased spend on fraud campaign - expected to even out by year end.

**Section 4 – Key Performance Indicators**

The tables below detail the profiled targets for the year and the performance to date at the end of September.

| <b>Audit Plan Delivered (%)</b> |           |            |            |             |            |            |            |            |            |            |
|---------------------------------|-----------|------------|------------|-------------|------------|------------|------------|------------|------------|------------|
|                                 | <b>Q1</b> | <b>Jul</b> | <b>Aug</b> | <b>Sept</b> | <b>Oct</b> | <b>Nov</b> | <b>Dec</b> | <b>Jan</b> | <b>Feb</b> | <b>Mar</b> |
| Actual                          | 15        | 23         | 30         | 38          | 46         | 53         | 61         |            |            |            |
| Cumulative Target               | 15        | 23         | 31         | 40          | 50         | 60         | 69         | 78         | 88         | 98         |

At the end of December the team is marginally behind target with 61% of the audit plan having been delivered.

| <b>KPI 01 - Brief issued</b> |           |            |            |             |            |            |            |            |            |            |
|------------------------------|-----------|------------|------------|-------------|------------|------------|------------|------------|------------|------------|
|                              | <b>Q1</b> | <b>Jul</b> | <b>Aug</b> | <b>Sept</b> | <b>Oct</b> | <b>Nov</b> | <b>Dec</b> | <b>Jan</b> | <b>Feb</b> | <b>Mar</b> |
| Actual                       | 20        | 24         | 34         | 43          | 50         | 53         | 57         |            |            |            |
| Cumulative Target            | 19        | 24         | 29         | 36          | 43         | 50         | 56         | 62         | 65         | 65         |

At the end of December the target of 56 briefs has been exceeded.

| <b>KPI 02 – Draft Reports</b> |           |            |            |             |            |            |            |            |            |            |            |
|-------------------------------|-----------|------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|
|                               | <b>Q1</b> | <b>Jul</b> | <b>Aug</b> | <b>Sept</b> | <b>Oct</b> | <b>Nov</b> | <b>Dec</b> | <b>Jan</b> | <b>Feb</b> | <b>Mar</b> | <b>Apr</b> |
| Actual                        | 5         | 9          | 17         | 20          | 21         | 24         | 37         |            |            |            |            |
| Cumulative Target             | 8         | 13         | 18         | 23          | 29         | 35         | 40         | 47         | 55         | 63         | 65         |

The issue of draft reports was behind target by three at the end of December however a number of audits are nearing completion.

| <b>KPI 03 – Final Reports</b> |           |            |            |             |            |            |            |            |            |            |            |
|-------------------------------|-----------|------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|
|                               | <b>Q1</b> | <b>Jul</b> | <b>Aug</b> | <b>Sept</b> | <b>Oct</b> | <b>Nov</b> | <b>Dec</b> | <b>Jan</b> | <b>Feb</b> | <b>Mar</b> | <b>Apr</b> |
| Actual                        | 2         | 1          | 10         | 14          | 18         | 21         | 30         |            |            |            |            |
| Cumulative Target             | 5         | 11         | 17         | 23          | 29         | 35         | 38         | 45         | 52         | 59         | 63         |

Performance against targets for final reports is lagging due to delays in issuing drafts in earlier months and responses not being received from management by required deadline. The team is chasing responses and will escalate via audit representatives in directorates if required.

**Section 5 – Outstanding Audit Recommendations Tables**

Categorisation of recommendations

*High: Fundamental control requirement needing implementation as soon as possible.*

*Medium: Important control that should be implemented.*

*Low: Action pertaining to best practice.*

**Outstanding Internal Audit Recommendations – 2006/07**

| Review in 2006/07                              | HoS Responsible   | Outstanding |          |          | Position as at end Dec 09 |             |                  |
|--|-------------------|-------------|----------|----------|---------------------------|-------------|------------------|
|  |                   | High        | Medium   | Low      | In Progress               | Not Started | Position Unknown |
| Providing Services for the Physically Disabled | Adult Social Care | 1           | 1        |          | 2                         |             |                  |
| Liquidated and Ascertained Damages             | Streetcare        |             | 1        |          | 1                         |             |                  |
|  |                   |             |          |          |                           |             |                  |
|  | <b>Total</b>      | <b>1</b>    | <b>2</b> | <b>1</b> | <b>3</b>                  | <b>0</b>    | <b>0</b>         |

Liquidated and Ascertained Damages has a revised deadline of July 2010. Providing Services for the Physically Disabled now has a revised deadline of June 2010 for both recommendations.

**Outstanding Internal Audit Recommendations – 2007/08**

| Review in 2007/08   | HoS Responsible                | Outstanding |          |          | Position as at end December 09 |             |                  |
|---------------------|--------------------------------|-------------|----------|----------|--------------------------------|-------------|------------------|
|                     |                                | High        | Medium   | Low      | In Progress                    | Not Started | Position Unknown |
| Street Lighting     | Street Care                    |             | 1        |          | 1                              |             |                  |
| Asbestos Management | Asset Management               |             | 1        |          | 1                              |             |                  |
| Cash and Bank       | Asset Management               | 1           |          |          | 1                              |             |                  |
| Civil Contingencies | Development & Building Control |             | 1        |          | 1                              |             |                  |
| Pensions            | Exchequer Services             |             |          | 1        | 1                              |             |                  |
| <b>Total</b>        |                                | <b>1</b>    | <b>3</b> | <b>1</b> | <b>5</b>                       | <b>0</b>    | <b>0</b>         |

The Street Lighting has a revised date of July 2010; Civil Contingencies has a revised date of March 2010. No revised deadline has been provided for the one remaining high priority audit recommendations relating to cash and bank not implemented by the agreed date.

The pension's recommendation requires information to be provided from another organisation and this has been requested but not received. As this related to SLM the issue has been highlighted to the Head of Service responsible for contract monitoring.



**Outstanding Internal Audit Recommendations – 2008/09**

| Review in 2008/09                   | HoS Responsible                                   | Outstanding |        |     | Position as at end December 09 |             |                  |
|-------------------------------------|---|-------------|--------|-----|--------------------------------|-------------|------------------|
|                                     |   | High        | Medium | Low | In Progress                    | Not Started | Position Unknown |
| E Payments                          | Business Systems                                  |             | 4      | 1   | 5                              |             |                  |
| Asylum Seekers Unaccompanied Minors | Children's & Young People                         |             | 1      |     | 1                              |             |                  |
| Commissioning of Works              | Asset Management                                  | 3           |        |     | 1                              | 2           |                  |
| Partnerships                        | AD Transformation Customer & Community Engagement | 2           | 1      |     |                                | 3           |                  |
| IT Security & Data Management       | Business Systems                                  | 2           | 3      |     | 3                              | 2           |                  |
| Procurement & Leasing of Vehicles   | Asset Management                                  |             | 1      |     | 1                              |             |                  |
| Business Continuity                 | Development & Building Control                    |             | 5      |     | 5                              |             |                  |
| Burials & Protection of Property    | Adult Social Care                                 |             | 2      |     | 2                              |             |                  |
| Pensions                            | Exchequer Services                                |             | 2      |     | 1                              | 1           |                  |
| Licensing                           | Housing & Public Protection                       | 1           |        |     | 1                              |             |                  |
| Council Tax                         | Exchequer Services                                |             | 3      |     | 2                              | 1           |                  |
| Telecommunications                  | Business Systems                                  | 1           | 3      |     | 4                              |             |                  |
| Internet                            | Business Systems                                  |             | 2      | 1   | 3                              |             |                  |
| Homelessness, Hostels & Housing Aid | Housing & Public Protection                       |             | 2      |     | 2                              |             |                  |
| Trading Standards                   | Housing & Public Protection                       | 1           | 1      |     | 2                              |             |                  |

|                          |                             |           |           |          |           |          |          |
|--------------------------|-----------------------------|-----------|-----------|----------|-----------|----------|----------|
| Mobile Support           | Housing & Public Protection |           | 4         |          | 4         |          |          |
| Cemeteries & Crematorium | Housing & Public Protection | 1         | 2         |          | 3         |          |          |
| Meals on Wheels          | Adult Social Care           | 1         | 2         |          | 3         |          |          |
| <b>Total</b>             |                             | <b>12</b> | <b>38</b> | <b>2</b> | <b>43</b> | <b>9</b> | <b>0</b> |



**AUDIT  
COMMITTEE**

**2 March 2010**

**Subject Heading:**

**FRAUD PROGRESS REPORT**

**Report Author and contact details:**

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

**Policy context:**

To update the Committee on the actions taken against fraud and corruption.

**Financial summary:**

N/A

**SUMMARY**

To advise the Committee of anti fraud and corruption work undertaken by the internal audit team during the period 01 July to 31 December 2009.

**RECOMMENDATIONS**

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required, either with regards the cases highlighted or the performance of the team.

**REPORT DETAIL**

The progress report contains two sections; the content of each section is outlined below:

**Section 1. Fraud Work July to December**

- A) Table of 'Fraud Hotline' reports.
- B) Table of completed cases.
- C) Work in progress as at end of December.
- D) Details of savings and losses for the period.

**Section 2. Key Performance Indicator**

The results for the fraud specific key performance indicator are presented in this section of the report. Other key Performance indicators are reported quarterly as part of the Internal Audit Progress report.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

Fraud and corruption will often lead to financial loss to the authority. By maintaining robust anti fraud and corruption arrangements and a clear strategy in this area, the risk of such losses will be reduced. Arrangements must be sufficient to ensure that controls are implemented, based on risk, to prevent, deter and detect fraud. The work of the fraud team often identifies losses which may be recouped by the Council. 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 outcome of fraud work 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.

**Fraud Work 1 July to 31 December 2009**

**A) Fraud Hotline Reports Received**

| <b>CALLER</b>        | <b>CALL CONTENT</b>  | <b>DETAILS / RESULT OF INVESTIGATION</b>  |
|----------------------|--|---|
| Anonymous            | Neighbour is making a false claim for Single Person Discount.  | Benefit Fraud investigating.  |
| Member of staff      | Inappropriate/inconsistent dealing with licensing applications.  | Management investigating current and previous applications.   |
| Anonymous            | Allegation that a cleaner remained on a school's payroll after he left and favouritism was being shown to one contractor to the detriment of others. | Case closed.<br>Guidance issued to school and a general reminder to all schools.  |
| Member of the public | Neighbour is making a false claim for Single Person Discount.  | Council Tax investigating.  |
| Anonymous            | The caller alleged that a couple were claiming Housing Benefit & Council Tax benefits but were in receipt of a large inheritance.                    | Review of Council Tax & Housing Benefit shows benefits ceased in April 09 following completion of estate. Adjustments made following notification. No case to answer. |

**B) Completed Cases**

16 cases were completed and closed during the period 1 July – 31 December 2009

| <b>Job Code</b> | <b>Audit Name</b>   | <b>Directorate</b>     | <b>Type of Audit</b>            | <b>Result of Audit</b>                    |
|-----------------|---|------------------------|---------------------------------|---|
| T80aab          | Review of Citrix Logs   | Culture & Community    | PC – Misuse and abuse           | Insufficient evidence                     |
| T80aaz          | Assist Metropolitan Police - Review of pc contents. Libraries | Culture & Community    | Agency investigation            | Evidence produced for prosecution         |
| T8paag          | Review of Internet use during working day                     | Culture & Community    | PC – Misuse and abuse           | Insufficient evidence                     |
| T8paaj          | Review of Facebook content                                    | Culture & Community    | Misuse of Council time          | Management investigation                  |
| T80aav          | Alleged inappropriate use of desktop                          | Finance & Commerce     | PC – Misuse and abuse           | Insufficient evidence                     |
| T8oox           | Review of contents of misplaced laptop                        | Finance & Commerce     | Breach of Council procedures    | Management investigation                  |
| T8paab          | Loss of PCN cash payment                                      | Finance & Commerce     | Theft of monies                 | Insufficient evidence                     |
| T8paae          | Review of GroupWise account                                   | Finance & Commerce     | PC – Misuse and abuse           | Disciplinary                              |
| T8paap          | Private business invoices being paid by Council               | Finance & Commerce     | Breach of Council procedures    | Council contractor - No case to answer    |
| T8naak          | Review of direct payments to care provider by Service User    | Social Care & Learning | Agency investigations           | Repayment of overpayments to Service User |
| T80aay          | Review of U:Drive   | Social Care & Learning | PC – Misuse and abuse           | Insufficient evidence                     |
| T8paaa          | Employee working whilst on sick leave                         | Social Care & Learning | National Fraud Initiative (NFI) | Dismissed                                 |
| T8paad          | Ghost employee and payment to contractor                      | Social Care & Learning | Miscellaneous                   | Allegations resolved                      |
| T8paae          | Alleged misuse and abuse of Internet during working day       | Social Care & Learning | PC – Misuse and abuse           | Insufficient evidence                     |
| T8paan          | Review of   | Social Care            | Miscellaneous                   | Management to                             |

|        |   |                        |                       |   |
|--------|---|------------------------|-----------------------|---|
|        | GroupWise accounts of former employees    | & Learning             |                       | investigate evidence gathered during forensic examination |
| T8paa0 | Review of Internet use during working day | Social Care & Learning | PC – Misuse and abuse | Insufficient evidence                                     |



**C) Work In Progress as at 31 December 2009**

At the end of December there were 12 cases in progress.  
The table below indicates the case by name.

| <b>Code</b> | <b>Audit Name</b>   |
|-------------|---|
| PA0045      | Payments to Foster Carers   |
| PA0046      | Arrears – Collection  |
| T8maaz      | Misuse of purchasing card and breach of financial procedures  |
| T8oaaan     | Review of empty property grant applications   |
| T8oaaau     | Alleged misuse of Internet, GroupWise, running of business during the working day and payment of private invoices through Council payments system |
| T8paac      | Review of Amenity Fund Accounts   |
| T8paai      | Audit of residential home following safeguarding issues   |
| T8paak      | Timesheet fraud – Over claiming, leaving operatives unsupervised  |
| T8paam      | Running of car sales business during working day  |
| T8paag      | Alleged misuse of Internet and telephones during working day  |
| T8paar      | Allegations of miss-management  |
| T8paas      | Alleged misuse of Experian reports for personal information   |

There are also an additional ten assignments which are ongoing throughout the financial year. These tasks include:

- Housing Tenancy Fraud project;
- Fraud Awareness Training - E-learning Fraud and Corruption Awareness training;
- Fraud Awareness Campaign – Poster campaign;
- Requests from other authorities and government agencies;
- Approval of proxy access requests;
- Whistle Blower Reports;
- Fraud Hotline Reports;
- Advice to Directorates;
- National Fraud Initiative 08/09; and
- Bluecoat internet forensic examination software.

**D) SAVINGS & LOSSES**

When a fraud is committed there may be two elements to the financial consequences. The table below details the losses identified in the period 1 June to 31 December 2009 and the case details.

Definitions of terms in table:

**Losses** - These are the sums of money that the audit determined have been lost or stolen.

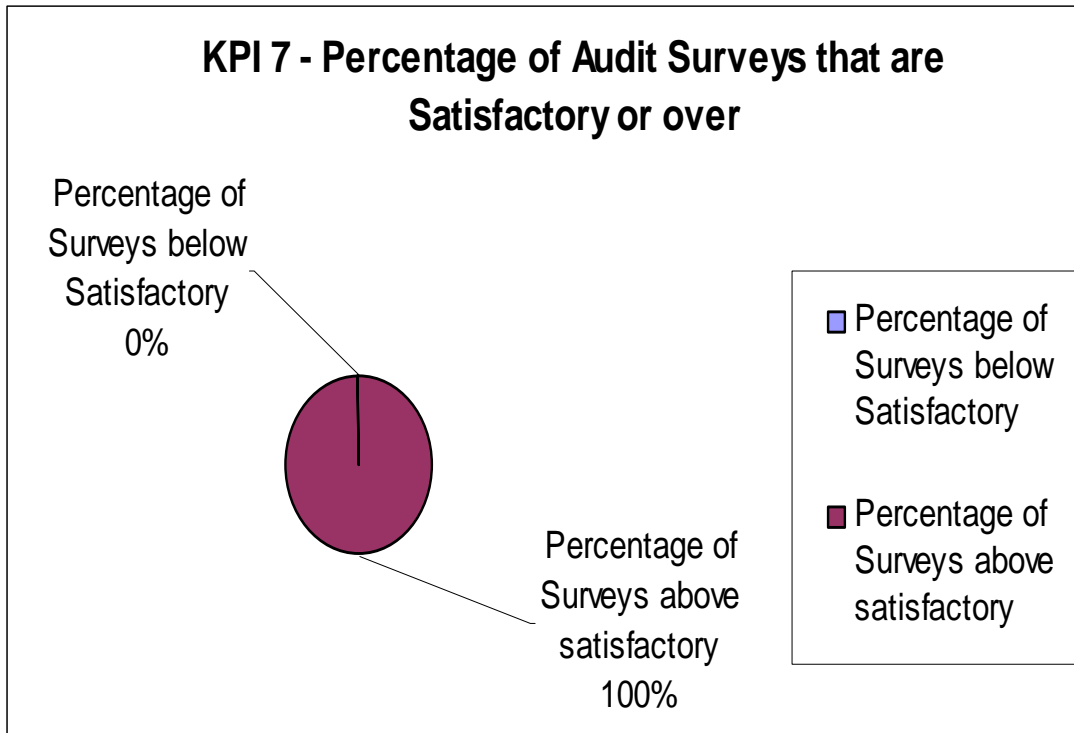
**Savings** - refer to the amounts of money that the detection of the fraud has prevented being lost. A prime example of this would be the discount on a right to buy. If we prevent the sale then we prevent the discount being given and thereby we save the Council money.

**Management to recover** - These are the actual sums of money which management can take action to recover from those "lost".

| <b>Case details</b>                                     | <b>Savings identified</b> | <b>Losses Identified</b> | <b>Management to recover</b> | <b>Details</b>  |
|---|---------------------------|--------------------------|------------------------------|---|
| Review of Direct Payments to Provider for care services | 2,905                     |                          | 2,905                        | Following a detailed examination of financial records the Provider agreed to repay to the service user charges that had been paid for services that had not been received. Although it was agreed fraud had not been committed the records maintained by the Provider were inadequate to justify the charges. |
| NFI Payroll to Payroll match                            | 1,124                     |                          | 1,124                        | As a result of an NFI match between Payroll and Payroll records in another organisation, a member of staff was dismissed because she had admitted working for another organisation whilst on sick leave with the Council.   |



**Section 2. Key Performance Indicator**



All feedback for the period was above average / satisfactory.



# AUDIT COMMITTEE

# REPORT

2 March 2010

**Subject Heading:**

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

**Report Author and contact details:**

Vanessa Bateman  
Internal Audit & Corporate Risk Manager  
Tel: 01708 - 433733.  
E-mail : [vanessa.batemen@havering.gov.uk](mailto:vanessa.batemen@havering.gov.uk)

**Policy context:**

To propose the 2010/11 Internal Audit  
Strategy and Plan

**Financial summary:**

N/A

**SUMMARY**

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

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

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

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

**RECOMMENDATIONS**

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

**REPORT DETAIL**

**1. Internal Audit Strategy 2010/11**

- 1.1 Appendix A contains the proposed Audit Strategy for 2010/11. It has been drafted following reference to examples from other Councils as well as reference to best practice guidance provided by Cipfa.
- 1.2 The Strategy sets out how Internal Audit intends to meet its objectives for the coming year.

**2. Audit Plan 2010/11**

- 2.1 The audit plan has been derived by reviewing and updating the Strategic Audit Plan and the list of key systems / areas of risk (audit universe). Both the Corporate and Service Risk Registers have been considered along with the draft service plans produced for each service area, where available. Audit issues identified during 2009/10 have also been fed into the process and the plan identifies resources to provide assurance to management on the issues identified in the draft 2010/11 Annual Governance Statement. Meetings have taken place with Heads of Service to discuss potential audit areas and any specific issues or concerns.

- 2.2 The plan has been circulated to Senior Management for comment. Any issues arising from this consultation will be reflected in the final version of the plan, and any of a material nature will be advised to the Committee.
- 2.3 As an audit plan is not a static document and is always evolving as risk plans are amended, service provision changes and previous audits change the categorisation of the risk assessment of a service. This means that the audit plan will change in year. There is the added complication, in setting the plan for the coming year, of elections at both a national and local level. There is a likelihood of both new legislation and changing financial circumstances, which may require revision to and reprioritisation of the plan.
- 2.4 By delegating the responsibility for everyday operational decisions to the Internal Audit & Corporate Risk Manager this will facilitate efficient work processes during the year. Any changes to the plan will be reported back to the Committee as part of the regular progress reports.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

The costs of both directly employed and outsourced services to carry out the agreed plan will be met from within the 2010/11 budget for the Audit Service. The 1540 days of resource available are sufficient to review all the high risk areas identified in the planning process as well as allowing the team to undertake a small percentage of probity type audits.

If any reduction in available resources occurs, then temporary staff will need to be used for an interim period, the costs of which would need to be contained within the audit budget.

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

| Risk   | Mitigation factors  |
|--|---|
| That the plan will not address the key risk areas within the council | The plan has been prepared taking into account the council's risk registers. The auditable areas have been identified and subjected to a risk evaluation to determine if and when they should be reviewed.<br>The plan has been formulated and assessed by the Internal Audit & Corporate Risk Manager using prescribed methodologies, including discussion with Heads of Service.<br>The plan has been circulated to Senior Management for |

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



|  |  |
|--|--|
| Not addressing risks in areas where there control deficiencies and weaknesses have been identified | The audit planning process will review the Annual Governance Statement and ensure that reviews of identified weaknesses are included within the plan. Also that recommendations to address critical control weaknesses are reviewed in the following financial year to ensure that they have been fully implemented by agreed dates. |
|--|--|

**Legal implications and risks:**

None arising directly from this report

**Human Resources implications and risks:**

None arising directly from this report

**Equalities implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

None

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# AUDIT STRATEGY

Version: February 2010

## **1. Internal Audit Strategy**

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

## **2. Strategy Statement**

- 2.1 The overall Strategy of Internal Audit is:

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

## **3. Definition**

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

***“An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.”***

## **4. Objectives of Internal Audit**

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

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

## **5. Status of Internal Audit**

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

## **6. Audit Resources and the Annual Plan**

- 6.1 The Internal Audit & Corporate Risk Manager is responsible for delivering the audit service in accordance with its Terms of Reference. To ensure that this can be achieved, there are appropriate arrangements for:
- Determining and planning the work to be carried out (i.e. an audit plan based on an assessment of the risk).
  - Providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes).
- 6.2 Due to the specialist skills required to carry out computer audits and the fact that the resources required would not equate to a full time member of staff this service is currently procured from the private sector, this method of service provision will be reviewed during 2010/11 against other potential shared service opportunities. All other resources required to deliver the 2010/11 audit plan are currently in place within the Audit Team.
- 6.3 The Internal Audit service will be delivered on the basis of a Strategic Audit Plan covering a 3-year period, consistent with the current longer term financial planning regime, and a detailed Plan for 2010/11. The plan sets out the number of person-days required for Internal Audit to adequately review the areas involved.
- 6.4 Where resources available are not considered, by the Internal Audit & Corporate Risk Manager, to be adequate for the Head of Internal Audit opinion to be provided, this will be reported to the Audit Committee.
- 6.5 The annual risk assessment process takes account of a range of strategic, corporate, service and operational risks (including those

identified through the Risk Management process and by the external auditor) and the views of senior management on these issues.

6.6 The 2010/11 Plan balances the following requirements:

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

6.7 In order to ensure the Internal Audit Service continues to meet the needs of the organisation the skills and experience available are annually reviewed and there are a number of initiatives working with other Boroughs to identify how collaboration can benefit the service, this work will continue in 2010/11. In addition the Council's PDPA process identifies training needs for staff.

## **7. Relationships**

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

## **8. Quality**

- 8.1 Internal Audit will comply with the CIPFA *Code of Practice for Internal Audit in Local Government in the UK*, and auditors are expected to comply with any other relevant professional standards.

- 8.2 The Internal Audit & Corporate Risk Manager will ensure that there is an Audit Manual in place setting out expected standards for the service, and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments. Relevant training will be provided to ensure auditors have the level of skills necessary to undertake their roles.
- 8.3 Where necessary to ensure an adequate, effective and professional audit service is provided, the Internal Audit & Corporate Risk Manager will buy in resources from external providers to supplement internal resources.

**9. Performance Management**

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

**10. Strategy Review**

- 10.1 This strategy will be reviewed annually and presented for approval by the Audit Committee.
- 10.2 The next review will be completed in February 2011.

**11. Key Contacts**

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

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| <b>Service Area - CORPORATE</b> | <b>Audit Area</b>  | <b>Goal</b> | <b>Budget</b> | <b>Head of Service</b>     | <b>Group Director</b>                       |
|---------------------------------|--|-------------|---------------|----------------------------|---|
| ALL except SC&L                 | Complaints   | Individuals | 20            | ALL except SC&L            | Culture & Community                         |
| ALL                             | Partnership / Joint Working                                      | Value       | 20            | ALL                        | Culture & Community                         |
| ALL                             | Data Quality / Performance Management                            | Value       | 20            | ALL                        | Culture & Community                         |
| ALL                             | On-going capacity to Deliver / Outcomes of Transformation Agenda | Value       | 20            | ALL                        | Finance & Commerce                          |
| ALL                             | Information Governance   | Individuals | 20            | ALL                        | Finance & Commerce & ACE Legal & Democratic |
| ALL                             | Climate Change   | Environment | 15            | ALL                        | Finance & Commerce                          |
| ALL                             | Budgetary Control  | Value       | 15            | Head of Financial Services | Finance & Commerce                          |
|                                 |  |             | <b>130</b>    |                            |   |

| <b>Service Area - CULTURE &amp; COMMUNITY</b> | <b>Audit Area</b>                            | <b>Goal</b> | <b>Budget</b> | <b>Head of Service</b>              | <b>Group Director</b> |
|---|--|-------------|---------------|-------------------------------------|-----------------------|
| Culture & Community Engage                    | Registrars                                   | Value       | 10            | AD Culture and Community Engagement | Culture & Community   |
| Regeneration & Strategic Plan                 | Markets                                      | Value       | 15            | Regeneration & Strategic Planning   | Culture & Community   |
| Culture & Leisure                             | Culture & Leisure TBC                        | Environment | 15            | Culture & Leisure                   | Culture & Community   |
| Streetcare                                    | Tree Management                              | Environment | 15            | Street care                         | Culture & Community   |
| Street care                                   | New Roads & Street Works (Income Collection) | Value       | 15            | Street care                         | Culture & Community   |
| Street care                                   | Jacobs Contract                              | Value       | 15            | Street care                         | Culture & Community   |
| Housing & Public Protection                   | Crematorium income collection and management | Value       | 15            | Housing & Public Protection         | Culture & Community   |
| Housing & Public Protection                   | Housing Grants Strategy                      | Individuals | 15            | Housing & Public Protection         | Culture & Community   |
| Housing & Public Protection                   | Temporary Accommodation                      | Value       | 15            | Housing & Public Protection         | Culture & Community   |
|   |  |             | <b>130</b>    |                                     |                       |

| <b>Service Area - SOCIAL CARE &amp; LEARNING</b> | <b>Audit Area</b>                             | <b>Goal</b> | <b>Budget</b> | <b>Head of Service</b>      | <b>Group Director</b>  |
|--|---|-------------|---------------|-----------------------------|------------------------|
| Children's                                       | Child Protection                              | Individuals | 50            | Children's                  | Social Care & Learning |
| Children's                                       | Contact Point                                 | Individuals | 25            | Children's                  | Social Care & Learning |
| Children's                                       | Children in Need Team                         | Individuals | 20            | Children's                  | Social Care & Learning |
| Children's                                       | Performance Data and Management               | Individuals | 20            | Children's                  | Social Care & Learning |
| Children's                                       | Children's Centres - probity programme        | Individuals | 30            | Children's                  | Social Care & Learning |
| Children's                                       | Transitions Team                              | Individuals | 15            | Children's                  | Social Care & Learning |
| Learning & Achievement                           | Education HR                                  | Individuals | 10            | Learning & Achievement      | Social Care & Learning |
| Building Schools for Future                      | Building Schools for Future                   | Individuals | 40            | Building Schools for Future | Social Care & Learning |
| Adult's  | Self Directed Support                         | Individuals | 50            | Adults                      | Social Care & Learning |
| Adult's  | Learning and Physical Disability Day Services | Individuals | 20            | Adults                      | Social Care & Learning |
| Adult's  | Performance Data and Management               | Individuals | 20            | Adults                      | Social Care & Learning |
|  |   |             | <b>300</b>    |                             |                        |

| <b>Service Area - FINANCE &amp; COMMERCE</b> | <b>Audit Area</b>           | <b>Goal</b> | <b>Budget</b> | <b>Head of Service</b>            | <b>Group Director</b>  |
|--|-----------------------------|-------------|---------------|-----------------------------------|------------------------|
| Business Efficiency (BS)                     | Oracle Debtors              | Value       | 10            | Business Systems/Exchequer        | AD Business Efficiency |
| Business Efficiency (BS)                     | Planning & Building Control | Value       | 10            | Business Systems/Planning         | AD Business Efficiency |
| Business Efficiency (BS)                     | Tranman Fleet Management    | Value       | 10            | Business Systems/Asset Management | AD Business Efficiency |
| Business Efficiency (BS)                     | IT Security                 | Individuals | 10            | Business Systems                  | AD Business Efficiency |
| Business Efficiency (BS)                     | IT Service Desk             | Value       | 10            | Business Systems                  | AD Business Efficiency |
| Business Efficiency (BS)                     | Change Management           | Value       | 15            | Business Systems                  | AD Business Efficiency |

**Audit Committee 2 March 2010**

**Item 11  
Appendix 'B'**

|                             |  |               |    |                             |                        |
|-----------------------------|--|---------------|----|-----------------------------|------------------------|
| Business Efficiency (BS)    | Disaster Recovery  | Value         | 15 | Business Systems            | AD Business Efficiency |
| Business Efficiency (BS)    | Outcome of Transformation agenda inc cross Borough working | Value         | 20 | Business Systems/Efficiency | AD Business Efficiency |
| Planning & Building Control | Planning & Building Control                                | Environmental | 15 | Planning & Building Control | Finance & Commerce     |
| Planning & Building Control | Section 106 agreements                                     | Value         | 15 | Planning & Building Control | Finance & Commerce     |
| Asset Management            | Jacobs Contract  | Value         | 15 | Asset Management            | Finance & Commerce     |
| Asset Management            | Facilities Management                                      | Value         | 15 | Asset Management            | Finance & Commerce     |
| Asset Management            | Corporate Support Team                                     | Value         | 10 | Asset Management            | Finance & Commerce     |
| Asset Management            | Centralised Property Management                            | Value         | 15 | Asset Management            | Finance & Commerce     |
| Finance & Performance       | Main Accounting  | Value         | 10 | Financial Services          | Finance & Commerce     |
| Finance & Performance       | Creditors  | Value         | 15 | Financial Services          | Finance & Commerce     |
| Finance & Performance       | Fixed Assets   | Value         | 10 | Financial Services          | Finance & Commerce     |
| Exchequer                   | Housing Benefits   | Value         | 15 | Exchequer Services          | Finance & Commerce     |
| Exchequer                   | Council Tax  | Value         | 10 | Exchequer Services          | Finance & Commerce     |
| Exchequer                   | Debtors  | Value         | 15 | Exchequer Services          | Finance & Commerce     |
| Exchequer                   | Payroll  | Value         | 10 | Exchequer Services          | Finance & Commerce     |
| Exchequer                   | Pensions   | Value         | 10 | Exchequer Services          | Finance & Commerce     |

**280**

|     |   |       |     |                    |                    |
|-----|---|-------|-----|--------------------|--------------------|
| All | Reactive Fraud & Special Investigations | Value | 325 | Financial Services | Finance & Commerce |
| All | Pro-active Fraud                        | Value | 190 | Financial Services | Finance & Commerce |

**515**

|  |                          |       |    |  |  |
|--|--------------------------|-------|----|--|--|
|  | Governance               | All   | 25 |  |  |
|  | Risk Management          | All   | 50 |  |  |
|  | Advice to Directorates   | All   | 25 |  |  |
|  | Sign off of Grant Claims | Value | 25 |  |  |
|  | Contingency              | n/a   | 10 |  |  |
|  | Follow Ups               | n/a   | 50 |  |  |

**185**

**1540**

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

**900**

TOTAL - 9 posts 260 days per year & Computer Audit

**2440**



|   | <i>Days</i> | <i>Expected<br/>Utilisation</i> | <i>Total</i> |       |     |
|---|-------------|---------------------------------|--------------|-------|-----|
| Internal Audit & Corporate Risk Manager | 260         | 0.55                            | 143          |       |     |
| Principal Auditor Fraud                 | 260         | 0.6                             | 156          |       |     |
| Principal Auditor Systems               | 260         | 0.6                             | 156          | Fraud | 507 |
| Senior Auditor (Fraud)                  | 260         | 0.65                            | 169          |       |     |
| Senior Auditor (Systems)                | 260         | 0.65                            | 169          |       |     |
| Auditor (Fraud)                         | 260         | 0.7                             | 182          |       |     |
| Auditor (Systems)                       | 260         | 0.7                             | 182          |       |     |
| Audit Technician                        | 260         | 0.55                            | 143          |       |     |
| Cipfa Grad                              | 260         | 0.55                            | 143          |       |     |
| Computer Audit                          | 100         | 1                               | 100          |       |     |
|   | <u>2180</u> | <u>62 %</u>                     | <u>1348</u>  |       |     |