



# Havering

LONDON BOROUGH

## AUDIT COMMITTEE AGENDA

<b>7.30pm</b>	<b>Tuesday, 21 April 2009</b>	<b>Havering Town Hall Main Road, Romford</b>
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Members 8: Quorum 3

### **COUNCILLORS:**

#### **Conservative Group (5)**

David Grantham (C)  
Frederick Thompson (V.C)  
Gary Adams  
Michael Armstrong  
Roger Ramsey

#### **Residents' Group (2)**

Clarence Barrett  
Andrew Mann

#### **Rainham Residents Group (1)**

Mark Stewart

**For information about the meeting please contact:  
James Goodwin (01708) 432432  
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# 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 3 March 2009 and to authorise the Chairman to sign them.

### **5. 2007/08 GRANTS REPORT – report attached**

### **6. 2007/2008 AUDIT REPORT OF GRANT CLAIMS AND RETURNS – to follow**

### **7. INTERNAL AUDIT CHARTER & TERMS OF REFERENCE – report attached**

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

### **10. ANNUAL REVIEW OF WHISTLE BLOWING ARRANGEMENTS – report attached**

### **11. ANNUAL REPORT OF MONEY LAUNDERING ARRANGEMENTS**

### **12. ANNUAL REPORT OF THE AUDIT COMMITTEE**

**13. 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.

**14. EXCLUSION OF THE PUBLIC**

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

**Cheryl Coppel**  
Chief Executive

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
Havering Town Hall, Romford  
3 March 2009 (7.30pm – 9.20pm)**

**Present:**

**COUNCILLORS**

**Conservative Group** David Grantham (in the Chair), Michael Armstrong, Roger Ramsey, and Frederick Thompson.

**Residents' Group** Clarence Barrett

Apologies for absence were received from Councillors Andy Mann 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.

The Chairman welcomed representatives of Price Waterhouse Coopers.

There were no declarations of interest

**26. MINUTES**

The minutes of the meeting held on 9 December 2008, were agreed as a correct record, subject to minor typographical changes, and subsequently signed by the Chairman.

**27. EXTERNAL AUDIT PROGRESS REPORT**

Price Waterhouse Coopers, the Council's external auditors, had visited the Council in February to document the Council's systems. Nothing of any undue concern had been discovered. They would be visiting the Council again in April to test key controls. From April/May to September there would be carrying out the use of resources assessment.

The Committee noted the report.

## **28. INTERNAL AUDIT PROGRESS REPORT**

The Internal Audit & Corporate Risk Manager reported that 65% of the Internal Audit work programme had been completed at the end of Quarter 3, which was 1% behind the profiled target. A list of the audits completed to final report stage was submitted which highlighted the audit opinion and the number of recommendations raised. Only two of the ten reports were qualified, these related to Commissioning of Works and Asylum Seekers.

Two of the 2007/08 reports were followed up in this period, these related to Use of Consultants and Asbestos Management. The Use of Consultants follow up had been closed but Asbestos Management would be revisited in quarter 1, 2009/10 as some of the recommendations had still not been fully implemented.

With regard to Key Performance Indicators, the performance at the end of December showed briefs issued to be above target, drafts on target and final reports slightly behind the expected total. This was due to the introduction of new staff to posts late in quarter 2 and the corresponding change in the methodology applied by the team when undertaking their audits. This meant that delays were experienced in the issuing of drafts as new officers and processes bedded in. Despite this the team still managed to deliver the drafts within the target of 50 days from the issue of the brief.

Concern was expressed by officers that they might not be able to maintain this level of performance as one member of the team has been on long term sick leave since January.

Feedback on work was positive. Responses to requests for feedback on systems audit was not as high as for fraud assignments but this would be a priority for the team's new audit technician to chase and monitor responses.

Officers had no concerns regarding recommendations rejected by management with 95% being accepted.

The team was anticipating an under spend of £8,580 at year end, despite the use of agency staff to ensure delivery of the plan.

Approximately 25 outstanding audit recommendations were being tracked.

In considering the report the Committee asked that in future details of the recommendations are given. Officers were asked for further information concerning Asylum Seekers. The Head of Children & Young People's Services agreed to provide details of the budget for providing services to asylum seekers to Members.

The Committee also asked questions about credit management. Officers explained that this was a difficult area with the need to pay within 30 days or incur financial penalties and the need to ensure adequate documentation. The payment team were encouraged to use their judgement and if there were perennial areas of concern either the Group Director Finance and Commerce or the Head of Service, Finance and Performance would speak to the appropriate Head of Service. Officers advised

that all Small and Medium Enterprises were automatically flagged to ensure there was no undue delay in payment.

With regard to the Commissioning of Works, officers explained that the money to be paid to the successful contractor for the Architectural and Surveying (Property) contract was not commission based. The Civil Engineering contract was being sent to the solicitors next week. The service was currently operating under a Performance by Agreement arrangement.

The Committee noted the report and expressed satisfaction with the answers given by officers.

## **29. FRAUD PROGRESS REPORT**

The Internal Audit & Corporate Risk Manager provided details of the seven Fraud Hotline reports which had been received. Twenty eight cases were completed and closed during the period 1 July to 31 December 2008. Five proactive audits had been concluded in the same period. These were being more consistently completed since the introduction of the third member of the team. At the end of December 2008 eleven cases were in progress. There were also nine additional assignments which were on-going throughout the year. Details of the savings and losses identified during the period 1 July to 31 December 2008 were given.

The report identified the fact that the review of arrangements in place over fraud and special investigations was unlikely to be completed by the end of the financial year due to the absence of the Principal Systems Auditor.

In response to a question from the Chairman officers advised that management had been instructed to take action around the issue of RSA tokens. With regard to sickness and flexi, annual leave, overtime and TOIL the committee asked whether it would be possible to introduce automated systems to replace the current manual systems. The Group Director, Finance and Commerce advised that a business case is being prepared for the introduction of an electronic Human Resources system.

The Committee noted the report and expressed satisfaction with the answers given by officers.

## **30. INTERNAL AUDIT STRATEGY & 2009/10 AUDIT PLAN**

The Internal Audit & Corporate Risk Manager advised the Committee that the Strategy had been reviewed taking in to account CIPFA guidance, the developing role of the Internal Audit Team, the changing environment and good practice examples from other local authorities. The strategy includes a strategy statement, objectives of the team, information regarding the team's status in the organisation, the resources available and how they will be applied. Relationships and steps to ensure quality and performance management were also defined.

The plan had been derived by considering:

- The Service and Corporate Risk Registers;
- Service Plans for 2009/10;
- Discussions at meetings with Senior Managers;
- Issues identified in 2008/09 audits.

Consultation had occurred with management and external audit.

All high risk areas had been included with a small provision for probity type assignments as this is often where management seek independent assurance.

The plan was a moving document and had to be flexible. A contingency had been identified and would be allocated as required.

An audit on Treasury Management was now included in the 09/10 plan following the completion and receipt of the PWC report.

Resources available in the team were sufficient to complete the plan. The long term sick leave of the Principal Auditor would be covered by Agency staff while the sickness procedure was followed and the likelihood of a return to the post determined.

Utilisation rates were based on 2008/09 management information as the team log all activity in a time coding system.

Non Chargeable activity included Annual and other leave, training, sickness, attendance at Corporate Groups and recommendation tracking etc.

As Risk Management and Governance continue to be significant tasks for the team these along with follow ups and flowcharting had been identified as chargeable and a budget identified.

The Committee expressed concern that staff sickness could affect the ability of the Team to meet all its targets. Officers advised that if a problem occurred the issue would be raised with management and the Committee as necessary. The Group Director, Finance and Commerce advised the Committee that there was no provision to carry forward any budget under spend.

The Committee

1. approved the strategy as submitted;
2. reviewed and approved the draft plan; and
3. noted that any required changes to the Audit Plan during the financial year, as considered necessary by the Internal Audit & Corporate Risk Manager, would be reported for discussion within the progress report to the next meeting of the Audit Committee.



**31. EXCLUSION OF THE PUBLIC**

**The Committee decided on the motion that the public should be excluded from the meeting during discussion of the matter referred to in the minute next following on the ground that it was likely that, in view of the nature of the business to be transacted, if members of the public were present there would be disclosure to them of exempt information within the meaning of paragraph 7 of Schedule 12A to the Local Government Act 1972 which is commercially confidential and it was not in the public interest to publish the information.**

**32. TREASURY MANAGEMENT ISSUES**

A representative of Sector - the Council's Treasury Management Investment Adviser attended the meeting to make a presentation on what changes had been introduced to allow the Council to respond more quickly in the changed financial markets. Details of the presentation were exempt from public disclosure due to the sensitive commercial information disclosed.



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MEETING	DATE	ITEM
AUDIT COMMITTEE	21 April 2009	<b>5</b>

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## **REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: GRANTS REPORT 2007/08**

### **SUMMARY**

This report covers the audit of grant claims for the financial year 2007/08.

### **RECOMMENDATION**

To consider the contents of the report.

### **REPORT DETAIL**

The report includes information on the background and audit approach.

The report also provides a table of performance and comparative information from the previous year is included.

Appendix 1 contains a summary of certified claims.

Appendix 2 includes an action plan. Please see Internal Grants report (item 6) for management's responses to the action plan.

**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 recommendations 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 Resource implications and risks:**

None arising directly from this report

**Equalities and social inclusion implications:**

None arising directly from this report.

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Head of Finance & Performance

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**CHERYL COPPELL**  
Chief Executive

**Background Papers**

None

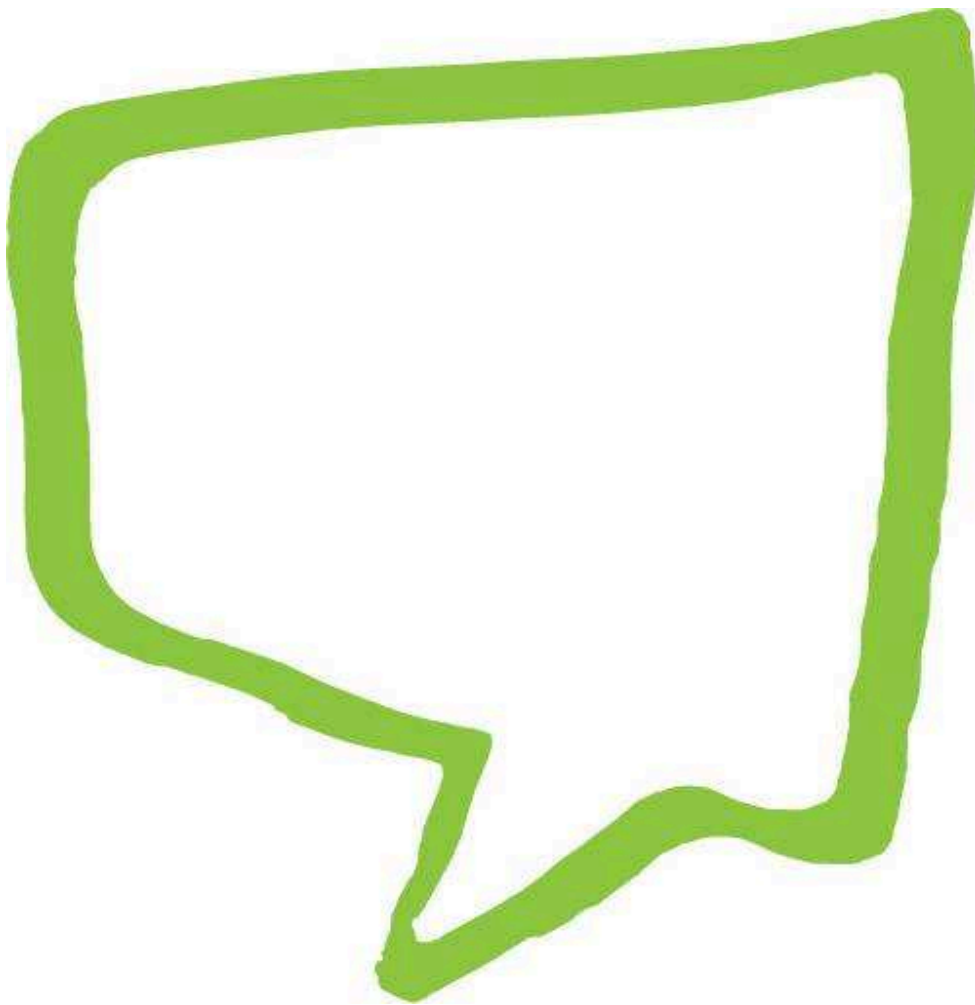
# Grants Report

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London Borough of Havering

Audit 2007/08

April 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Summary report

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## Introduction

- 1 Section 28 of the Audit Commission Act 1998 requires us to certify claims and returns in respect of grants or subsidies paid by the government departments and public bodies to the London Borough of Havering ('the Council'). A fee is charged to cover the full cost of certifying claims and is dependant on the level of work required to certify each claim or return.
- 2 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments. In relation to 2007/08, the proportion of the Council's claims and returns certified by us amounted to approximately £75 million of government grant income (£92 million in 2006/07) and approximately £81 million of completed returns to various government departments (£76 million in 2006/07).

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## Background

- 3 This report covers the audit of grant claims for the financial year 2007/08. The Audit Commission is continuing its commitment to reduce the burden of the grant audit work. The de minimis and threshold limits for grant certification work, are set out below with emphasis given to high value claims.
- 4 The key features of the current arrangements are as follows.
  - For claims and returns below the de minimis of £100,000, the Commission will not make certification arrangements.
  - For claims and returns between the de minimis and the threshold of £500,000, auditors will undertake limited tests to agree form entries to underlying records, but will not undertake any testing of eligibility of expenditure.
  - For claims and returns over the threshold (>£500,000), auditors will assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, auditors will undertake limited tests to agree form entries to underlying records but will not undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, auditors will undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required.
  - For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

- 5 For the 2007/08 audit year, eight claims and returns were submitted for certification (12 in 2006/07).

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### Audit Approach

- 6 We have certified claims and returns using the Certification Instructions (CIs) which set out the required audit approach to each claim or return and are issued to appointed auditors by the Audit Commission. Once they become available, these CIs are shared with the Council ahead of the certification deadline.
- 7 In addition we carried out a risk assessment for each claim or return above the Audit Commission threshold (currently £500,000) to determine the level of testing required. Relevant CI tests were then applied to each claim and return based on the result of this assessment and in line with the new modernised approach.
- 8 Where we found that a claim or return deviated from the CI requirements, the Council was given the opportunity to resolve the issues identified. Where this could not be achieved either by obtaining further information or agreeing amendments to the figures in the claim with officers, qualification letters setting out the facts to the grant paying body were issued.

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### Main conclusions

- 9 All grants and returns were submitted for audit by the Council in line with deadlines set by the department or as agreed with the auditors.
- 10 A summary of amendment and qualification issues arising is set out in the table below.

## Summary report

**Table 1 Summary of performance by service area**

Criteria Service	Total no. of claims	Claims submitted late for audit	Amended claims	Qualified claims	Claims not certified by deadline
<b>2007/08</b>					
Finance and commercial	3	0 (0%)	1 (33%)	2 (67%)	2 (67%)
Children Services	1	0 (0%)	1 (100%)	0 (0%)	0 (0%)
Sustainable Communities	4	0 (0%)	2 (50%)	1 (25%)	1(25%)
<b>Total for each criteria</b>	<b>8</b>	<b>0 (0%)</b>	<b>4 (50%)</b>	<b>3 (38%)</b>	<b>3(38%)</b>
<b>2006/07</b>					
Finance and commercial	3	0 (0%)	1 (33%)	2 (67%)	0 (0%)
Children services	2	0 (0%)	1 (50%)	1(50%)	1 (50%)
Sustainable communities	7	0 (0%)	3 (43%)	1 (14%)	0 (0%)
<b>Total for each criteria</b>	<b>12</b>	<b>0 (0%)</b>	<b>5(42%)</b>	<b>4 (33%)</b>	<b>1 (8%)</b>

- 11 The statistics in the table above showing the performance of each service area are summarised below.
- 12 As with the previous year, all eight claims (12 in 2006/07) were submitted for audit within the required timeframe.
- 13 Four of the 2007/08 claims required amendment, compared with five in 2006/07. However, the percentage of claims amended increased from 42 per cent in 2006/07 to 50 per cent in 2007/08. As shown in Appendix 1, all four of the claims amended in 2007/08 were also amended in 2006/07.
- 14 The number of claims qualified decreased from four in 2006/07 to three in 2007/08. Two of the three claims that were qualified in 2007/08 were also qualified in 2006/07.
- 15 All eight claims submitted for audit have been certified. Three of the claims were certified late due to delays on the audit side. All three claims were certified within one week of their respective deadlines.



- 16 The quality of the working papers provided to support the information in the claim forms submitted was largely good.
- 17 Further detail in relation to audit amendments and qualification issues for each audited claim is provided in the Action plan in Appendix 2.

# Appendix 1 – Summary of 2007/08 certified claims

Service	Description of claim	CI Reference	Amended	Qualified	Amended previous year	Qualified previous year
Finance and Commercial	Housing and Council Tax Benefits	BEN01	Yes	Yes	Yes	Yes
Finance and Commercial	National non-domestic rates return	LA01	No	Yes	No	Yes
Finance and Commercial	Teacher's pensions	PEN05	No	No	No	No
Children's Services	General Sure Start Grant	EYC02	Yes	No	Yes	Yes
Sustainable Communities	Disabled Facilities	HOU21	No	Yes	No	No
Sustainable Communities	Housing subsidies and grants	HOU01	Yes	No	Yes	No
Sustainable Communities	HRA subsidy 2009-10 (Base DATA)	HOU02	Yes	No	Yes	Yes
Sustainable Communities	Pooling of Housing Capital Receipts	CFB06	No	No	Yes	No

# Appendix 2 – Action plan

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Finance and commercial</b>					
<b>Housing and Council Tax benefit - BEN01</b>					
<i>Audit testing identified several cases where overpayments had been incorrectly classified.</i>					
<b>R1</b> Ensure procedures are in place to correctly classify overpayments as either local authority error, eligible excess benefit or technical excess benefit.	3				
<i>Audit testing of modified scheme payments found that in some instances the rates used in the benefit calculation were incorrect.</i>					
<b>R2</b> Ensure that the War Disablement Pension rates used in the calculation of benefit for modified scheme payments are up to date and correct.	2				

## Appendix 2 - Action plan

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Finance and commercial</b>					
<b>National Non Domestic rates Return - LA01</b>					
<i>As with previous years, our review identified that valuation officer directions received between 31 January 2008 and 31 March 2008 were not taken into consideration when compiling the claim.</i>	2				
<b>R3</b> Where practical, process all Valuation Officer directives received prior to 31 March and ensure that they are included in the claim relating to that financial period.					
<b>Sustainable communities</b>					
<b>Disabled Facilities - HOU21</b>					
The Authority incorrectly included 2006/07 expenditure against the 2007/08 allocation in the claim form. This did not comply with the certification instruction.	2				
<b>R4</b> Classify expenditure in the correct period for inclusion in the claim form.					

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Sustainable communities</b>					
<b>Housing subsidy and grants - HOU01</b>					
The calculation of cell F001RC in the original claim form did not take proper account of shared ownership HRA dwellings and dwellings owned for part of the financial year.	2				
<b>R5</b> Take into account the required dwellings when calculating figures for cells relating to Rental Constraint Allowance.					
An incorrect figure was used for cell F002RC in the original claim form. Authorities are required to take the figure from a specific line in the Determination.	2				
<b>R6</b> Use the correct figure for cell F002RC as provided in the Determination.					
<b>HRA subsidy 2009/10 (Base DATA) - HOU02</b>					
Although it was not qualified, several amendments were required in relation to the inclusion and classification of dwellings before the claim could be certified.	2				
<b>R7</b> Ensure that the relevant guidance is followed in relation to the classification of dwellings and their inclusion within specific cells in the claim form.					

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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**MEETING**

**DATE**

**ITEM**

**AUDIT COMMITTEE**

**21 APRIL 2009**

**7**

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## **REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: INTERNAL AUDIT CHARTER & TERMS OF REFERENCE**

### **SUMMARY**

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

The review of the Internal Audit Charter and Terms of Reference was delayed slightly to follow the review of the Audit Strategy, which occurred as part of the 2009/10 Audit Planning Process and was presented to Audit Committee in March.

### **RECOMMENDATION**

- 1 To comment on the contents of the Charter and Terms of Reference for Internal Audit and changes made (Appendix A).
- 2 To approve the revised document (Appendix B) based on any agreed changes resulting from this meeting.

### **REPORT DETAIL**

1. **Internal Audit Charter and Terms of Reference**
  - 1.1 The aim of the Audit Service is to provide an assurance function; this is set out in the Internal Audit Charter and Terms of Reference.
  - 1.2 Cipfa's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 has been used as a source of guidance in preparing this updated document. Example documents from other authorities have also been reviewed to benchmark contents.
  - 1.3 Only minor changes were required and the document has been track changed to demonstrate changes required and final version has also been provided for approval.

### **Financial Implications and risks**

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks which may prevent financial losses.

**Legal Implications and risks**

None arising directly from this report

**Human Resource Implications and risks**

None arising directly from this report

**Equality and Social Inclusion implications**

None arising directly from this report

**Staff Contact:** Vanessa Bateman - Internal Audit and Corporate Risk Manager  
**Telephone:** (01708) 433733  
**E-mail:** vanessa.bateman@haverling.gov.uk

**Cheryl Coppel  
Chief Executive**





# INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

Version: March 2009

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## 1.0 Why do we have Internal Audit?

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

## 2.0 Definition

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

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

## 3.0 Internal Audit Service's Role

3.1 The Internal Audit Service is responsible for conducting an objective and independent appraisal of all the London Borough of Havering's activities, financial and otherwise.

3.2 Internal Audit is required to be a continuous service available to all levels of management but its primary responsibility is to give assurance to Members, the Chief Executive, Chief Finance Officer, Assistant Chief Executives and Group Directors on all control arrangements, including risk management and corporate governance.

3.3 Internal Audit will consider the adequacy of the control environment necessary to secure: propriety, strategic management, data quality, compliance with laws and regulations and effectiveness of operations in all areas.

3.4 The role and responsibilities of Internal Audit are specified in more detail in the enclosed Terms of Reference below.

## 4.0 Management's Role

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

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

#### 5.0 **Key Performance Indicators (KPIs)**

5.1 KPIs have been devised to measure the performance of the Internal Audit Service and are communicated via the Internal Audit Protocol and the Internal Audit Service Plan  
<https://www.havering.gov.uk/intranet/index.aspx?articleid=5656>. Current KPIs include:

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

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

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

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

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

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

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

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

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**TERMS OF REFERENCE**

**6.0 RESPONSIBILITIES of INTERNAL AUDIT**

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

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

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

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

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

6.6 To work with External Audit, in accordance with the Internal and External Audit Protocol <https://www.havering.gov.uk/intranet/index.aspx?articleid=5656>. in order to maximise the value obtained from the total audit resource and minimise the overall cost of audit to the authority.

6.7 To work in accordance with the Internal Audit Protocol <https://www.havering.gov.uk/intranet/CHttpHandler.ashx?id=14658&p=0>.

**7.0 SCOPE**

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

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

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

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

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

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Appendix A

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7.6 The Internal Audit Service may also conduct special reviews and investigations, (i.e. unplanned work) requested by Members, Chief Executive, Assistant Chief Executives and Group Directors and in particular the Group Director for Finance and Commerce (GDF&C); provided such reviews do not compromise its objectivity or independence. The impact on the audit plan must be assessed by the Internal Audit & Corporate Risk Manager (IA&CRM) and, if necessary, the plan must be reprioritised. Any significant changes must be reported back to the GDF&C and Members in the next Audit Committee reporting cycle.

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

## 9.0 OBJECTIVES of the AUDIT SERVICE

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9.3 To be forward looking, innovative and challenging.

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

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

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

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

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9.8 To maintain strong and effective relationships with management.

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

## 10.0 INDEPENDENCE

10.1 Internal Audit is organisationally independent that is; the Internal Audit Service has no operational responsibilities (with the exception of the annual returns to the Inland Revenue), nor does it have responsibility for the development, implementation or operation of systems. However, it may provide advice on implementation, control and related matters, subject to resource constraints.

10.2 Responsibility for internal control rests fully with management who must ensure that appropriate and adequate arrangements exist without reliance on Internal Audit. To preserve the objectivity and impartiality of the auditor's professional judgement, responsibility for implementing audit recommendations rests with management.

10.3 Internal Audit will be free from interference in setting objectives, scope and priorities for the Audit Plan (although they must have due regard for the Authority's strategic objectives and corporate and service risk registers and consult with Members and Officers charged with governance) and in reporting and carrying out their duties. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

10.4 Internal Audit is supported by the organisation and its independence is seen as key to providing the London Borough of Havering with an effective service.

10.5 Internal Audit has direct access to the Chief Executive, the Assistant Chief Executive, all Group Directors, Heads of Services, the Leader of the Council and the Chair of the Audit Committee and report in their own name.

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10.6 The IA&CRM should have sufficient status within the authority to facilitate the effective discussion of audit strategies, plan, results and improvement plans with senior management.

10.7 In order to maintain organisational independence, Internal Audit has its own budget and is responsible for providing the Internal Audit service within budget.

## 11.0 REPORTING LINES

11.1 The IA&CRM reports monthly to the Head of Finance & Performance and GDF&C on the progress with the audit plan and the performance against KPIs.

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- 11.2 Other service performance data i.e. achievement of service plan objectives is reported quarterly via the Head of Service Packs.
- 11.3 The IA&CRM reports quarterly to the Corporate Management Team, in the month prior to each Audit Committee.
- 11.4 A progress report is submitted to each of the five Audit Committee meetings held annually. Reports will also be submitted annually for approval regarding the Audit Strategy and Plan, Charter and Terms of Reference, Risk Management and Fraud Strategies. On an annual basis the IA&CRM will present their Annual Report and Head of Internal Audit Opinion to the Audit Committee.

## INTERNAL AUDIT'S ROLE IN FRAUD AND CONSULTANCY WORK

### 12.0 Fraud

- 12.1 As stated in the CIPFA Code, managing the risk of fraud and corruption is the responsibility of management (for example through maintaining internal controls to prevent and detect fraud). Internal audit does not have responsibility for the prevention or detection of fraud. However, fraud issues are an area where Internal Audit is well placed to offer a lead as a service to the organisation. To enable this an anti-fraud and corruption team exists, which has responsibility for:
  - Raising fraud awareness across the Council;
  - Carrying out a programme of proactive fraud identification work;
  - Dealing with the National Fraud Initiative and other external anti-fraud contacts;
  - Acting as a source of expert advice to other internal auditors and officers generally; and
  - Leading on any fraud investigations where Internal Audit are conducting the work.
- 12.2 Financial Procedure Rules require that all detected instances of fraud and corruption be reported to the GDF&C and Internal Audit so that lessons arising from the irregularity can be identified.
- 12.3 Responsibility for the investigation of fraud rests with management, but internal audit has expertise in such investigations and can assist management with this. In addition, suspicions of fraud or corruption may be reported directly to Internal Audit under the Council's Confidential Reporting (Whistle blowing) policy <https://www.havering.gov.uk/intranet/index.aspx?articleid=11676>. In these cases investigations by internal audit will usually be in conjunction with line management but exactly who is informed will depend on the nature of the allegations.
- 12.4 The pro active audits target specific areas of concern to management, where a short focused review, of controls, is sufficient to provide assurance to management. Where issues are highlighted this may result in a full

systems review being undertaken or lessons learned being circulated to management.

### 13.0 Consultancy

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

### 14.0 Strategy Review

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

The next review will be completed in March 2010.

### 15.0 Key Contacts

Head of Finance & Performance – Mike Stringer ext 2101

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# **INTERNAL AUDIT CHARTER & TERMS OF REFERENCE**

**Version: March 2009**

## 1.0 Why do we have Internal Audit?

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

## 2.0 Definition

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

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

## 3.0 Internal Audit Service's Role

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

## 4.0 Management's Role

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

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

#### 5.0 **Key Performance Indicators (KPIs)**

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

<https://www.havering.gov.uk/intranet/index.aspx?articleid=5656>. Current KPIs include:

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

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

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

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

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

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

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

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

## **TERMS OF REFERENCE**

### **6.0 RESPONSIBILITIES of INTERNAL AUDIT**

- 6.1 To provide assurance to elected members and to management that there are arrangements in place for the proper administration of the financial affairs and that generally the system of internal control is adequate and effective in the management of all risks, financial or otherwise, to the organisation.
- 6.2 To alert the Group Director Finance and Commerce (GDF&C) to any significant areas of internal control weaknesses relevant to her s151 role.
- 6.3 To report to Audit Committee regarding results of audit work.
- 6.4 To produce an Annual Report and Head of Internal Audit Opinion.
- 6.5 To deliver a risk based audit plan that ensures the resources available are used to the maximum benefit of the authority.
- 6.6 To work with External Audit, in accordance with the Internal and External Audit Protocol <https://www.havering.gov.uk/intranet/index.aspx?articleid=5656>. in order to maximise the value obtained from the total audit resource and minimise the overall cost of audit to the authority.
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MEETING	DATE	ITEM
AUDIT COMMITTEE	21 APRIL 2009	8

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## **REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: INTERNAL AUDIT INTERIM PROGRESS REPORT**

### **SUMMARY**

This report advises the Committee of the final reports issued in the last quarter of the year, to ensure timely reporting to members. The full progress report for the period will be submitted to the June meeting and will include management summaries from any reports finalised after the end of the financial year.

### **RECOMMENDATION**

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**

#### **Section 1. Final Reports**

A summary of the final reports issued, including number of recommendations and audit opinion, in quarter four prior to the audit committee reports being drafted are detailed in this section of the report.

This interim report has been issued with the agreement of the Chair of the Audit Committee to reduce the number of management summaries presented at the June meeting.

#### **Section 2. Management Summaries**

Summaries of all final reports issued in the period are included.

#### **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.

**Legal implications and risks**

None arising directly from this report

**Human Resource implications and risks**

None arising directly from this report

**Equality and Social Inclusion implications**

None arising directly from this report

**Staff Contact:** Vanessa Bateman - Internal Audit and Corporate Risk Manager  
**Telephone:** (01708) 43 3733  
**E-mail:** vanessa.bateman@havering.gov.uk

**Cheryl Coppel  
Chief Executive**

Background Papers List

None.

**Section 1 Final Reports****SCHEDULE 1: 2008/2009 Audits Completed To Final Report Stage.**

Report	Opinion	Recommendations				Ref below
		High	Med	Low	Total	
Partnerships	Qualified	2	1	0	3	2(1)
Insurance	Unqualified	0	1	0	1	2(2)
Housing Benefits	Unqualified	0	0	2	2	2(3)
Council Tax	Unqualified	0	3	1	4	2(4)
Fixed Assets	Unqualified	0	0	0	0	2(5)
Vehicle Workshops	Qualified	2	3	3	8	2(6)
<b>Total</b>		<b>4</b>	<b>8</b>	<b>6</b>	<b>18</b>	

## **Section 2 Management Summaries**

<b>Partnerships</b>	<b>Schedule 2(1)</b>
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### **2.1.1 Background**

2.1.2 The Audit Commission and other Public Sector review bodies have for many years considered partnerships to be an effective tool in the efficient delivery of services to the community.

2.1.3 Partnership working and how this is governed is fundamental for both the Comprehensive Area Assessment (CAA) and the Key Lines of Enquiry (KLOEs) outline in the Use of Resources (UoR) Assessment 2009.

2.1.4 The Partnership Toolkit was launched in November 2007 and aimed to provide a useful resource for both new and existing partnerships and to assist staff in monitoring performance throughout the partnership life-cycle. Part of the toolkit requires entry of the partnership and relevant details onto a partnership database.

### **2.1.5 Summary of Audit Findings**

2.1.6 An internal review of the Partnership Toolkit carried out in May 2008 has identified a number of issues and four recommendations were presented within the report to Corporate Management Team (CMT) as a result:

- The toolkit should be available on the internet for use by all;
- CMT to endorse a consistent approach to partnership working by implementing the toolkit as an compulsory requirement for partnerships;
- CMT to allocate responsibility for managing and auditing partnerships; and
- CMT to agree the top ten partnerships for regular performance reporting.

These recommendations are yet to be fully implemented. This audit supports the need for the actions to be taken but has not reiterated these recommendations.

2.1.7 The Havering Strategic Partnership (HSP) has clear governance and reporting structures with regards the Local Area Agreements (LAA); however with regards the partnership arrangements outside of the LAA, our discussions with officers responsible for managing partnership indicated that there is a need for improved arrangements.

2.1.8 The toolkit does not currently link the partnerships to the strategic goals of the organisation.

2.1.9 There is no central resource overseeing or managing the use of the partnership toolkit, to ensure its objectives are achieved.

2.1.10 The current database does not identify resources committed to the partnership.

2.1.11 The functionality of the toolkit is not sufficient for it to meet all of its objectives.

2.1.12 There are no mechanisms currently to provide assurance that the objectives of the Partnership consider equalities and diversities.

### 2.1.13 Audit Opinion

2.1.14 As a result of this audit we have raised two high priority recommendations and one medium priority recommendation.

2.1.15 The recommendations relate to:

- Implementation of the recommendations already identified in this area (High);
- Identification of central resources to monitor partnership working (Medium); and
- Further development of the Partnership Toolkits functionality to ensure robust governance arrangements are in place (High).

2.1.16 A **qualified** audit opinion has been given as weaknesses have been identified in the system of control, which could result in key risks materialising including the failure to detect error or fraud.

<b>Insurance</b>	<b>Schedule 2(2)</b>
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### 2.2.1 Background

2.2.2 The Insurance section for the Council comprises a team of four who arrange insurance cover and deal with claims arising in conjunction with Zurich Municipal (ZM), who are the Council's claims handling agents.

2.2.3 ZM are the Council's Insurers and they were selected in 2007 to take effect from 1<sup>st</sup> January 2008 following the normal Tender Process. It was won on a five year basis with an option to extend for up to a further five years. ZM have a wide experience of Local Government issues and are large enough to have expertise in all insurable risks, across the country.

2.2.3 The Annual Insurance Programme premium is £962,543.74, of which £81,411.00 is for claims handling. This includes the use of BLG solicitors for any legal requirements.

2.2.4 On average in any one year the Insurance team deal with the following claims:

- 265 Public Liability;
- 110 Motor incidents; and
- 20 Employers Liability.

Plus Balance of Perils claims and other claims such as fire and malicious damage.

2.2.5 The team use a database called LACHS 2000 which is held on a server maintained by Business Systems.

### 2.2.6 Summary of Audit Findings

2.2.7 There are adequate policies and procedures in relation to the Annual Insurance Programme. There is an issue in relation to the organisational compliance with these procedures. This relates to the time it takes to inform the Insurance team of

an incident in relation to motor vehicles. Management have taken steps to rectify this situation but on-going monitoring will be necessary as changes in legislation increase the risk to the organisation.

- 2.2.8 There are no documented procedures on the methodology to assess the insured amount and related excess / self insured risks. However, the audit found and tested a robust system which is then independently reviewed every two to three years.
- 2.2.9 The self insured account (imprest system) is managed by ZM. This system provides expertise in all areas of insurable risks and also acts as a check and balance on each payment made (and received).
- 2.2.10 The LACHS database automatically compares data entered to that already held on the system in order to detect any potential duplicate or fraudulent claims.
- 2.2.11 There are corporate procedures on the intranet for all aspects of Insurance for staff and managers. Complying with these procedures is causing concern in relation to motor claims, this is dealt with in paragraph 2.2.7, all other service areas appear to be complying adequately.
- 2.2.12 The LACHS system manages the work load for the Insurance staff and there is a diary system to notify staff each day the progress of each claim outstanding.
- 2.2.13 Using ZM to process part of the claims system provides checks and balances on the costs agreed and the delegated authority levels ensure that management have control over the imprest account.
- 2.2.14 There is a system of reporting Insurance issues through to senior management. The Insurance & Risk Manager carries out an annual survey of all service area management to identify any new or emerging insurable risk areas. This together with data collected in the Insurance office is reported to the Risk Management Sub Group. These meetings are chaired by the Internal Audit & Corporate Risk Manager. Specific issues are then taken to the main Risk Management Group meetings, which is chaired by the Group Director Finance and Commerce who is also the Section 151 Officer.
- 2.2.15 Information of incidents occurring around the Borough are not immediately recorded on to the LACHs system.
- 2.2.16 It is not currently possible to produce a system generated report indicating incident date to notification date, performance information must therefore be produced manually. This issue will need to be explored if delays are not rectified by the new process.
- 2.2.17 Audit Opinion**
- 2.2.18 As a result of this audit we have raised one medium priority recommendation.
- 2.2.19 The recommendation raised relates to the timely entry of incidents into the system (Medium).

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

<b>Housing Benefits</b>	<b>Schedule 2(3)</b>
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### **2.3.1 Background**

2.3.2 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.

2.3.3 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.

2.3.4 On the 7<sup>th</sup> April 2008 a new way of working out Housing Benefit for private tenants as introduced nationally in the form of Local Housing Allowance (LHA).

2.3.5 LHA is a flat rate based on the number and age of the people living in the property. Entitlement will still be evaluating taking into account an applicant's income and savings.

2.3.6 Local Authorities are divided into broad rental market areas. LHA rates are set for each area. These rates are provided to Local Authorities to ensure that landlords and customers are aware of the amount of rent the allowance will cover.

### **2.3.7 Summary of Audit Findings**

2.3.8 It was noted that the frequency of spot checks carried out by supervisors, to ensure accuracy of processing and the compliance with procedures, had reduced from levels set by management in the period leading up to the audit. No formal recommendation has been raised as management are aware of the circumstances and the system does contain secondary controls such as the DWP accuracy checks and the annual Internal Audit review provides assurance to the service area. Management are encouraged to continue to review the risk of reduced checking and take appropriate action when required.

2.3.9 Evidence is not retained to support which cases have been reviewed as part of the monthly BVPI checks.

2.3.10 There is no evidence to support that staff have been informed that they are not authorised to access the accounts of friends and relatives.

### **2.3.11 Audit Opinion**

2.3.12 As a result of this audit we have raised two low priority recommendations.

2.3.13 The recommendations raised relate to:



- The retention of evidence to support checks undertaken on cases exceeding processing targets (Low) ; and
- The need to evidence that staff have been informed of requirements in terms of accessing friends and relatives accounts (Low).

2.3.14 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>Council Tax</b>	<b>Schedule 2(4)</b>
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#### **2.4.1 Background**

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

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

#### **2.4.4 Summary of Audit Findings**

2.4.5 An up to date procedures manual is not in place.

2.4.6 Spot checks on staff work have not been carried out consistently since April 2008.

2.4.7 There is no evidence to support that staff have been informed that they are not authorised to access the accounts of friends and relatives.

2.4.8 The management information relating to debt / recovery levels being provided to the Debt Management Board may not be accurate reflection due to the need to investigate all accounts individually to determine the current position of the account.

#### **2.4.9 Audit Opinion**

2.4.10 As a result of this audit we have raised three medium priority recommendations and one of low priority.

2.4.11 Recommendations raised related to:

- The need for an up to date, accessible procedures manual to be developed and issued to all relevant individuals (Medium);
- The need for supervisory spot checks to be resumed (Medium);
- A lack of evidence to support that staff have been informed of requirements in terms of access friends and relatives accounts (Low); and
- The need for the reporting of more detailed information in relation to debt and recovery (Medium).

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

<b>Fixed Assets</b>	<b>Schedule 2(5)</b>
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### 2.5.1 Background

2.5.2 A change to the Statement of Recommended Practice (SORP) introduced from 1<sup>st</sup> April 2007 required all assets to be recorded at both historical and current cost with the variance being the revaluation. This resulted in the fixed asset register becoming far more complex, and although the first year was completed on the spreadsheet, the build up of the revaluation reserve resulted in a need for a new Fixed Asset Database system to be introduced during 2008.

### 2.5.3 Summary of Audit Findings

2.5.4 The process to transfer data records to the new system was documented and evaluated; no issues arose as a result of this work.

2.5.5 A sample of 100 fixed assets were selected at random and tested to ensure that all information had successfully moved across to the new register and was accurate. All were verified with no exceptions.

### 2.5.6 Audit Opinion

2.5.7 No recommendations have been raised as a result of this audit.

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

<b>Vehicle Workshops</b>	<b>Schedule 2(6)</b>
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### 2.6.1 Background

2.6.2 The Authority operates its own vehicle workshop which is based at the Purfleet depot in Rainham.

2.6.3 The workshop is responsible for attending breakdowns, carrying out tail lift repairs and servicing, maintenance & repairs, defect clearance, arranging MOT's and carrying out pre MOT checks, carrying out minor accident repairs on vehicles and where necessary arranging major repairs with approved repairers.

2.6.4 The workshop also carries out standby out of hours duties for vehicles working out of standard hours and provide standby duties for winter gritting activities. This includes changing gritter bodies and setting up the vehicle for gritting.

2.6.5 The 2008/2009 budget is the first time that whole life costing has been used for the Authority's fleet. A total of £815,780 of the workshops expenditure is being recharged to service areas through the whole life costing.

### 2.6.7 Summary of Audit Findings

2.6.8 Regular stock checks by the Storeman and management spot checks are not being carried out.

2.6.9 A review of non moving stock has not been carried out since the introduction of the new fleet management system Tranman.

2.6.10 Tranman capabilities in relation to stock have not been fully utilised.

2.6.11 The cost of consumable parts are not recharged to service areas.

2.6.12 The need for continual work to be undertaken in the sourcing of better value for money parts and to ensure that information within Tranman is up to date

2.6.13 Workshop productivity is not being monitored to ensure that the workshop is running as efficiently as possible.

2.6.14 Store requisitions used are not recorded against jobs to ensure that there is an effective audit trail in place.

### 2.6.15 Audit Opinion

2.6.16 As a result of this audit we have raised two high, three medium and three low priority recommendations.

2.6.17 Recommendations related to the:

- The need for a full stock check, stock management review and regular spot checks by management to be undertaken (2 x High and 1 Low);
- To identify the full capabilities of Tranman in relation to stock (Medium);
- The lack of charges with regards to consumable parts (Low);
- The need to ensure that supplier information within Tranman is up to date and that best value for money is being achieved in the sourcing of parts (Low);
- To review productivity within the workshop, analysing expected job completion times against actual (Medium); and
- The need to record store requisition numbers against jobs within Tranman (Medium).

2.6.18 A **qualified** audit opinion has been given as weaknesses have been identified in the system of control, which could result in key risks materialising including the failure to detect error or fraud.



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MEETING	DATE	ITEM
AUDIT COMMITTEE	21 <sup>st</sup> April 2009	9

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## REPORT OF THE CHIEF EXECUTIVE

### SUBJECT: ANNUAL REVIEW OF THE COUNCIL'S WHISTLEBLOWING ARRANGEMENTS

#### **SUMMARY**

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

The review of the Council's Whistleblowing arrangements was undertaken in March 2009, as planned, by the Internal Audit & Corporate Risk Manager (IA&CRM).

London Borough of Havering have received 13 Whistleblowing reports in the period April 2008 to March 2009.

An action plan has been devised as a result of the review; this will be monitored going forward.

#### **RECOMMENDATION**

- 1 To note the outcome of the annual review.
- 2 To agree the proposed action plan arising from the annual review and confirm support for the arrangements in place.

#### **REPORT DETAIL**

##### **1. Whistleblowing Arrangements**

- 1.1 The Council has a Whistleblowing policy which was last reviewed in November 2008 as part of the review of the overall anti-fraud and corruption strategy.

- 1.2 The Whistleblowing information is located with the Human Resources policies and procedures on the intranet. It has been agreed since the last review that the wording would be updated to clarify where reports should be made, as previously references to the Council’s Monitoring Officer and Human Resources along side Internal Audit, who it was agreed should receive all reports, reduced the clarity of guidance to staff. This update took place as planned.
- 1.3 All new starters to the organisation receive a copy of the policy as part of their induction pack, which they are asked to sign a declaration indicating they have received and read. Reminders are sent to all staff in year via team briefers, pop ups and pay slip messages. Information on Whistleblowing is also included within the manager’s induction days and highlighted during the prevention v detection workshops that were facilitated by the Principal Fraud Auditor during the year.
- 1.4 As planned in 2008/09 the Business Development Unit wrote to all Corporate Suppliers regarding this and other governance related Council requirements.
- 1.5 The detail of the Whistleblowing reports received in 2008/09 are contained in the table below. One report related to a Councillor, ten related to members of staff and two related to members of the public.

Case File	Date submitted	Description	Action taken
T8laaw	8 April	Allegation that Councillor may be working when claiming full housing benefit.	Confirmed Councillor not in employment and Housing Benefit being paid correctly.
T8maaf	15 May	Allegation regarding the mis - management of Council income.	Member of staff resigned following conclusion of investigation.
T8maag	15 May	Council staff were observed unloading turf at a private address. The caller indicated that the driver of the vehicle lived at this address.	It was confirmed that the member of staff had permission to store turf at his private address. Management have now ceased the arrangement.
T8maah	19 May	Allegation regarding illegal use of a Blue Badge.	Vehicle identified on site of Queens Hospital Car Park. Action taken by National Car Parks.

Case File	Date submitted	Description	Action taken
T8maap	4 June	The anonymous caller rang to complain about the behaviour of Council employees and the owner of a leisure facility.	Investigated. Adequate internal controls in place to ensure Council employees actions are managed.
T8laaa	21 July	An allegation that a parent is receiving free school dinners for her children and other benefits without her partner's salary which is not being taken into account.	Investigated by Housing Benefit Fraud. Investigation on-going interviews have taken place.
T8naab	28 July	Allegation that a staff Car Park pass is being fraudulently used.	Investigated - member of staff disciplined and systems of control reviewed and improved.
T8naac	14 Aug	Allegation has been received that two members of staff are deliberately entering incorrect times on their flexi sheet records.	Investigated. – no case to answer. System of control reviewed and improved.
T8naad	14 Aug	An allegation regarding failure to comply with using a Corporate Contract.	Investigated. – no case to answer.
T8naaq	8 Dec	Allegation from an ex member of staff that management are manipulating the service provided to ensure KPI targets are achieved.	Investigated – no case to answer. Management to consider if the motives of ex member of staff need to be questioned.

Case File	Date submitted	Description	Action taken
T8naar	8 Dec	Allegation, from an ex member of staff, that Parking Services are manipulating times recorded on CCTV for cases of illegal parking.	Matter investigated – no case to answer.
T8naaw	20 Jan 09	Allegations received regarding Internet usage and GroupWise traffic of a member of staff and misuse of system in council time.	Forensic examination in progress.

- 1.6 The 13 Whistleblower reports in the period compares to 11 received during 2008/09. A comparison with other Boroughs has been undertaken as part of this review. The results of this exercise are contained in the table below and also include the 2007/08 data obtained as part of the last review.
- 1.7 Through liaison with other Council’s we have been able to identify the Whistleblowing reports received and have included the circa workforce figure (non schools based) to provide context to results. Tower Hamlets failed to provide the information prior to reports going to print, this will be reported verbally at the meeting.

Council	Workforce	WB reports 2007/08	Workforce	WB reports 2008/09
LB Havering	2700	11	2800	13
LB Redbridge	3400	37	4000	35
LB Tower Hamlets	5700	20	-	-
LB Barking & Dagenham	4400	8	4800	27

- 1.8 As a result of the review the action plan below has been devised.

Action Ref	Action	Responsible Officer	Target Date
1	Promote Whistleblowing via ‘Team Briefs’ and intranet.	IA&CRM	July 09
2	Include Whistleblowing in the new Fraud E Awareness Package.	IA&CRM	Sept 09

Action Ref	Action	Responsible Officer	Target Date
3	Write to corporate suppliers and strategic partners regarding Whistleblowing arrangements.	IA&CRM	Sept 09
4	Undertake a random survey of awareness to feed into the next annual review.	IA&CRM	February 2010

### Financial Implications and risks

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

### Legal Implications and risks

None arising directly from this report

### Human Resource Implications and risks

None arising directly from this report

### Equality and Social Inclusion implications

None arising directly from this report

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**Cheryl Coppel**  
**Chief Executive**







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MEETING	DATE	ITEM
<b>AUDIT COMMITTEE</b>	<b>21<sup>st</sup> April 2008</b>	<b>10</b>

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## **REPORT OF THE CHIEF EXECUTIVE**

### **ANNUAL REVIEW OF THE COUNCIL'S MONEY LAUNDERING ARRANGEMENTS**

#### **SUMMARY**

The Council has in place arrangements to reduce the risk of its services being: exposed to Money Laundering, be party to terrorist financing or recipients of the proceeds of organised crime generally.

The arrangements are reviewed annually and the outcome of the review reported to the Audit Committee.

The Council is not considered, in legislation, to be an organisation at high risk of exposure to this activity, however the obligations to the community are clear and in the current economic climate the risks the organisation faces are increased.

#### **RECOMMENDATION**

- 1 To note the outcome of the 2008/099 annual review.
- 2 To agree the proposed action plan.
- 3 To confirm on-going support for the arrangements in place.

**REPORT DETAIL****1. Money Laundering**

- 1.1 The Council has an Anti Money Laundering Strategy and Policy Statement which has been considered as part of this review along with the information available to staff on the intranet. Documentation is in accordance with current legislative requirements.
- 1.2 A Money Laundering Reporting Officer (MLRO) and deputy are in place and guidance on the intranet details how these officers can be contacted.
- 1.3 Following the review on March 2007 it was concluded that further awareness raising activity needed to take place and an action plan was derived, these actions are now complete with the exception of running workshops for staff within Homes in Havering, a programme for which is currently being agreed.
- 1.4 As part of this years review the Principal Auditor (Deputy MLRO) has :
- considered all activity within the Council;
  - spoken to relevant officers within teams;
  - identified the likely threats we face under the broader 'proceeds of crime' heading, which includes Money Laundering;
  - risk assessed the activity;
  - considered the appropriate mechanism to raise awareness i.e. informal discussions with staff, formal notification to team briefer or formal workshop or training;
  - completed or planned the resulting list of actions.
- 1.5 This proactive programme, targeting staff on a risk basis, will continue into the new financial year and further work to gain assurance regarding relevant staffs understanding of the risks we face will be captured. This programme will involve presentations to managers and staff, reminder memos circulated via department heads and the periodic use of the Council's Global e-mail system to ensure all staff remain vigilant.
- 1.6 Although the Council must ensure staff awareness to its exposure from Money Laundering activities, a greater threat could possibly come from criminal proceeds being passed through Council accounts.
- 1.7 The Internal Audit Team has received no money laundering reports in the period April 2008 to March 2009, compared to three in the previous financial year. It is concluded that the closure of the Council's Cashiers Service and the movement to alternative payment methods in a number of services across the Council has very significantly reduced the numbers of cash transactions causing the Authority concern. As part of the review those high risk teams we have consulted have been asked to identify any potential transactions that should have been reported and no issues have arisen from these discussions.

- 1.8 The review has concluded that the potential threat has recently increased as the Council now has a joint service arrangement for the collection of National Non Domestic Rates, and uses agency bailiffs employed by LB Barking & Dagenham. Action has been taken to advise management of the risks and support implementation of actions to mitigate them.
- 1.9 The collection of housing arrears undertaken by Homes in Havering is another identified area of increased risk and as stated above workshops are currently being planned for staff.
- 1.10 There has recently been an overhaul in the process to allocate grants to voluntary organisations and this will be subject to review in early 2009/10 which will provide assurance regarding how groups are identified and the governance arrangements in place generally.
- 1.11 Other service areas still handling cash or potentially unidentified transactions (building society cheques / bank drafts etc) are payments in respect of drop kerb applications, some historic shop rents and the Council's Market Office. The risks in these areas are however not felt to be significant as greater background information relating to the transaction is available.
- 1.12 As a result of the review the action plan below has been devised.

Action Ref	Action	Responsible Officer	Target Date
1	Include reference to Proceeds of Crime within the 'E' fraud awareness package.	MLRO	October 2009
2	Complete annual planned programme of awareness raising actions – prior to next review.	MLRO	March 2009
3	Complete surveys to gain assurance regarding awareness – to feed into next review.	MLRO	March 2009

### **Financial Implications and risks**

None arising directly from this report, however criminal charges may result should employees not fulfil their personal responsibilities. Sanctions could also be imposed on the Council if it is considered not to be complying with legislation.

### **Legal Implications and risks**

None arising directly from this report, however criminal charges may result where employees do not fulfil their legal obligations in this area. Sanctions could also be imposed on the Council

### **Human Resource Implications and risks**

None arising directly from this report, however the Council has a duty to protect and provide suitable training to its employees.

### **Equality and Social Inclusion implications**

None arising directly from this report.

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**Cheryl Coppel**  
**Chief Executive**



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MEETING	DATE	ITEM
AUDIT COMMITTEE	21 April 2009	11

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## REPORT OF THE CHIEF EXECUTIVE

**SUBJECT: ANNUAL REPORT ON THE WORK OF THE AUDIT COMMITTEE**

### **SUMMARY**

It is good practice that the Committee circulate a report, to all Council Members, on the work of the Committee.

This report seeks Committee's approval to report on the work and the related outcomes of the Audit Committee over the last year for presentation to all Council Members at the July Council meeting.

### **RECOMMENDATION**

That the Committee approves the attached report on the work of the Audit Committee, and agrees it for presentation to the July Council meeting.

### **REPORT DETAIL**

#### **1 Annual Report 2008/09**

The attached report and appendices covers the following areas.

##### **1.1 Background and management structure**

The membership and terms of reference are included for information.

##### **1.2 Audit committee coverage**

Details of the regular agenda items and special reviews undertaken during the year are identified. Appendix A of the report highlights the agenda items listed by meeting.

##### **1.3 Key issues arising**

Key issues reported to and reviewed by the Audit Committee in year have been identified in this section of the report. Treasury Management has been an unplanned agenda item due to the collapse of the Icelandic Banks.

#### **1.4 Effectiveness and training**

A review of the Audit Committees Effectiveness is undertaken annually, the last review took place in September 2008.

Details of training received by members of the Audit Committee is detailed in Appendix B.

A training programme for 2009/10 has been drawn up and this is incorporated into Appendix C. This takes on board the training undertaken in previous years.

#### **1.5 2009/10 forward plan**

A detailed forward work plan has been agreed and will be progressed. The plan is outlined in Appendix C.

### **2 Future Reports**

The next report on the work of the Audit Committee will cover the period from 1<sup>st</sup> April 2009 to 30<sup>th</sup> March 2010 and be reported to July 2010 Council.

#### **Financial implications and risks**

It is good practice to review the work, for the year of the Committee, this report feeds into the Annual Governance process. Training is provided internally by diverting resources. No other implications arise directly from this report.

#### **Legal implications and risks**

None arising directly from this report.

#### **Human Resource implications and risks**

None arising directly from this report.

#### **Equality and social inclusion implications**

None arising directly from this report.

**Staff Contact:** Vanessa Bateman - Internal Audit and Corporate Risk Manager  
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**Cheryl Coppell**  
**Chief Executive**

#### **Background Papers**

There are none.



**REPORT ON THE  
WORK OF  
THE AUDIT COMMITTEE**

**April 2009**



## 1. Introduction

1.1 This report covers the period April 2008 to March 2009 and outlines:-

- Information relating to the Audit Committee;
- The coverage of work undertaken by the Audit Committee;
- Key issues arising;
- Actions taken, including training, during the year to ensure the effectiveness of the Audit Committee; and
- Future planned work and training.

## 2. Background

2.1 The Audit Committee has been in place for a number of years and has as its terms of reference:

- To consider and monitor the Authority's risk management and internal control environment.
- To focus audit resources.
- To receive and approve the Annual Statement of Accounts.
- To monitor performance of internal and external audit.
- To monitor proactive fraud and corruption arrangements.

## 3. The management structure

Audit Committee    Cllr David Grantham  
                          Cllr Frederick Thompson  
                          Cllr Michael Armstrong  
                          Cllr Gary Adams  
                          Cllr Roger Ramsey  
                          Cllr Clarence Barrett  
                          Cllr Andrew Mann  
                          Cllr Mark Stewart

Internal Auditors    Internal Service

External Auditors    Audit Commission till mid 2008/09  
                          Price Waterhouse Coopers thereafter

## 4. Audit Committee coverage

4.1 The Audit Committee has received the reports as set out in Appendix A. The coverage can broadly be categorised as regular and specific. More information on both is set out below.

### 4.2 Regular Work

The Committee has regularly reviewed:

- Progress against the audit plan and performance ;
- Key findings/issues arising from each audit undertaken;
- Progress against implementation of the recommendations;
- Anti fraud and corruption activity, including frauds identified;

- Progress against External Audit's Audit and Inspection Plan;

In 2008/09 a progress report regarding Housing Benefit Fraud was also included on the forward agenda and will be presented twice annually. The first report of this nature went to the December Committee.

#### 4.3 Specific Review / Reports

There were several during the year including:

- undertook a full review of the Risk Management Strategy;
- received the Corporate Risk Register for review and comment;
- undertook a full review of the Anti Fraud and Corruption Strategy;
- reviewed and approved the annual accounts as well as the findings of the external audit;
- agreed the strategy to use for developing the Audit Plan; considered and agreed the Audit Plan;
- received the annual report from Internal Audit;
- reviewed schools audit activity and findings;
- received briefings and reports relating to the Icelandic Bank collapse; and
- Update on the outcomes of the Adults Social Services Review which was a significant issue in 2007/08.

### 5. **Key issues arising**

- 5.1 Members of the Audit Committee have been briefed and received internal and external reports on Treasury Management following the collapse of the Icelandic Banks.
- 5.2 Generally there is good satisfaction with the Internal Audit Service and the assurance provided regarding internal controls.
- 5.3 The implementation of audit recommendations continues to improve and the Committee Members active involvement in requiring explanations of delays has contributed to this.

### 6. **Specific training undertaken**

- 6.1 The Committee has received dedicated training and awareness as set out in Appendix B.
- 6.2 In September the annual review of the committee's effectiveness was undertaken. The Committee completed a self assessment against CIPFA best practice guidance and noted the outcome and areas for possible improvement. No significant issues arose as a result of this exercise. The Audit Committee also reviewed its terms of reference and considered the forward plan to ensure their were adequate meetings planned to consider the planned agenda items effectively.
- 6.3 The Chair of the Audit Committee also attended a full day workshop on the Audit Committees Role under the new Corporate Area Assessment regime and briefed other members of the outcomes of the day.

## **7. Priorities and work plan for the forthcoming year**

- 7.1 The Audit Committee is currently planned to meet on five occasions over the next municipal year. There are specific reports planned throughout the year, commencing with the statement of accounts and running through a mix of quarterly progress reports and annual reviews of specific strategies and policies within the remit of the Committee, together with progress reports from the Council's external auditor.
- 7.2 A work plan of coverage at each of these meetings is set out in Appendix C. This shows the activities already completed over recent meetings and the items planned for the current municipal year. Members may also identify other areas or topics that they wish covered that arise from the information/reports elsewhere on the agenda, and are therefore asked to identify any at this stage for inclusion in the plan.

## APPENDIX A

### AUDIT COMMITTEE COVERAGE FROM APRIL 2008 TO DATE

#### **22<sup>nd</sup> April 2008**

- External Audit Report & Progress Update from Prior Years
- 2008/09 Grants Report
- Update on 2003/04 Audit Recommendations
- Annual Review of Whistleblowing Arrangements
- Annual Review of Money Laundering Arrangements
- Annual Report on the work of the Audit Committee
- Urgent Business

#### **25<sup>th</sup> June 2008**

- Annual Statement of Accounts 2007/08 containing Annual Governance Statement
- Annual Head of Internal Audit Report
- Internal Audit Progress Report
- External Audit 2008/09 Annual Audit and Inspection Plan
- Urgent Business

#### **16<sup>th</sup> September 2008**

- Audit Commission Annual Governance Report
- External Audit Progress Report
- Fraud Progress Report
- Internal Audit Progress Report
- Annual Review of Schools Internal Audit 2007/08
- Annual Review of Anti Fraud and Corruption Arrangements
- Annual Review of the Audit Committees Effectiveness
- Adult Social Services Review
- Urgent Business

#### **9<sup>th</sup> December 2008**

- Icelandic Bank Briefing
- External Audit Progress Report
- Internal Audit Progress Report
- Housing Benefit Progress Report
- Annual Review of Risk Management Arrangements
- Urgent Business

#### **3<sup>rd</sup> March 2009**

- External Audit Progress Report
- Internal Audit Progress Report
- Fraud Progress Report
- Internal Audit Strategy and Plan 2009/10
- Urgent Business

**APPENDIX B****AUDIT COMMITTEE MEMBERS TRAINING / AWARENESS**

<b>Timescale</b>	<b>Session</b>	<b>Coverage</b>
March 2008	Session 1	Audit Committee Effectiveness Lead by External Audit.
April 2008	Session 2	Governance Arrangements
May/June 2008	Session 3	Statement of Accounts: <ul style="list-style-type: none"> <li>• What they are;</li> <li>• Purpose;</li> <li>• Key Matters that arise; and</li> <li>• Member's role and responsibility.</li> </ul>
September 2008	Session 4	Meet the new External Audit Team. Chair briefed on CAA workshop he had attended re Audit Committee Effectiveness.
March / April 2009	Session 5	Risk Management & Internal Control: <ul style="list-style-type: none"> <li>• Why Risk Management is Key;</li> <li>• Internal Control and Assurance Framework</li> <li>• Risk Management going forward in Havering and Corporate Risk Register;</li> <li>• Audit Committee's role.</li> </ul>
April 2009	Session 6	Grants Process <ul style="list-style-type: none"> <li>• To raise understanding of process</li> </ul>

**APPENDIX C****AUDIT COMMITTEE – FORWARD PLAN / TRAINING**

<b>FORWARD PLAN</b>	<b>AGENDA ITEM</b>	<b>PLANNED TRAINING</b>
21 <sup>st</sup> April 2009	<ul style="list-style-type: none"> <li>• External Audit Fee Letter</li> <li>• Annual Grants review</li> <li>• Interim Internal Audit Progress Report</li> <li>• Money laundering</li> <li>• Whistleblowing</li> <li>• Internal Audit Charter and Terms of Reference</li> <li>• Annual Report of Audit Committee</li> </ul>	Grants Process
23 <sup>rd</sup> June 2009	<ul style="list-style-type: none"> <li>• Annual Letter 08/09</li> <li>• 2008/09 Use of Resources Report</li> <li>• Annual Accounts including AGS for noting</li> <li>• External Audit Progress</li> <li>• External Audit Annual Plan</li> <li>• Head of Audit Annual Report and Opinion</li> <li>• Risk Management Update inc Corporate Risk Register</li> <li>• Housing Benefit Fraud Progress Report</li> </ul>	Session on Annual Accounts
15 <sup>th</sup> September 2009	<ul style="list-style-type: none"> <li>• External Audit Progress Report</li> <li>• Internal Audit Progress Report</li> <li>• Annual School Report</li> <li>• Annual Review of Anti Fraud and Corruption Arrangements</li> <li>• Outstanding Recommendations Report</li> <li>• Annual Review of Audit Committee Effectiveness</li> </ul>	Session on Fraud & Corruption
8 <sup>th</sup> December 2009	<ul style="list-style-type: none"> <li>• Annual Review of Risk Management Arrangements</li> <li>• External Audit Progress Report</li> <li>• Internal Audit Progress Report</li> <li>• Housing Benefit Fraud Progress Report</li> </ul>	Session on Risk Management
2 <sup>nd</sup> March 2010	<ul style="list-style-type: none"> <li>• Audit Plan and Strategy</li> <li>• External Audit Progress</li> <li>• Internal Audit Report</li> <li>• Fraud Progress Report</li> </ul>	Session on Assurance Framework





# Haverling

LONDON BOROUGH

## AUDIT COMMITTEE SUPPLEMENTARY AGENDA

<b>7.30pm</b>	<b>Tuesday, 21 APRIL 2009</b>	<b>Haverling Town Hall, Main Road, Romford</b>
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*Agenda item 6 is submitted with the agreement of the Chairman as an urgent matter, pursuant to Section 100B (4) of the Local Government Act 1972*

### **Item 6**

**2007/2008 AUDIT REPORT OF GRANT CLAIMS AND RETURNS**

**Report documentation attached**

**For information about the meeting please contact:  
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MEETING	DATE	ITEM
AUDIT COMMITTEE	21 APRIL 2009	<b>6</b>

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## **REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: 2007/2008 AUDIT REPORT OF GRANT CLAIMS AND RETURNS**

### **SUMMARY**

This report updates the Committee of the position regarding the final version of the 2007/2008 audit report of grant claims and returns and subsequent Action Plan for the 2008/2009 grants process.

The 2008/2009 Action Plan can be found at Appendix 1.

### **RECOMMENDATIONS**

The Committee is recommended to:

1. review the findings of the Audit Commission's report on 2007/08 grant claims;
2. raise any issues of concern with officers on specific grant claims;
3. note the year-on-year grant claims performance; and
4. otherwise note the report.

### **REPORT DETAIL**

#### **Overall summary of 2007/2008 grant claims compared to 2006/2007**

1. **Performance**

- 1.1 The total number of grants requiring audit certification reduced to 8 for 2007/2008 compared to 12 for 2006/2007. This was mainly due to the change in the Audit Commission threshold for certification from £50,000 to £100,000 (being the total value of the grant and not the annual value) and also to Government no longer requiring the external audit of some formerly audited Specific Grants.
- 1.2 All 8 claims due for 2007/2008 have now been certified as were all 12 claims completed when the audit report was produced last year.
- 1.3 There were 4 (50%) amended claims for 2007/2008 compared to 5 (42%) for 2006/2007. All 4 of these amendments related to errors in calculation.
- 1.4 The number of qualified claims was 3 (38%) for 2007/2008, compared to 4 (33%) for 2006/2007. While the percentages have increased this is primarily due to the smaller overall sample.
- 2 of these 3 qualified claims, LA01 – NNDR and BEN01 - Housing Benefits and Council Tax were repeated qualifications.
- The Audit Commission recommendations regarding the above can be found in the 2008/2009 Action Plan (See Appendix 1).
- 1.5 The number of claims not certified by the Audit Commission, by the certification deadline increased to 3 (38%) for 2007/2008 compared with 1 (8%) for 2006/2007.

### Summary

	2006/2007		2007/2008	
	No.	%	No.	%
Submitted by due date	12	100	8	100
Submitted late	0	0	0	0
<b>Total claims</b>	<b>12</b>	<b>100</b>	<b>8</b>	<b>100</b>

Amended claims	5	42	4	50
Claims not amended	7	58	4	50
<b>Total claims</b>	<b>12</b>	<b>100</b>	<b>8</b>	<b>100</b>

Qualified claims	4	33	3	38
Unqualified claims	8	67	5	62
<b>Total claims</b>	<b>12</b>	<b>100</b>	<b>8</b>	<b>100</b>

Certified by deadline	11	92	5	62
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Uncertified by deadline	1	8	3	38
<b>Total claims</b>	<b>12</b>	<b>100</b>	<b>8</b>	<b>100</b>

## 2. Recommendations

2.1 The 2008/2009 Recommendations/Action Plan is attached as Appendix 1 and contains a number of issues identified during the 2007/2008 audit process for implementation during the 2008/2009 grant process.

2.2 The Audit Commission have identified 7 recommendations to address in the 2008/2009 Action Plan in comparison to 15 for 2007/2008.

2.3 Of the 15 recommendations identified in 2006/2007

- 13 have been addressed.
- Of the remaining 2 recommendations both were repeated in 2007/2008 these being:

BEN01 – Housing and Council Tax Benefits  
Classification of Overpayments

The Head of Service reported that training on overpayments will be reinforced and that this training is now scheduled as an annual event.

LA01 – NNDR

Inclusion of all VO Directives for the period to 31 March.

The Head of Services reported that it is not practically possible to process all VO directives prior to 31 March although as many as possible are processed.

The Grants co-ordinator will raise any outstanding issues with the claim compiler when reviewing the 2008/09 working papers, and in particular to those where there have been repeated recommendations.

## 3. Audit Fees

3.1 The following table records audit fees paid each year:

Paid in 2005/2006 re 2004/2005 audits	Paid in 2006/2007 re 2005/2006 audits	Paid in 2007/2008 re 2006/2007 audits	Paid in 2008/2009 re 2007/2008 audits
£195,000	£145,000	£102,000	*£98,000

No of Grant Claims Audited 25	No of Grant Claims Audited 23	No of Grant Claims Audited 12	No of Grant Claims Audited 8
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The above table shows that the audit fee saving in 2006/2007 was £50,000 being 26% less than the 2005/2006 charges. The saving in 2007/2008 was £43,000 being 30% less than the 2006/2007 charges and the saving in 2008/2009 was £4,000 being 4% less than the 2007/2008 charges. The overall saving in audit fees since 2005/2006 is £97,000 being 50%.

\*This figure includes invoices charged to February 2009. It is not anticipated that the March invoice will include any grant claim fees.

- 3.2 In 2007/2008 the number of grant claims due for audit was 8 compared to 12 in 2006/2007. The 4 grant claims that no longer require external audit generated minimal fees. The increase in audit fees is partly due to an uplift of 4% in audit charges and partly due to the fact that in 2007/2008 the Audit Commission invoices attributed grants planning and reporting costs to specific claims where possible. Thus separate planning costs invoiced during 2007/2008 decreased by 43% from £6.7K in 2006/2007 to £3.8K in 2007/2008.
- 3.3 The annual Audit Commission index for 2008/2009 indicates that 9 grants require Audit Commission certification for the period.

#### 4. Other Grant Issues

- 4.1 In 2008/2009 £8.97 million of 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. In 2008/2009 there were 33 grant claims relating to 2007/2008, totalling £10.1M, that fell into this category, compared to 30 grant claims relating to 2006/2007, totalling £6.1M. The Chief Finance Officer requires assurance that grants that fall into this category are accurately claimed/reported prior to certification. 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 encourages best practice. Of the 33 grant claims for 2008/2009 requiring Chief Finance Officer certification 27 met the grant funding body deadlines.

#### 4.3. In Year Achievements

- During 2008/2009 the grants co-ordinator delivered 3 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.
- A grants risk register is in the process of being revised.

#### 4.4 Future Planned Developments

- Further training/workshops to claim compilers, to be delivered before the 2008/2009 audit process begins.
- To progress the identification of those Local Authorities with higher performance and investigate adopting best practice.
- To install the Grants Risk Register on the intranet.

#### **Financial Implications and risks:**

For 2007/2008 specific grant claims provided £156M in funding for the Council and poor performance in submitting claims puts the Council's Comprehensive Performance Assessment (CPA) 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:**

The implications for failing to correctly or promptly process grant claims are set out elsewhere in the report.

#### **Human Resources Implications and risks:**

None rising directly from this report.

#### **Equalities and Social Inclusion implications:**

None rising directly from this report.

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**CHERYL COPPELL**  
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**Background Papers List**

Appendix 1: 2008/2009 Recommendations/Action Plan

## Appendix 1 – Action plan – 2008/2009

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Sustainable communities</b>					
<b>Disabled Facilities - HOU21</b>					
The Authority incorrectly included 2006/07 expenditure against the 2007/08 allocation in the claim form. This did not comply with the certification instruction.	2	Head of Housing and Health/Head of Finance and Performance	Disagree	I disagree with Audit Commission's comments however I will ensure that future grant claims supporting financial information is presented in a more understandable format to aid the audit process.  The CI instructions were not 100% clear with regards to the treatment of expenditure originally approved in 2006/2007 but actually incurred in 2007/2008. The HOU21 rules for future grant claims will be changing due to changes in the administration of Disability Facility Grant.	
<b>R1</b> Classify expenditure in the correct period for inclusion in the claim form.					
<b>Housing subsidy and grants - HOU01</b>					
The calculation of cell F001RC in the original claim form did not take proper account of shared ownership HRA dwellings and dwellings owned for	2	Head of Housing and Health/Head of Finance and	Agreed	I agree to take into account the required dwellings when calculating figures for cells relating to Rental Constraint	31.7.09.



Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<p>part of the financial year.</p> <p><b>R2</b> Take into account the required dwellings when calculating figures for cells relating to Rental Constraint Allowance.</p>		Performance		<p>Allowance.</p> <p>The LB Havering and audit eventually agreed to a method of calculating dwellings owned for part of the financial year. This method will be used for future claims. The reason for the above was due to the fact cell F001RC was not audited the previous year. The new Certification Instruction guidance on the method of calculation was issued to local authorities late for the 2007/2008 grant claim.</p> <p>The comment from audit about Shared ownership HRA Dwellings is not relevant to why this figure input in to this cell was originally calculated incorrectly.</p> <p>The remainder of audits comments are correct.</p>	
<p>An incorrect figure was used for cell F002RC in the original claim form. Authorities are required to take the figure from a specific line in the Determination.</p>	2		Agree	<p>We shall ensure that we use the correct figure for cell F002RC as provided in the Determination.</p>	31.07.09.

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<p><b>R3</b> Use the correct figure for cell F002RC as provided in the Determination.</p>				<p>The figure on the original Determination issued to the LB Havering was revised on a later published Determination. The earlier determination figure was wrongly used.</p>	
<p><b>HRA subsidy 2009/10 (Base DATA) - HOU02</b></p>					
<p>Although it was not qualified, several amendments were required in relation to the inclusion and classification of dwellings before the claim could be certified.</p>	2	Head of Housing and Health/Head of Finance and Performance	Agreed	<p>We shall ensure that the relevant guidance is followed in relation to the classification of dwellings and their inclusion within specific cells in the claim form.</p> <p>The audited stock database has been given to HH Performance team to maintain and update on a continuous basis. This is appropriate as HH manage the LB Havering HRA housing stock. This should mitigate classification discrepancies.</p> <p>The overall amount of properties contained in the stock database stayed the same. The amended dwelling classification cells had a minimal financial effect within the claim form. The changes related to minor input errors which effected what Major</p>	01.4.09.
<p><b>R4</b> Ensure that the relevant guidance is followed in relation to the classification of dwellings and their inclusion within specific cells in the claim form.</p>					

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
				Repairs classification dwellings fell in to. on the stock database. These minor errors have been corrected within the stock database.	

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Finance and commercial</b>					
<b>Housing and Council Tax benefit - BEN01</b>					
<p>Audit testing identified several cases where overpayments had been incorrectly classified.</p> <p><b>R5</b> Ensure procedures are in place to correctly classify overpayments as either local authority error, eligible excess benefit or technical excess benefit.</p>	3	Benefits Manager	Agreed	Procedures are already in place to correctly classify overpayments however there were a small number of human errors. Training on this will be reinforced and training on overpayments is an scheduled annual event now.	31.3.09
<p>Audit testing of modified scheme payments found that in some instances the rates used in the benefit calculation were incorrect.</p> <p><b>R6</b> Ensure that the War Disablement Pension rates used in the calculation of benefit for modified scheme payments are up to date and correct.</p>	2	Benefits Manager	Agreed	We agree to ensure that the War Disablement Pension rates used are up to date and correct. Cases will be identified and corrected. This will be incorporated in standard training plans for 09/10.	31.8.09.
<b>National Non Domestic rates Return - LA01</b>					
<p>As with previous years, our review identified that valuation officer directions received between 31 January 2008 and 31 March 2008 were not taken into consideration when compiling the claim.</p> <p><b>R7</b> Where practical, process all Valuation Officer directives received prior to 31st March and ensure that they are included in the claim relating to that financial period.</p>	2	Head of Exchequer Services	Not Agreed	With regard to VO directives, I have explained previously that the treatment used is common practice. It is not practically possible to process all VO directives prior to 31 <sup>st</sup> March although we do process as many as we can.	

