



Havering

LONDON BOROUGH

AUDIT COMMITTEE

AGENDA

7.30pm

**Wednesday,
23 June 2010**

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

Members 6: Quorum 3

COUNCILLORS:

Conservative (4)

Georgina Galpin (C)

Osman Dervish (VC)

Roger Ramsey

Frederick Thompson

Residents (1)

Clarence Barrett

Labour (1)

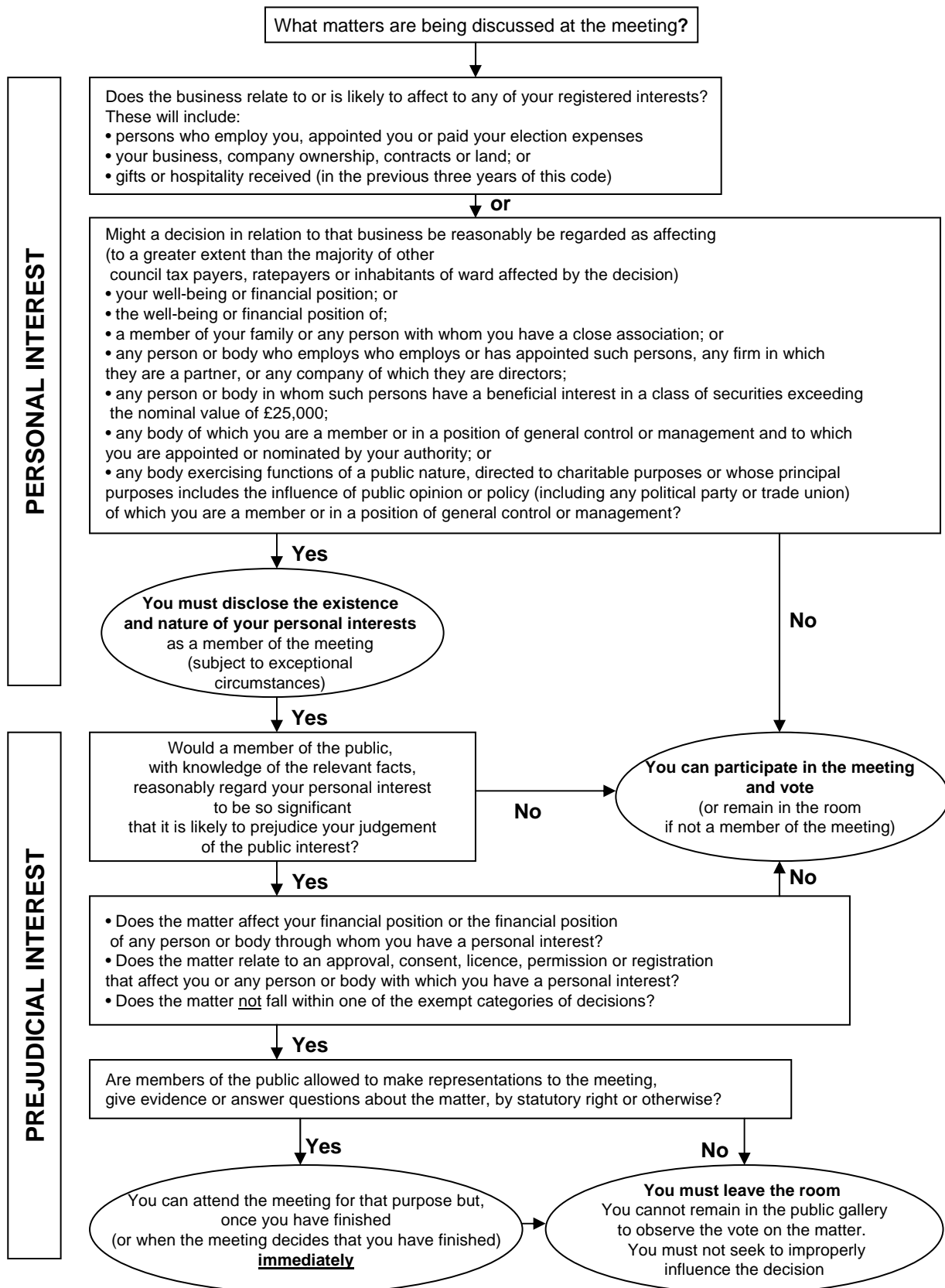
Paul McGeary

For information about the meeting please contact:

James Goodwin (01708) 432432

E-mail: james.goodwin@havering.gov.uk

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1. CHAIRMAN'S ANNOUNCEMENTS

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

2. APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – receive.

3. DECLARATION OF INTERESTS

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

4. MINUTES OF THE MEETING

To approve as correct the minutes of the meeting held on 13 April 2010 and authorise the Chairman to sign them.

5. ANNUAL STATEMENT OF ACCOUNTS 2009/10

Report attached.

6. ANNUAL TREASURY MANAGEMENT REPORT 2009/10

Report attached.

7. CRB CHECKS

Report attached.

8. INTERNAL AUDIT PROGRESS REPORT

Report attached.

Audit Committee, 23 June 2010

9. INTERNAL AUDIT ANNUAL REPORT

Report attached.

10. EXTERNAL AUDIT FEES 2010/11

Report attached.

11. 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.

**Philip Heady
Democratic Services Manager**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
Havering Town Hall, Romford
13 April 2010 (7.30pm – 8.16pm)**

Present:

COUNCILLORS

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

Residents' Group Barbara Matthews.

Apologies for absence were received from Councillors Gary Adams, Michael Armstrong, Clarence Barrett 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.

37. MINUTES

The minutes of the meeting held on 2 March 2010, were agreed as a correct record, and signed by the Chairman.

38. HOUSING & COUNCIL TAX BENEFIT SUBSIDY GRANT CLAIMS

Further to minute 33 of the meeting held on 2 March 2010, officers reported on the issues which had given rise to the qualifications for audits since the submission of the 2005/6 Benefit Claim grant. Officers reported that in 2008/9 Benefit Services had processed 8,703 new claims and 42,823 changes to entitlement which resulted in £74.4 million of expenditure.

The Committee were pleased to see that since 2006/7 the number and value of qualification had decreased significantly. Officers informed the Committee that a survey of 12 local authorities had revealed the Council had out-performed all and the Committee offered their congratulations to the Benefit Service on the high standard of their performance.

The Committee **noted** the report.

Audit Committee 13 April 2010

39. CRB CHECKS

The Committee were advised that this report would now be presented to the June meeting of the Committee.

40. ANNUAL REPORT ON WHISTLEBLOWING

The review of the Council's Whistleblowing arrangements was undertaken in March 2010. Officers reported that no specific actions had arisen from the review. In the period April 2009 to March 2010 the Council received 6 Whistleblowing reports. Details of the reports and the outcome of the investigations were considered by the Committee.

The Committee **noted** the report.

41. INTERIM INTERNAL AUDIT PROGRESS REPORT

Officers reported on the outcome of audits finalised in the period 1st January to 26th March 2010. Eight reports had been completed and six reports had been revisited. Details were presented for the Committee's consideration.

Arising from their consideration the Committee sought clarification on a number of issues in respect of the following audits:

- Cyborg;
- Council Tax;
- Integrated Children's Systems; and
- Telecommunications follow up.

Cyborg – with regard to the reliance on just one of the four administrators for the Payroll/HR system, officers undertook to arrange training and investigate the possibility of the four administrators rotating their duties to ensure all four keep up to date on any revisions to the software. In respect of the creation of 'skeleton' records the matter would be referred to Human Relations to ensure such records are removed from the system.

Council Tax – in response to questions concerning the pursuit of debt officers advised the Committee that the initial pursuit of debt was done in a timely fashion, however, if the person had gone away and it was not possible to trace them the process was usually much longer to complete

Integrated Children's Systems – in response to questions from the Committee officers explained that steps had been taken to ensure that when staff leave, their permissions to access the ISIS was withdrawn in a timely fashion.

Telecommunications – officers were unable to provide the Committee with details of recommendation three, of their report, and agreed to provide the necessary information to members after the meeting.

Audit Committee 13 April 2010

The Committee **noted** the report.

42. INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

The review of the Internal Audit Charter and Terms of Reference had taken place in March 2010. Minor amendments only were proposed, the most significant being to paragraph 9.0 which sets out the Objectives of the Audit Service.

After discussion the Committee **approved** the revised Internal Audit Charter and Terms of Reference.

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**AUDIT
COMMITTEE**

REPORT

23 June 2010

Subject Heading:

Annual Statement of Accounts 2009/10

Report Author and contact details:

Mike Board – Corporate Finance Manager
ext 2217

Policy context:

Audit Committee responsible for
approving accounts.

Financial summary:

N/a

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

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

SUMMARY

1. Under the code of accounting practice, the Statement of Accounts must be approved by the Council's relevant committee by the 30th June 2010.
2. The Statement of Accounts will be forwarded to members prior to the Committee meeting and are subject to audit at this stage.

RECOMMENDATIONS

That the Committee:

1. Consider the Statement of Accounts.
2. Note the key issues set out in the explanatory forward to the accounts.
3. Receive and approve the Statement of Accounts.
4. Note that the accounts have been amended to reflect the changes introduced in the Statement of Recommended Practice (SORP) 2009.
5. Note the work taking place to continue to meet the requirements of the Whole of Government Accounts process.
6. Ask that the Chairman signs and dates the Statement of Accounts as required by the Accounts and Audit Regulations.
7. Note the progress to date in preparing for the introduction of International Financial Reporting Standards (IFRS) for 2010/11.

REPORT DETAIL

1. The Statement of Accounts for 2009/10 is subject to audit by the Audit Commission's appointed Auditors, Price Waterhouse Coopers.
2. The Accounts and Audit Regulations 2003 require that the Chairman presiding at the meeting receiving the Statement of Accounts should sign and date the statement.
3. Copies of the published Statement will be distributed as normal and it will be published on the Council's website.
4. The Statement of Accounts is a public document and every year, as part of the annual audit, local government electors for the borough are given a period of four weeks to inspect the Council's accounts and supporting records. The dates for inspection are advertised in the local press.
5. Members of the Committee have previously been briefed on the Statement of Accounts, its purpose and the key issues arising. The key issues are also set out in the explanatory forward to the accounts.
6. The Statement of Accounts includes the following two statements which relate to the revenue out-turn of the Council.

- The Income and Expenditure Account; which contains the income and expenditure of the Council for the year and complies with Generally Accepted Accounting Practice (GAAP).
- The Statement of Movement in General Fund Balance; which takes the deficit on the Income and Expenditure account and sets out the adjustments required by statute to be accounted for in raising council tax.

These two statements must be considered together when comparing the Council's performance to budget and the impact on the level of Council tax.

7. The Accounts have been amended to reflect any changes in the Statement of Recommended Practice (SORP) 2009 which sets out the proper accounting practices required by statute to be followed in preparing the statement of accounts. For 2009/10 the changes are not significant. Details of the changes are set out in the foreword to the accounts.
8. The Council has put in place arrangements to meet the requirements of the Whole of Government Accounts (WGA) process which aims to consolidate the accounts of all public bodies. The final 2009/10 return will be based upon the audited accounts due to be completed by 30 September 2010.
9. In 2010/11 all Council's will be required to prepare accounts under International Financial Reporting Standards (IFRS). However, it will also be necessary to restate the 2009/10 accounts in IFRS format prior to the finalisation of the 2010/11 accounts. Progress in implementing IFRS has been reported to Audit Committee on a regular basis. Progress against the project plan is set out in at appendix A. There are no significant issues to report at this stage.

IMPLICATIONS AND RISKS

Financial implications and risks: Production of the Council's accounts within the statutory deadline is a key objective for the Council. However, there are no direct financial implications arising from this report. The introduction of IFRS represents a significant change in financial reporting. The achievement of key project deadlines is essential in order to avoid additional costs being incurred.

Legal implications and risks: The accounts must be approved by Audit Committee and published by 30th June 2010. The audited accounts must be published by 30th September.

Human Resources implications and risks: None arising directly from this report.

Equalities implications and risks: None arising directly from this report.

BACKGROUND PAPERS

Working papers held within the Finance Section.

SUMMARY IFRS TIMETABLE

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

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Audit Committee

23 June 2010

REPORT

Subject Heading:

Annual Treasury Management Report
2009/10

CMT Lead:

Andrew Blake-Herbert

Report Author and contact details:

Owen Sparks – Financial Services
Manager

Policy context:

The code of practice on treasury
management 2009 requires a report to full
Council on the treasury performance for
the previous year

Financial summary:

There are no direct financial implications
from the report

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

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

SUMMARY

The purpose of this report is to meet the requirement of the CIPFA Code, namely the annual review of treasury management activities, for the financial year 2009/10.

RECOMMENDATIONS

1. To note the annual treasury management review with regards to the financial year 2009/10
2. To recommend the approval of this report to full Council.

REPORT DETAIL

Appendix A

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management was adopted by this Council on 27th February 2002 and this Council fully complies with its requirements.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council of an annual treasury management strategy report (including the annual investment strategy for the year ahead), a midyear review report and an annual review of the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.

Treasury management in this context is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1. This Annual Treasury Report Covers

- the Council's treasury position as at 31 March 2010;
- the strategy for 2009-10;
- the economy and interest rates in 2009-10;
- borrowing rates in 2009-10;
- the borrowing outturn for 2009-10;
- debt rescheduling;
- compliance with treasury limits and Prudential Indicators;
- investment rates in 2009-10;
- investment outturn for 2009-10;
- Icelandic bank defaults and other issues

2. Treasury Position as at 31 March 2010

The Council’s debt and investment position at the beginning and the end of the year was as follows:

TABLE 1	31st March 2010 Principal	Rate/ Return	31st March 2009 Principal	Rate/ Return
Fixed Rate Funding:				
-PWLB	£37.99m	5.04%	£37.99m	5.04%
-Market	<u>£7.00m</u>	3.60%	<u>£7.00m</u>	3.60%
Total Debt	£44.99m	4.82%	£44.99m	4.82%
Investments:				
-In-House	£79.81m	2.22%	£103.11m	5.47%
Total Investments	£79.81	2.22%	£103.47m	5.47%

3. The Strategy for 2009-10

The Sector recommended treasury strategy for 2009-10, was based on the view that there was an intensifying global recession which would not only require central bank rates to be cut to unprecedented historically low levels, but could also require further action from central banks to reverse the downward path of economies.

Bank Rate was expected to continue falling from 2.0% in December 2008 to 0.5% in March 2009 and then stay there throughout 2009/10 before starting to rise in the second quarter of 2010. However, there was a downside risk to this forecast if the recession proved even deeper and longer than expected at that time; this would mean that the first rise in Bank Rate would be delayed.

The effect on interest rates for the UK was therefore expected to be as follows:

- **Shorter-term interest rates** - The “average” City view anticipated that Bank Rate would fall to 0.5% and remain there at the end of 2009 due to the scale of the recession before starting to rise back towards more normal levels in 2010, though it would be 2012 before Bank Rate returned to around 4.5%.
- **Longer-term interest rates** - The view on longer-term fixed interest rates, 50 years, was that they would remain around 3.90 – 3.95% during 2009/10 with the 25 year rate being about 10 – 15 basis points (bps) higher.

The major issue for treasury management in 2009-10 has been the huge difference between investment rates and borrowing rates that has emerged during this recession due to: -

- a. the unprecedented fall in Bank Rate
- b. the disappearance during the year of the margins over more normal investment rates caused by the credit crunch as the Bank of England’s quantitative easing operations had the desired effect of easing the supply and cost of credit in the economy during 2009.

A further strong theme has been the major emphasis on mitigating risk by giving heightened preference to security and liquidity at a time when the world banking system was still under stress and pending the issue, later in 2009, of new CIPFA and statutory guidance on investing. This has therefore resulted in more of our investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity. This has compounded the significant fall in total investment earnings compared to previous years.

Consequently, in order to balance the impact of the loss in investment income, there was a major re-evaluation of the benefits of new borrowing, whereby significant treasury management savings could be achieved by running down investment balances instead of taking new borrowing in order to finance new capital expenditure or to replace debt maturing during the year. Whilst this has provided savings during 2009-10 in terms of debt management costs, the Council needs to be mindful of both interest rate risk and refinancing risk moving forward, in the event that interest rates start to rise. There is a risk that borrowing costs may start to rise throughout 2010/11 due to market concerns regarding sovereign debt levels and the re-emergence of inflationary pressures

4. The Economy and Interest Rates

During 2009/10 the Monetary Policy Committee (MPC) was focused on helping the economy to turn around from plunging into the deepest and longest recession the UK economy had experienced for many years.

Despite keeping Bank Rate at an unprecedented historical low of 0.5% all year, the MPC also had to resort to extreme measures in terms of pumping liquidity into the economy through quantitative easing by purchasing £200bn gilts and corporate bonds. This had the effect of boosting prices for gilts and corporate bonds and therefore bringing down yields, so also reducing borrowing costs for both the corporate and public sector.

It was notable that the increase in money supply in the economy generated by this programme brought the credit crunch induced spread between Bank Rate and 3 month LIBID (investment rate that depositors could earn) down from 0.95% at the beginning of the financial year to zero during August 2009.

The dominant focus in 2009/10 was on quarterly GDP growth figures. The recession bottomed out in quarter 1 of 2009. There was then major disappointment that the end of the recession failed to materialise in quarter 3 2009 but the fourth quarter of 2009 did then see economic growth return at +0.4%.

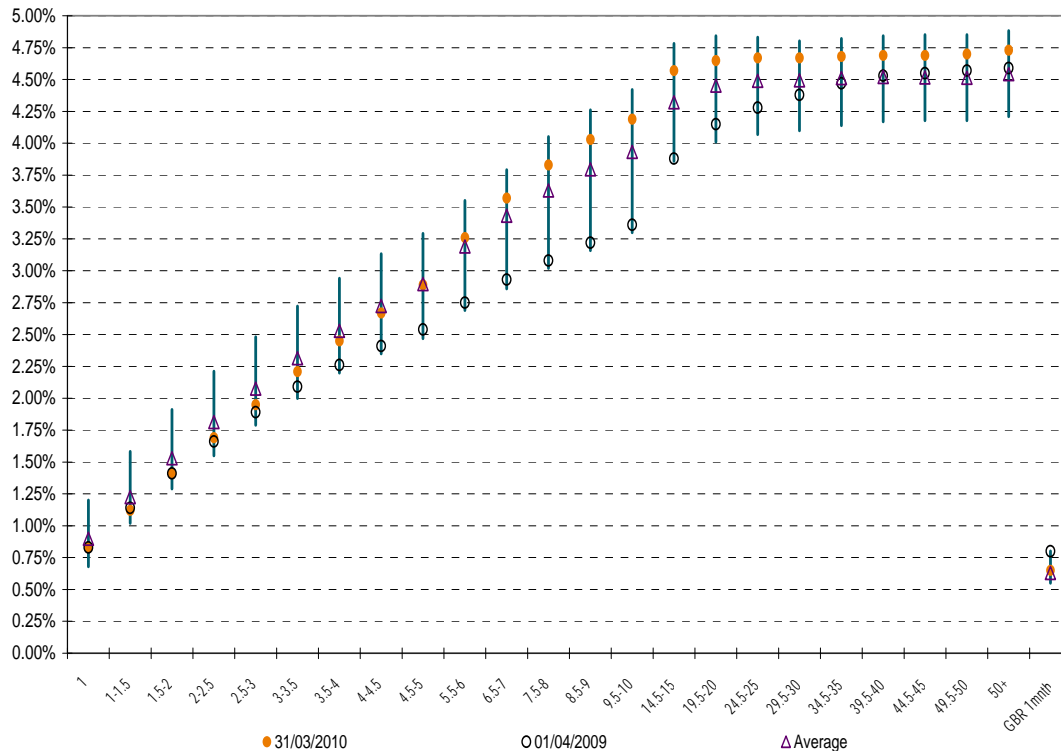
Inflation has not been a major concern of the MPC as it fell back below the 2% target level from June to November. However, it did spike upwards to reach 3.5% on the back of the unwinding of the temporary cut in VAT to 15% on 1 January 2010. This was not seen as a cause for alarm as this spike was expected to fall out of the inflation index and inflation was forecast by the Bank of England to fall back under target by the end of 2010.

5. Borrowing Rates in 2009-10

PWLB borrowing rates: the graph and table below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.

Variations in most PWLB rates this year have been within a fairly limited band compared to previous years with the largest spread being 1.12% in the 10 year in the table below.

PWLB rates 2009-10



5 year PWLB rate. This started the year at 2.54% and then fell to a low for the year of 2.47% on the following day before then rising sharply to hit a peak of 3.29% in July. From there it fell till until reaching 2.54% in October and then rose back up to a peak of 3.13% in January. It finished the year at 2.89%.

10 year PWLB rate. This started the year at 3.36% and then fell to a low for the year of 3.30% on the following day before then rising sharply and rose to hit a peak of 4.15% in July. From there it fell until reaching 3.55% in October and then rose back up to a peak of 4.42% in February. It finished the year at 4.19%.

25 year PWLB rate. This started the year at 4.28% and then peaked in the 4.70s during June – August before falling back to a bottom of 4.07% in October. From there it rose again towards the end of the year to return to the 4.70s and peaked at 4.83% in February. It finished the year at 4.67%.

50 year PWLB rate. This started the year at 4.57% and then peaked at 4.85% in June before falling back to a bottom of 4.18% in October. From there it rose again towards the end of the year and peaked at 4.79% in March. It finished the year at 4.70%.

PWLB Borrowing Rates 2009/10 for 1 to 50 years

	1	2	3	4	5	10	25	50
1/4/2009	0.83%	1.41%	1.89%	2.26%	2.54%	3.36%	4.28%	4.57%
31/3/2010	0.83%	1.41%	1.95%	2.45%	2.89%	4.19%	4.67%	4.70%
High	1.20%	1.91%	2.48%	2.94%	3.29%	4.42%	4.83%	4.85%
Low	0.68%	1.29%	1.79%	2.20%	2.47%	3.30%	4.07%	4.18%
Spread	0.52%	0.62%	0.69%	0.74%	0.82%	1.12%	0.76%	0.67%
Average	0.90%	1.53%	2.08%	2.53%	2.90%	3.93%	4.49%	4.51%
High date	9/6/09	12/6/09	12/6/09	24/4/09	28/7/09	22/2/10	22/2/10	2/6/09
Low date	16/9/09	9/10/09	9/10/09	2/4/09	2/4/09	2/4/09	9/10/09	9/10/09

6. Borrowing Outturn for 2009-10

Debt Performance - As highlighted in section 2 above the average debt portfolio interest rate hasn't moved over the course of the year. The approach during the year was to use cash balances to finance new capital expenditure or maturing debt so as to run down cash balances and minimise counterparty risk incurred on investments. This also maximised treasury management budget savings as investments rates were much lower than most new borrowing rates.

7. Debt Rescheduling

Our treasury management advisors, Sector, started 2009-10 with the expectation that longer-term PWLB rates would be on a rising trend during the year and that shorter term rates would be considerably cheaper. However, moving from long term to short term debt would mean taking on a greater risk exposure to having to reborrow longer term in later years at considerably higher rates than most of the long term debt currently in the debt portfolio. Short term savings could be achieved by internally financing new capital expenditure and replacing maturing debt by running down existing cash balances which were only earning minimal rates of interest due to the fact that Bank Rate was kept at 0.5% all year. Running down cash balances also meant reduced counterparty risk on the investment portfolio.

8. Compliance With Treasury Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council’s annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown below.

TABLE 3: PRUDENTIAL INDICATORS	2008/09	2009/10	2009/10
Extract from budget and rent setting report	actual	Estimate	actual
	£'000	£'000	£'000
1) Capital Expenditure			
Non - HRA	36,237	48,134	51,601
HRA	13,638	13,935	15,538
TOTAL	49,875	62,069	67,139
2) Ratio of financing costs to net revenue stream			
Non - HRA	1.58%	1.45%	3.58%
HRA (applies only to housing authorities)	14.99%	13.83%	15.08%
3) Capital Financing Requirement as at 31 March			
Non – HRA	38,474	38,364	45,054
HRA (applies only to housing authorities)	2,127	4,148	4,241
TOTAL	40,601	42,512	49,295
4) External Debt	44,986	44,986	44,986
5) Net borrowing requirement			
brought forward 1 April	(6,959)	(4,385)	(2,474)
carried forward 31 March	(4,385)	(2,474)	£4,309
in year borrowing requirement	2,574	1,911	£6,783
6) Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum *	£0.25p	£2.50p	£3.39p
Increase in average housing rent per week	£0.00p	£0.00p	£0.00

Definitions

2) *The ratio of financing costs to net revenue stream is designed to test the affordability of the authority’s financial strategy. The ratio addresses the revenue implications since, as a fundamental principle, all the borrowings of an authority are secured on its future revenue income*

3) *The Capital Financing Requirement is the amount of capital spending that has not yet been financed by capital receipts, grants or contributions from revenue. It measures the underlying need to borrow for capital purposes.*

5) *The net borrowing requirement is the difference between the authority's CFR and external debt*

6) *A fundamental indicator of affordability for a council to consider in setting its forward plans is the impact on the council tax, and in the case of the HRA, housing rent. The purpose of this indicator is to allow the effect of the totality of the council's plans to be considered.*

TABLE 4: TREASURY MANAGEMENT INDICATORS	2008/09	2009/10	2009/10
	actual	original	actual
	£'000	£'000	£'000
1) Operational Boundary for external debt -			
borrowing	57,500	57,500	57,500
other long term liabilities	2,000	2,000	2,000
TOTAL	59,500	59,500	59,500
The Operational Boundary is set in the region of 35% above the Capital Financing Requirement			
2) Authorised Limit for external debt -			
borrowing	70,000	70,000	70,000
other long term liabilities	2,000	2,000	2,000
TOTAL	72,000	72,000	72,000
The Authorised Limit is set in the region of 25% above the Operational Boundary			
3) Actual external debt	£44,986	£44,986	£44,986
4) Upper limit for fixed interest rate exposure			
expressed as either:-			
Net principal re fixed rate borrowing / investments	100%	100%	100%
5) Upper limit for variable rate exposure			
expressed as either:-			
Net principal re variable rate borrowing / investments	25%	25%	25%
6) Upper limit for total principal sums invested for over 364 days	75,000	75,000	75,000

TABLE 5: Maturity structure of fixed rate borrowing during 2010/11	upper limit	lower limit
under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

9. Investment Rates in 2009-10

At the start of 2009-10, investment rates were enhanced by a substantial credit crunch induced margin. However, the Bank of England's quantitative easing operations had the desired effect of improving the supply of credit in the economy and so these margins were eliminated by half way through the year. Consequently, investment rates fell markedly during the first half of the year,

Overnight rate: this varied little during the year within a range of 0.38 – 0.49%.

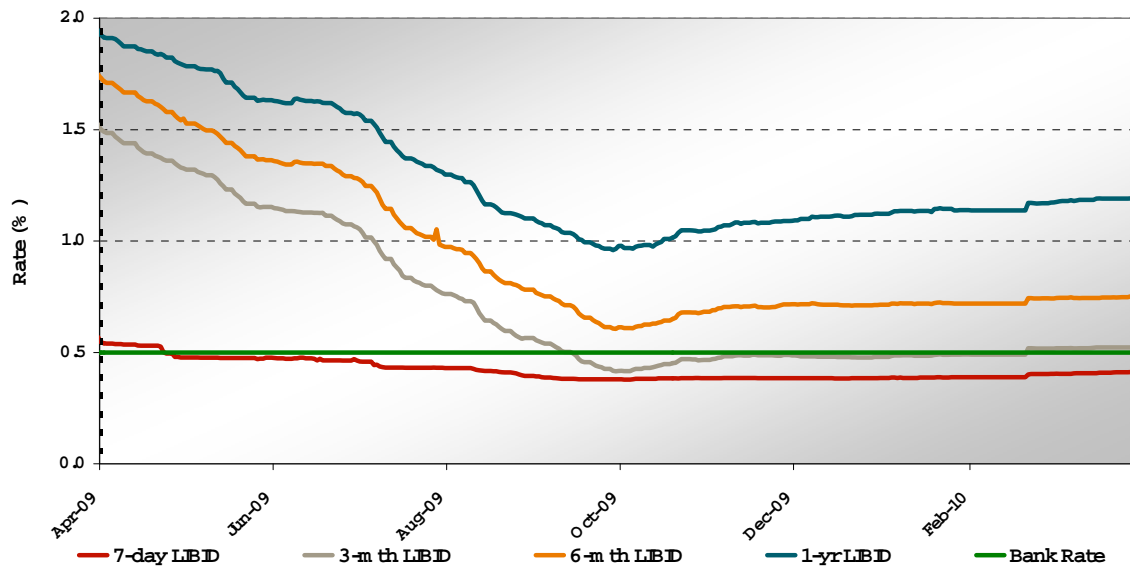
3 month rate: from a high point for the year of 1.50% on 1.4.09, the rate fell gradually to reach a low of 0.42% in September before finishing the year at 0.52%,

12-month rate: this started the year at a credit crunch enhanced rate of 1.85% and fell steadily until reaching 0.85% in September. Since then it has risen to finish the year at 1.15% as the market looked ahead to when the MPC would have to start raising Bank Rate from its then current rate of 0.50%.

Investment Rates 2009-10

	Overnight	7 Day LIBID	1 Month	3 Month	6 Month	1 Year
01-Apr -09	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
31- Mar -10	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
High	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
Low	0.41%	0.38%	0.38%	0.42%	0.61%	0.96%
Average	0.40%	0.42%	0.47%	0.73%	0.94%	1.29%
High Date	01/04/09	01/04/09	01/04/09	01/04/09	01/04/09	01/04/09
Low Date	09/09/09	02/10/09	18/09/09	29/09/09	29/09/09	28/09/09

Investment Rates 2009-10



10. Investment Outturn For 2009-10

Internally Managed Investments - The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list. The Council invests for a range of periods from overnight to 365 days, dependent on the Council's cash flows, its interest rate view, the interest rates on offer and durational limits set out in the approved investment strategy.

Investment Strategy

Pending the issuance of revised CIPFA and statutory investment guidance expected towards the end of the year, and in the light of continuing stresses on the world banking system, enhanced priority was given to security and liquidity in order to reduce counterparty risk to the maximum possible extent.

As noted earlier in this report, the opportunity was also taken to eliminate the requirement for new borrowing by running down investment balances in order to further reduce exposure to counterparty risk and provide savings to debt management budgets.

In order to counter the downturn in investment rates and earnings explained above, a *substantial* part of the investment portfolio was held in liquidity accounts with main UK banks. These accounts offered both instant access and rates which were often double those available in the money markets through brokers for overnight money and higher than for most periods up to six months.

In addition, use was made of special deals with main UK banks with various periods from three months to one year which also offered substantially enhanced rates over the equivalent rates available through brokers.

Investment Performance for 2009-10 - Detailed below is the result of the investment strategy undertaken by the Council.

TABLE 2	Average Investment Balance	Rate of Return	Budgeted Rate of Return	Benchmark (3 month libor)
Internally Managed	£120.76m	2.22%	1.50%	0.72%

As a result of the rate of return exceeding the benchmark return an additional £1,811k of interest was achieved

As a result of the rate of return exceeding the budgeted rate of return, an additional £869k of interest was achieved.

11. Icelandic Bank Defaults

The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government is working with the Icelandic Government to help bring this about. At the current time, the process of recovering assets is still ongoing with the Administrators. The Local Government Association is coordinating the efforts of all UK authorities with Icelandic investments. Members will be periodically updated on the latest developments on these efforts.

The Government, the National Assembly of Wales and the Scottish Parliament have all issued regulations to allow local authorities to delay recognising any loss on these investments that may eventually be incurred until the financial year 2010-11.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications from this report

Legal implications and risks:

There are no direct legal implications from this report

Human Resources implications and risks:

There are none arising from this report

Equalities implications and risks:

There are none arising from this report

BACKGROUND PAPERS

None



Audit COMMITTEE

REPORT

23 June 2010

Subject Heading:

CRB Checks

CMT Lead:

Andrew Blake-Herbert
Group Director, Finance & Commerce

Report Author and contact details:

Karen Elsdon
Recruitment & Contracts Manager
X3279

Policy context:

No policy context.

Financial summary:

No significant financial implications

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

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

SUMMARY

This report is a response to a request (made at the Audit Committee Meeting on March 2, 2010 – minute 34a) that a report be submitted detailing:-

1. How many staff require CRB checks?
2. How many posts require CRBs, but do not currently have one?
3. What plans there are to ensure checks are completed as soon as possible?

RECOMMENDATIONS

Members are requested to note progress made with CRB checks.

Members are also requested to raise any issues arising from this report at the meeting.

REPORT DETAIL

1. How many staff require CRB checks?

We classify the need for a CRB check in one of three possible categories; posts performing regulated activity (under the Independent Safeguarding Authority guidelines), posts performing controlled activity (under the Independent Safeguarding Authority guidelines) and those requiring a CRB for non-ISA reasons.

All (non-schools) posts requiring CRB checks:

	Regulated	Controlled	Other CRB
Social Care & Learning	791	502	380
Finance & Commerce	97	8	118
Culture & Community	166	0	166
Legal & Demo Services	53	8	14
Total	1107	518	678

CRB process

Permanent Staff

New hires into posts requiring CRBs are not allowed to commence with the Council until such time as the CRB has returned their disclosure with satisfactory results.

There is a process to start individuals without a CRB disclosure number providing the following conditions are met:

- The completed disclosure form must have been submitted to the CRB
- The Head of Service must sign the waiver and be aware of the risks
- The individual must never work alone/unsupervised
- The individual must always work with someone who has a CRB

The need for a CRB is recorded on a job description which tells the Recruitment team the process for hiring an individual.

Retrospective CRBs – there is currently a rolling programme to CRB check individuals where it has been deemed necessary for a post-holder to have a CRB when previously none was required.

Re-checks – a CRB disclosure is a statement of an individual's interaction with the criminal justice system from a fixed point in time (from the date of submission backwards). As such, the CRB suggests that best practice is that an employer re-check all CRBs every three years. The Council currently have a rolling programme of re-checks.

As the completion of CRB forms requires considerable administration from the Contracts Team in Human Resources not all retrospective requests are sent out at once rather they are staggered in order that the Contracts team have a manageable workload.

Agency Workers

Agency staff are not employed by the Authority therefore their CRBs are held by the agency (not the Council). In order that agencies provide correctly qualified and checked staff, line managers themselves enter qualifications directly on to an order on the Comensura system.

The actual requirement specified by the line manager is viewed by approved Comensura agencies who then submit qualified candidates to fill the order. Should an agency submit a candidate without a CRB to such a post; they are automatically suspended and can be removed as a supplier.

Comensura completes a bi-yearly audit where agencies are audited to cover proof of CRB and other personally held requirements. A full report is sent to the Contract Monitoring Manager in HR for review.

In an effort to have a fail-safe system, HR are piloting a "first day checklist" for managers for all social worker posts in both Adult Social Care and Children & Young People Services. The checklist requires managers to meet with the new agency social worker on their first day and check the individual's GSCC qualifications, log their GSCC number, check their CRB is in the correct name and correct agency and to have seen proof of eligibility to work in the UK.

In addition, from August 2010 a Comensura Safeguard Plus package will be in place. This enhanced process has been designed in accordance with the new

Independent Safeguarding Authority guidance and is compliant with the Vetting and Barring Scheme.

2. How many posts require CRBs, but do not currently have one?

Posts requiring a CRB which is currently populated with a post holder who does not have a recorded CRB disclosure number:

	Regulated	Controlled	Other CRB
Social Care & Learning	37	85	48
Finance & Commerce	30	4	71
Culture & Community	28	0	48
Legal & Demo Services	6	4	0
Total	101	93	167

There are several reasons why there are a number of staff in posts without a CRB. Particularly noteworthy is that HR has just completed a detailed exercise to produce a master list of all posts requiring CRBs. The list was compiled in preparation for the new Independent Safeguarding Regulations (ISA) which come into effect 26 July 2010.

In order to create the master CRB list, HR and Heads of Service followed the newly issued ISA guidelines in order to determine post classification. As this was the first time we have asked line managers to complete an exercise of this kind, we believe that there have been a number of posts which added to the CRB required list which may have a post holder for whom a CRB has never been requested. i.e. we believe by asking the question we have created an awareness that more posts require CRBs. There is however, no way of knowing this for certain as previously the total number of posts requiring a CRB was uncalculated.

It is also important to note that the table above refers to posts for which there is no CRB disclosure number *recorded* in the HR system, Cyborg. This does not necessarily mean that the post holder does not have a CRB. The Council's current HR system, Cyborg, is old and scheduled for replacement by Oracle ERP. When Cyborg was first commissioned there was no such thing as a CRB so there was no field to record CRB number and date. As the CRB is a newer requirement than the Cyborg system, HR staff have had to adapt processes to suit changing legislation.

The result has been that CRB disclosure numbers have not always been recorded in a central place, rather they had previously been stored in a series of spreadsheets and databases kept locally over the years. In the past year HR have had an on-going drive of data cleansing and have had new fields built into Cyborg in order that CRB data is recorded accurately.

The development of a comprehensive CRB master list and the Cyborg data cleansing activities means that the data transferred to Oracle ERP will be accurate and up-to-date.

There will be a follow up audit which will review these actions or identify any issues that need progressing further.

3. What plans are there to ensure checks are completed as soon as possible?

The existing rolling programme of CRB checks involves the three different classifications for checking; new starter; new check (where someone is in post, but no CRB disclosure is recorded) and re-check (best practice dictates that CRBs be re-checked ever three years).

There are currently 344 CRB checks being processed:

111 new checks
86 new starter checks
295 re-checks

After completing the master list for CRB and ISA regulations, HR have now re-prioritised the checking schedule so that those individuals in posts with missing CRBs (see above) are dealt with as top priority. In addition, we will identify the risks associated in having staff without CRB checks with relevant Heads of Service. This could include introducing a similar process to that used for new entrants who are without a CRB disclosure number, that is, to ensure they are supervised at all times.

In addition, as part of the London Recruitment Partnership we are examining the possibility of e-CRB to speed up the whole checking process. This may be available in 2011 for interested Boroughs.

IMPLICATIONS AND RISKS

Financial implications and risks: This process has been undertaken through the reprioritisation of existing resources. The associated costs for CRB checks are re-charged to individual cost centres after HR pays the invoice. The costs will be absorbed into current budgets. A CRB check is £36. The associated ISA registration costs (which will include a CRB is £64) are to be addressed by CMT shortly.

Legal implications and risks: The Council has an obligation to carry out CRB checks on relevant staff in an adequate manner. Failure to do so generally or to speedily carry out checks on staff with 'missing' checks could have adverse reputational implications and possibly impact on liability in the event of an unchecked staff member carrying out abuse.

Human Resources implications and risks: The HR implications are contained within the body of the report

Equalities implications and risks: There are no equalities implications.

AUDIT COMMITTEE REPORT

23 June 2010

Subject Heading:	Internal Audit Progress Report
Report Author and contact details:	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of progress to deliver the audit plan in quarter four of 2009/10.
Financial summary:	N/a

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

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

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 1st January to 31st March 2010.

RECOMMENDATIONS

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

REPORT DETAIL

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

	Page
Section 1 Audit Work 1st January to 31st March 2010	37
A summary of the progress made to complete the 2009/10 plan is detailed in this section of the report.	
Section 2 Management Summaries	38-51
Summaries of all final reports issued since the last report in April.	
Section 3 Budget & Resource Information	52
The budgetary and resource position at the end of March are included for information.	
Section 4 Key Performance Indicators	53
The actual performance against target for key indicators is included.	
Section 5 Outstanding Audit Recommendations Tables	55-58
The details regarding status, as at the end of March, of all outstanding recommendations are included within tables for information.	
Section 6 Money Laundering Update	59
An update following the annual review of money laundering arrangements is included in this section of the report.	

Section 1 Audit Work 1st January 2010 to 31st March 2010.

At the end of March 97% of the audit plan had been delivered. This was against a target for the period of 98%. This is due to one officer being on long term sick leave.

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

SCHEDULE 1: 2009/2010 – Audits Completed

Report	Opinion	Recommendations				Ref below
		High	Med	Low	Total	
Lettings	Unqualified	0	1	0	1	2(1)
Equality and Diversity	Unqualified	0	3	0	3	2(2)
Final Accounts	Unqualified	0	1	1	2	2(3)
Debtors	Qualified	0	5	2	7	2(4)
Comensura	Qualified	0	4	1	5	2(5)
Recruitment Checks	Unqualified	0	3	0	3	2(6)
Leavers	Unqualified	0	1	0	1	2(7)
Fixed Assets	Unqualified	0	0	0	0	2(8)
Total		0	18	4	22	

Section 2 Management Summaries

Lettings	Schedule 2(1)
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2.1 Background

2.1.1 The London Borough of Havering Lettings Policy is based on the requirements of the 1996 Housing Act and the Homelessness Act 2002. Groups are identified and assigned a priority level to be placed on a waiting list for available housing.

2.1.2 Priority for housing is determined using a banding system with everyone able to apply for housing. Applicant's needs are assessed and a banding allocated to reflect the urgency of the application. Applicants are given a unique pin number to enable them to bid for housing appropriate to their allocated band.

2.1.3 As at January 2010 there were 10,520 applicants on the Lettings Register Waiting List.

2.1.4 This audit has focused on the process to allocate families to available properties however an audit of Housing Strategy is planned in 2010/11 and will consider how the Council meets the housing needs of the residents of Havering.

2.1.5 Summary of Audit Findings

2.1.6 A small number of duplicate entries were identified on the Lettings Register, however, work is currently underway to improve and update the information held in order to report a more accurate figure in future and comply with changes in legislation.

2.1.7 Supporting documentation is not always received at the time of application to the Lettings Register; however, good controls are in place to obtain this information at the time of an applicant being housed.

2.1.8 An Equality Impact Assessment (EIA) had not been completed for the Housing Strategy at the time of the audit.

2.1.9 Audit Opinion

2.1.10 One recommendation has been raised as a result of this audit.

2.1.11 The recommendation relates to the need for:

- An EIA to be carried out on the Housing Strategy (Medium).

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

Equality and Diversity	Schedule 2(2)
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2.2 Background

- 2.2.1 The Council's Corporate Management Team have committed to actions to achieve the goal of a successful peer assessment under the Equality Framework for Local Government (EFLG) by November 2010.
- 2.2.2 The audit intended to specifically assess progress against the 'roadmap' produced by the Council's Diversity Standards Unit (DSU), which is intended to serve as a guide to the necessary actions to be completed by departments and the Council as a whole. The roadmap is itself derived from the details specification of requirements that should be met at each level of achievement within EFLG.
- 2.2.3 It was found early on in the audit that the roadmaps are not yet established enough for the progress to be accurately determined and assessed and so the audit was focused on how to add value to this process during this development period.
- 2.2.4 The expectation is that further to this audit more in-depth testing will be carried out prior to the peer review scheduled for November 2010. This will focus on testing specific requirements within the EFLG assessment in order to provide assurances that the Council will meet the achieving level as planned.

2.2.5 Summary of Audit Findings

- 2.2.6 Inconsistencies were identified in the completion of Equality Impact Assessments (EIAs).
- 2.2.7 EIAs were not in place for all policies identified in Social Care & Learning (SC&L) at the time of the audit, however, work was in progress for this to be prioritised.
- 2.2.8 A roadmap was not in place for the SC&L Directorate at the time of the audit although plans had been put in place for this task to be prioritised and progressed.
- 2.2.9 Examples of collection of performance data (in relation to equality and diversity) was demonstrated in each of the available directorates roadmaps but gaps are evident which would prevent the Council meeting the achieving level of the EFLG at this time.
- 2.2.10 The establishment and development of the four directorate diversity management groups (DMGs) was found to be at varying stages. This correlated with the progress made with the roadmaps and each group was able to verbally confirm future plans in order to meet the achieving level of the EFLG by November 2010.

2.2.11 Terms of Reference (ToR) were only available for the Finance & Commerce DMG at the time of the audit but plans were in place to ensure this was rolled out to all Directorate DMGs.

2.2.12 Roles of the representatives of the directorate DMGs are unclear.

2.2.13 Roadmaps are not shared between directorate DMGs, which may mean instances of good practice or innovative ideas are not shared and duplication of data collection / reporting may occur.

2.2.14 There is a risk that there is a reliance on the DSU to retain momentum with this process and that without this push directorate DMGs may lose focus.

2.2.15 Audit Opinion

2.2.16 As a result of this audit we have raised three medium priority recommendations.

2.2.17 Recommendations related to the need for:

- Quality checks to be carried out on EIAs;
- Terms of Reference to be put in place for Directorate DMGs; and
- Sharing instances of best practice across Directorates.

2.2.18 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.

Final Accounts – Contract Completion	Schedule 2(3)
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2.3 Background

2.3.1 Technical Services is within the Finance and Commerce directorate and provides a diverse range of construction related services to the Council.

2.3.2 Summary of Audit Findings

2.3.3 A 15% sample (7 contracts, 1 in two parts = 8) of contracts completed between November 2008 and October 2009 were selected at random for audit testing. The system of control was documented by first walking through each of the project files. Minor issues were noted as a result of this work but controls were generally found to be in place and operating effectively. It was however noted that officers, although qualified in the relevant skills required to perform their roles, do not currently have their work quality checked by management. This lack of segregation of duties could result in a failure to detect non compliance or poor quality of work.

2.3.4 The issues identified during the course of the audit include:

- No formal process that would ensure any trends in the differences between provisional figures quoted and the final totals invoiced, due to intentional understating, would be identified;
- It was noted for one of the eight projects tested that industry standard specifications did not meet client requirements;
- It was noted, in one case, of the eight tested that the defect retention was released 20 days early, however this was not thought to have placed the Council or client at significant risk, retention periods are 12 months in length;
- Within some projects, certification of additional or enabling works for other projects had been undertaken before formal agreement had been obtained from the client and / or before a budget for their provision was in place; and
- Conflict of interest could arise when officers fulfil the role of contract arbitrator between the contractor and the client. However no evidence of this was noted in the sample reviewed.

2.3.5 It is noted that prior to the audit management had identified the need for supervisory review and a new structure has been devised. Due to issues in recruiting officers with the relevant skills and expertise and the need to achieve savings targets, the resources available within the service at the time of the audit are not aligned with the planned structure.

2.3.6 Audit Opinion

2.3.7 As a result of this audit we have raised one medium priority recommendation and one low priority recommendation. The recommendations raised relate to:

- Introduction of management or peer reviews (Medium); and
- Undertaking and monitoring results of post completion client reviews (Low).

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

Debtors	Schedule 2(4)
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2.4 Background

- 2.4.1 The Council implemented a new Oracle Debtors module in November 2009 to replace the previous Nucleus system.
- 2.4.2 The management of debtors relates to the raising of invoices for services provided by the Council, including subsequent cash collection and debt management.
- 2.4.3 As debtors forms a central function to the Council's ability to manage its financial resources and therefore represents a key financial system, it is subject to annual audit review.
- 2.4.4 In 2009 / 10 a total of 23,631 invoices were raised totalling £160,567,609. During April 2009 a total of 2524 invoices, equating to £13,956,885 were raised in comparison to the 3014, £14,216,705 raised during April 2010.

2.4.5 Summary of Audit Findings

- 2.4.5 The implementation of the new Oracle Debtors system and the ongoing pressure to resolve both existing and new system issues has led to an increase in work being carried out by the central debtor's team. As a result a backlog of work is emerging.
- 2.4.6 At the time of the audit review it was noted that there are 292 pieces of work outstanding within workflow, which relates to work being requested both internally by other departments and externally from debtors. The oldest item dated July 2009. A total of 1442 items are outstanding within the universal work queue which is the recovery tool where works are raised by the system such as the need for the debtor to receive a telephone call.
- 2.4.7 At the time of the audit the management spot checks were not being completed, although it is planned that these will be reinstated.
- 2.4.8 Testing highlighted that the Invoices for client contributions towards residential care do not accurately detail the period to which the invoice relates. Currently the invoices appear to be in advance of service provision, however this is because the system cannot use retrospective billing periods. This was being resolved at the time of the audit review and so no recommendations have been raised.
- 2.4.9 Documentation has not been consistently supplied to support the reconciliation of debts requested against debts raised. This issue was resolved during the audit review; therefore no recommendation has been raised.
- 2.4.10 The administration of access licenses involves input from four separate departments within the Council. However, during the review it was found that a recent increase in charges has lead to a number of complaints being

received. Recovery action has been temporarily stopped pending resolution of this issue, however this issue was being dealt with by management at the time of the audit.

2.4.11 The quality of data retained within the Debtors system, and therefore management information produced, is dependent on the notification of any payments received by the originating department to the central debtors team. Testing identified that information pertaining to one of the samples selected had been received by the originating departments and recorded on the council's SWIFT system, but had not been notified to the debtor's team. This information being accurate is vital to the debtor's team in recovering outstanding debts efficiently and economically.

2.4.12 Cases passed to legal services are recorded within an excel spreadsheet. Each month the sheet is updated to give a position on each of the cases. A review of this document found that it does not provide a clear snapshot of recovery action taken. As an integral piece of management information this document lacks a clear audit trail. This issue was rectified during the audit.

2.4.13 Legal files reviewed for evidence of recovery action taken do not provide a clear and comprehensive audit trail of actions undertaken. There are practice management standards expected within these files, however, the audit found that these standards are not being adhered to.

2.4.14 Testing found that write off request forms supporting write off schedules had not been signed in some cases to evidence that the write off had been approved.

2.4.15 Access to the Oracle system is requested electronically via the online ICT request forms. Two individuals are authorised to approve requests for access, based on level of access required. The audit found that in some instances approval may be sought via the telephone resulting in a lack of evidence to support the authorisation of the request.

2.4.16 We were advised during the audit that currently access permissions do not allow restrictions to be placed on users outside of the central debtor's team. As a result, users can view information relating to other departments within the council. Whilst this cannot be rectified within the current system it will be resolved once the most recent version of Oracle has been implemented, which is expected to go live in April 2011.

2.4.17 Audit Opinion

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

2.4.18 Recommendations related to the need for:

- Management spot checks to be resumed (Medium);
- Reminders relating to responsibility for data quality (Low);
- Clear audit trails in relation to recovery action including legal (Medium);

- Authorisation of write off request forms (Medium); and
- Audit trail of approval for access to system (Medium).

2.4.19 Given the increase in work being progressed through the central debtor's team and the existing pressures in resolving system issues identified since implementation, there is a risk that the backlog in work will continue to grow leading to potential reputational and financial risks to the council.

2.4.20 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.

Comensura	Schedule 2(5)
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2.5 Background

2.5.1 In April 2007 the Council entered into a contract with Comensura for the supply of a Vendor Neutral Managed Service for the provision of temporary agency workers. The contract is due for re-tender in 2011.

2.5.2 Summary of Audit Findings

2.5.2 The current contract with Comensura contains limited measurable performance indicators. Currently it is felt that management information being extracted from the system is not sufficient to provide the necessary assurances with regards internal controls.

2.5.3 Improvements to management information being extracted are considered necessary. In particular it is noted that complaints received in relation to the procurement of temporary staff are not being formally recorded and monitored. As such, trends cannot be monitored to identify where the problems are occurring.

2.5.4 There is a reliance on Comensura to ensure all temporary employees recruited have had the necessary checks undertaken. The general feeling indicates that managers perceive that the risk has been transferred to Comensura. Results of audits, on agencies undertaken by Comensura, have identified weaknesses in the necessary controls. Although contract monitoring officers have strengthened the audit assurances available to the Council and an enhanced service from Comensura is being procured going forward, alternative action is also planned with regards the highest risk area 'safeguarding'. At the time of the audit these controls were not in place, however as planned actions are considered to mitigate the risk no formal recommendation has been raised.

2.5.5 Although new orders must be approved by one of two designated order approvers the controls over extension of orders, were found to be inconsistent. This was not fully resolved during the course of the audit.

2.5.6 At the time of the audit a total of 132 users were set up on the system with the ability to place orders without requiring approval. No guidance could be found to identify on what basis this arrangement has been agreed. Our review of the list identified a number of inappropriate officers with this facility.

2.5.7 Approval structures were found to be out of date at the time of the audit; structures were not being amended to reflect leavers and there was no mechanism to ensure where an officer changed roles their access rights are amended accordingly.

2.5.8 Audit Opinion

2.5.9 As a result of this audit we have raised four medium and one low priority recommendations. The audit has acknowledged that the risks around recruitment checks were identified by management and at the time of the audit actions to mitigate risks had been planned but not fully implemented.

2.5.10 Recommendations related to the need for:

- Measurable indicators to be determined (Medium);
- Contract monitoring arrangements to be strengthened (Medium);
- Clarification over the internal approval processes in place for the extension of appointments (Low);
- Review of access rights for those not currently requiring approval of their actions (Medium); and
- Checks on reporting structures to be regularly carried out (Medium).

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

Recruitment Checks	Schedule 2(6)
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2.6.1 Background

2.6.2 The Council has a corporate Human Resources Team covering all aspects of the council except schools; which is covered by its own dedicated team.

2.6.3 Between April 2009 and March 2010 a total of 740 new starters had been recruited by the Council; 316 in non-schools, 424 in schools. These numbers refer only to permanent staff and therefore exclude temporary / agency workers employed via Comensura, the Council's third party, vendor neutral contractor.

2.6.4 Summary of Audit Findings

2.6.5 There is a corporate approach to recruitment; advice and guidance is available to managers through the recruitment process via the intranet, training courses and from designated HR officers. During the audit the information and guidance was reviewed and it was noted that the procedures in place to guide managers through the recruitment process do not, in all areas, reflect current working practice and roles and responsibilities are not clearly defined.

2.6.6 Many of the controls in the recruitment process are the responsibility of the local managers. Testing therefore identified some non compliance issues which were considered as part of the audit. The significance of the findings were not sufficient for HR to implement any additional controls to the process at this time however in the future monitoring compliance will be more efficient as a new system is being implemented. In the interim as part of the review of the guidance it has been suggested that some reminders regarding key controls are issued to management.

2.6.7 Checklists are used by HR as part of the recruitment process; however evaluation of the checklist as a control identified a number of areas of improvement. For example checklists did not clearly indicate which section of the form were relevant to the individual being recruited and did not facilitate the recording of the completing individuals' name. Such changes would improve the audit trail and the team's ability to monitor performance and compliance. The recruitment checklist has now been amended to include the name and signature of the individual who completes the final stages. There is still a need for these forms to be subjected to quality management spot checks.

2.6.8 The educational and / or training qualifications of new starters are only verified for teaching and social work positions where there is a legal requirement for post holder to be qualified / registered. Other risk areas are emerging as there is an increasing trend of fraudsters targeting organisations for financial gain. It is therefore necessary for risks to be periodically reviewed and management checks to be adjusted as required.

2.6.9 As a new HR system (Oracle ERP) will be implemented shortly no recommendations have been raised to address the lack of management information available from the current manual system. Senior management should ensure that the new system allows effective management information available to be identified, produced and reviewed on a regular basis.

2.6.10 Audit Opinion

2.6.11 As a result of this audit we have raised three medium priority recommendations.

2.6.12 Recommendations related to the need for:

- Clear guidance to differentiate between responsibilities of Human Resources and managers in relation to the recruitment process;
- Recruitment checklists to be subject to management spot checks; and
- Consideration for carrying out spot checks on qualifications.

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

Leavers	Schedule 2(7)
----------------	----------------------

2.7 Management Summary

2.7.1 The Human Resources section supports approximately 2900 staff across the Council.

2.7.2 Between April 2009 and March 2010 a total of 632 individuals left the employment of the council. In 480 cases the individual gave their resignation, 81 reached retirement age and 51 took early retirement / redundancy.

2.7.3 Summary of Audit Findings

2.7.4 A corporate approach to the administration of leavers has been established within the council. Advice and guidance is available to managers through the council's intranet pages, which sets out processes to follow and forms to be completed.

2.7.5 Many of the controls within the leaver's process are the responsibility of managers. A leaver's checklist has been produced by HR to aid managers in ensuring that key items such as ID passes, keys and access to council systems, are removed / deactivated whenever an individual leaves the authority.

2.7.6 The audit found that information and guidance to managers on the leaver's process does not clearly reflect current working practice, resulting in confusion over roles and responsibilities.

2.7.7 Testing identified issues of non compliance in regards to the completion of this checklist. Whilst issues have been found, the production of a monthly leavers report by HR which is distributed to key teams such as IT and Facilities has mitigated some of the risk. As a result no recommendations have been raised regarding this issue, although a recommendation has been raised to improve controls over the collection and destruction of ID passes.

2.7.8 Monitoring compliance in the future will be more efficient as a new system is being implemented. In the interim as part of the review of the guidance, it has been suggested that some reminders regarding key controls are issued to management.

2.7.9 Audit Opinion

2.7.10 As a result of this audit we have raised one medium priority recommendation relating to the need for records to be maintained to support the return and destruction of leavers ID passes.

2.7.11 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.

Fixed Assets	Schedule 2(8)
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2.8 Background

2.8.1 The Council implemented a new fixed asset register during 2008 – Technology Forge.

2.8.2 As at the 1st April 2010 there are 2,517 entries on the fixed asset with a net book value of over £1.08 billion.

2.8.3 Summary of Audit Findings

2.8.4 Issues raised by PwC during their review were considered as part of the audit and found that processes had been implemented in order to address each of the areas highlighted.

2.8.5 It was noted that there are options on Technology Forge to attach documents to the asset records which may assist with new ways of working and provision of a more robust audit trail. While some use can be made of this it is understood that there are wider IT issues that would need to be resolved before this can be fully utilised.

2.8.6 Audit Opinion

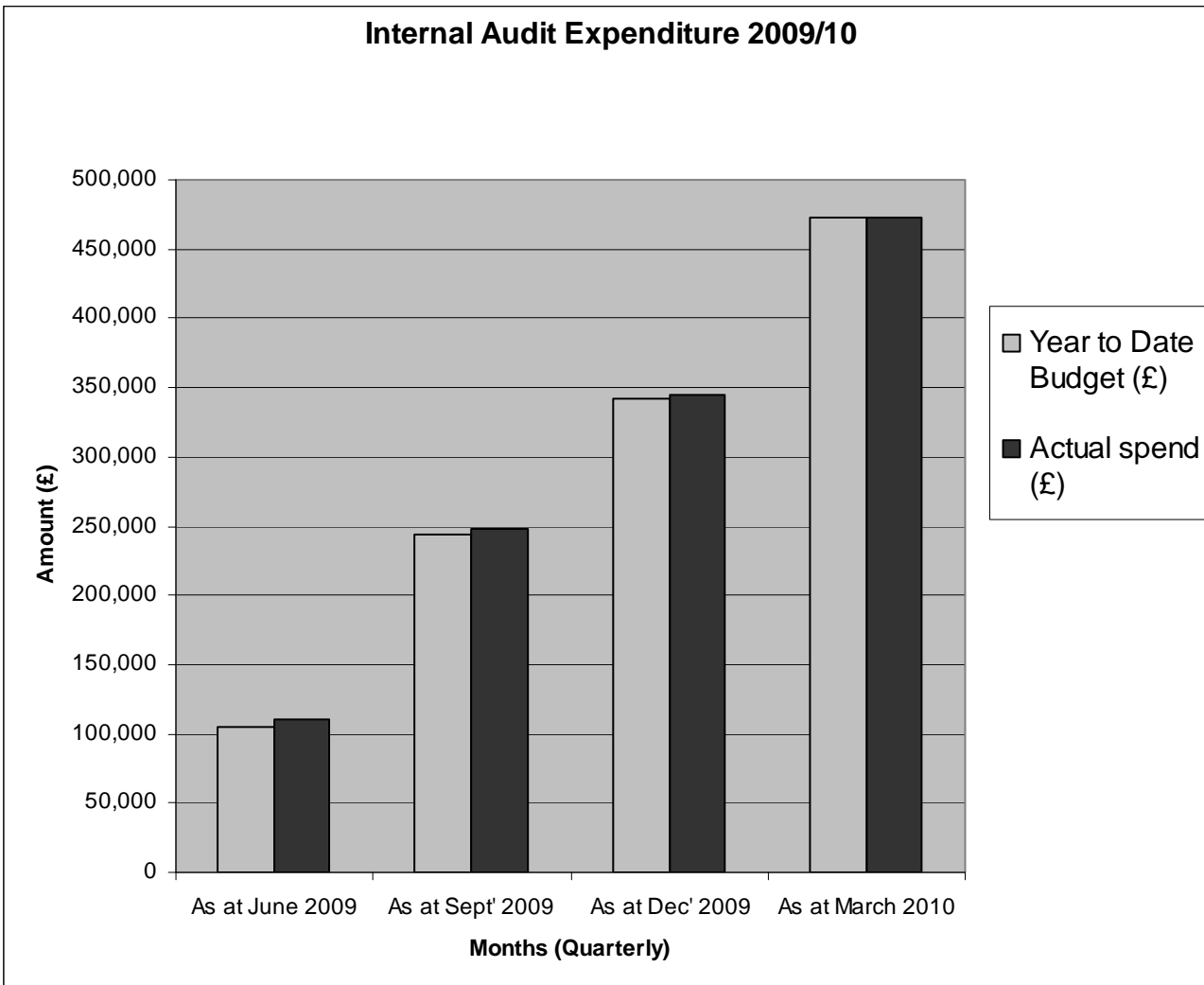
2.8.7 No recommendations were raised as a result of this audit.

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

Section 3 Budget & Resource Information

Internal Audit (F620) 2009/10 total expenditure.

	As at June 2009	As at Sept' 2009	As at Dec' 2009	As at March 2010
Year to Date Budget (£)	104,901	243,294	341,416	472,350
Actual spend (£)	110,971	247,534	344,212	473,071
Variance (£)	6,070	4,240	2,796	721



The overall budget for the year included an ear marked reserve to cover the cost of additional audit work, therefore reported figure is £8,500 higher than in previous quarterly reports as reserve is held centrally until needed.

Section 4 – Key Performance Indicators

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

Audit Plan Delivered (%)										
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Actual	15	23	30	38	46	53	61	72	84	97
Cumulative Target	15	23	31	40	50	60	69	78	88	98

At the end of March the team is marginally behind target with 97% of the audit plan having been delivered.

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

All 2009/10 briefs were issued before the end of February 2010.

KPI 02 – Draft Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	5	9	17	20	21	24	37	38	45	55	57
Cumulative Target	8	13	18	23	29	35	40	47	55	63	65

The issue of draft reports was behind target at year end but remaining reports have been issued and finalised in quarter 1 of 2010/11.

KPI 03 – Final Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	2	1	10	14	18	21	30	33	42	50	55
Cumulative Target	5	11	17	23	29	35	38	45	52	59	65

Remaining final reports have been issued and management summaries are presented in this report to Committee.

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Section 5 – Outstanding Audit Recommendations Tables

Categorisation of recommendations

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

Medium: Important control that should be implemented.

Low: Action pertaining to best practice.

Outstanding Internal Audit Recommendations – 2006/07

Review in 2006/07	HoS Responsible	Outstanding			Position as at end March 2010		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Providing Services for the Physically Disabled	Adult Social Care	1	1	0	2		
Liquidated and Ascertained Damages	Streetcare	0	1	0	1		
	Total	1	2	0	3	0	0

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

Outstanding Internal Audit Recommendations – 2007/08

Review in 2007/08	HoS Responsible	Outstanding			Position as at end March 2010		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Street Lighting	Street Care	0	1	0	1		
Asbestos Management	Asset Management		1	0	1		
Cash and Bank	Asset Management	1		0	1		
Civil Contingencies	Development & Building Control	0	1	0	1		
Total		1	3	0	4	0	0

The Street Lighting has a revised date of July 2010; Civil Contingencies has a revised date of July 2010. Cash and Bank recommendation has a target date of July 2010. Asbestos Management recommendation, relating to implementation of a system, has also been pushed back to December 2010.

Outstanding Internal Audit Recommendations – 2008/09

Review in 2008/09	HoS Responsible	Outstanding			Position as at end March 2010		
		High	Medium	Low	In Progress	Not Started	Position Unknown
E Payments	Business Systems		4	1	5		
Council Tax	Exchequer Services		3		3		
Commissioning of Works	Asset Management	1			1		
IT Security and Data Management	Business Systems	2	1		3		
Telecommunications	Business Systems	1	3		4		
Internet	Business Systems		2	1	3		
Trading Standards	Housing & Public Protection	1			1		
Procurement and Leasing of Vehicles	Asset Management		1		1		
Mobile Support Service	Housing & Public Protection		2		2		
Asylum Seekers and Unaccompanied Minors	Children's Services		1		1		
Business Continuity	Planning & Building Control		4		4		
Cemeteries an Crematorium	Housing & Public Protection	2	2		4		
Burials and Protection of Property	Adult Social Care		2		2		
Child Protection	Children's Services		2		2		
Meals on Wheels	Adults Social Care	1	2		3		
Total		8	29	2	39	0	0

Revised deadlines have been agreed with management for all recommendations.

Outstanding Internal Audit Recommendations – 2009/10

Review in 2009/10	HoS Responsible	Outstanding			Position as at end March 2010		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Oracle (CRM & E Procurement)	Business Systems		5	5	10		
Fairkytes	Culture & Leisure			1		1	
Server Virtualisation Project	Business Systems	2	5	2	9		
Corporate Complaints	Culture & Community	1	1		2		
Children with Disabilities	Children's and young People	1	2		3		
Integrated Youth Services	Children's and young people	3	3	1	2	5	
Cyborg	Exchequer Services	2	2		4		
Government Connect GCSx	Business Systems	1	1	1	3		
Lettings	Culture & Community		1			1	
Total		10	20	10	33	7	0

Section 6 Money Laundering Update

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.

A Money Laundering Reporting Officer (MLRO) and deputy are in place and guidance on the intranet details how these officers can be contacted.

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 the resulting list of actions.

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.

The Internal Audit Team has received no money laundering reports in the period April 2009 to March 2010. It is recognised that 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.

IMPLICATIONS AND RISKS

Financial implications and risks:

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. With regards Money Laundering 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. There are no financial implications or risks arising directly from this report.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

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

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None.



AUDIT COMMITTEE

REPORT

23 June 2010

Subject Heading:

Internal Audit Annual Report

Report Author and contact details:

Vanessa Bateman – Internal Audit &
Corporate Risk Manager ext 3733

Policy context:

To present a summary of the results of work completed by the Internal Audit team during 2009/10 as well as an opinion on the system of internal control.

Financial summary:

N/a

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

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

SUMMARY

The Annual Report (appendix 1) provides a summary of the work undertaken by the Internal Audit Team during 2009/10 as well as communicating key messages and an overall opinion on the system of internal control from the Internal Audit & Corporate Risk Manager.

RECOMMENDATIONS

To note the contents of the report.

REPORT DETAIL

In accordance with the Accounts and Audit Regulations 2003 (amended 2006) this report details the work undertaken to review the system of internal control and provides Senior Management and Members with assurance that an adequate system of internal control is in place within the London Borough of Havering.

The reports summarises the work undertaken by the team that supports the assurance provided and well as formally communicating key messages and issues including:

- Complaints handling;
- Contract arrangements in service areas;
- Governance over the organisation's information;
- Access to systems and data;
- Use and availability of management information;
- Weaknesses in system implementation process;
- Lack of compliance with corporate rules;
- Weaknesses in disaster recovery arrangements;
- The potential impact of increasing resource pressures; and
- Impact of 2014 Transformation Agenda.

The report aims to summarise overall themes and trends, however the findings of individual audits have also been included within quarterly reports to Audit Committee during the year.

Information relating to the performance and future development of the service are also included.

IMPLICATIONS AND RISKS

Financial implications and risks: The annual report summarises the work of the internal audit team over the past financial year and highlights key messages regarding the finding of audit work. The findings of individual reports are reported to Audit Committee as part of the quarterly reporting cycle. Thus, any audit recommendations arising from audits undertaken, and the audit opinion, have previously been considered by the Committee. Any Internal Control issues identified as part of this process will have been raised with managers, who have the opportunity of commenting on these before they are finalised. Failure to either implement at all or meet target date may have control implications, although these

would be highlighted by any subsequent audit. It must be noted that this assurance provided is only based on the work undertaken by the team. There are no financial implications or risks arising directly from this report.

Legal implications and risks: None arising directly from this report.

Human Resources implications and risks: None arising directly from this report.

Equalities implications and risks: None arising directly from this report. Equality and Social Inclusion are key factors to consider in the review of Council's Strategies and other related policies and procedures are assessed to ensure the impact is appropriately identified. Equality and Diversity risks are included in individual audits in the plan, where risk area has a sufficient rating. Corporate controls in this area are also reviewed periodically.

BACKGROUND PAPERS

Internal Audit Annual Report.



Haverling
LONDON BOROUGH

INTERNAL AUDIT ANNUAL REPORT

2009 / 2010

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1. INTRODUCTION

- 1.1** Under the Accounts and Audit Regulations 2003 (amended 2006), the Council is required to conduct a review at least once per year of its systems of internal control.
- 1.2** The purpose of this report is to provide Members and senior managers with a formal opinion as to the adequacy and effectiveness of the Council's internal control environment and to report on the performance of the internal audit service for the year. It will be available on the Council's internet site from mid June 2010, within the 23rd June Audit Committee Agenda.
- 1.3** In accordance with proper practice the report is also one of the sources of assurance used in the process to compile the Annual Governance Statement which is also a statutory requirement.
- 1.4** The 2009/10 Internal Audit Plan, of 1520 days, was approved by the Audit Committee in March 2009. Progress reports from the Internal Audit and Corporate Risk Manager are presented to the Committee at quarterly meetings.
- 1.5** During the year there is some flexibility needed to accommodate changes in the needs of management and the focus of audits may be changed or new audits included in the programme. The plan also makes provision for Internal Audit to accommodate requests for advice and guidance on specific issues or investigation of specific issues. Before any tasks are undertaken risks are considered to ensure that resources continue to be used in an efficient and effective manner and tasks that provide the greatest added value to the organisation are prioritised.
- 1.6** Whilst remaining an independent assurance function the Internal Audit team seek to maintain strong relationships with management to ensure that appropriate actions are agreed and implemented in a timely fashion. Protocols exist to outline the roles and responsibilities of both the Internal Audit team and management.

2. INTERNAL AUDIT ASSURANCE STATEMENT

- 2.1 In the Internal Audit & Corporate Risk Manager's opinion, the system of internal control is adequate and effective and processes to identify and manage risks are in place.
- 2.2 This opinion is based on a programme of audit work which was delivered:
- In accordance with the approved Internal Audit plan;
 - By suitably experienced and qualified auditors;
 - In accordance with the CIPFA* Code of Practice for Internal Audit in Local Government; and
 - To standards accepted by the Council's External Auditors.
- 2.3 The following has also been considered:
- The acceptance of audit recommendations and progress noted in year to implement required changes;
 - The results of follow up work on previously qualified audit areas; and
 - whether any fundamental or significant recommendations have not been accepted or implemented by management and the consequent risk.
- 2.4 The next section of the report details the work completed by the team and the key issues arising.

3. WORK THAT SUPPORTS THE OPINION

3.1 Systems and Contract Audit

- 3.1.1 730 days of the plan were allocated to systems and contract audit. 45 opinions were issued for these audits; six or 13% of these were qualified.

3.2 Computer Audit

- 3.2.1 100 days of the plan is allocated to computer audit. Eight audits were completed in year with four or 50% of these being qualified.

3.3 Fraud Work

- 3.3.1 Reactive Work and Special Investigations - At the commencement of the financial year a contingency of 320 days was provided to carry out investigations into suspected fraud issues reported by management or via the fraud or whistle blowing hotline. Due to a larger than anticipated case load 380 days were delivered in year.
- 3.3.2 Pro-active – A budget of 180 days were assigned to pro-active audits. A risk based pro-active audit plan had been devised. Due to the additional reactive work 100 days were delivered by the end of the year. Priority was being given to completing the outstanding audits in quarter one of 2010.

3.3.3 Annual review of anti fraud and corruption arrangements - During the year the anti fraud and corruption arrangements were reviewed, no issues arose, and the corporate strategy to prevent fraud and corruption was refreshed. Audit Committee approved the updated strategy and noted the results of the review in December 2009.

3.4 Follow Ups

3.4.1 Information regarding outstanding recommendations is reported as part of the quarterly report to Corporate Management Team and Audit Committee. At the September meeting the Audit Committee receive a full list of all outstanding recommendations.

3.4.2 For each of the qualified reports from 2008/09 a follow up audit was undertaken and the results reported to Audit Committee. In each case with the exception of Telecommunication and IT Security, sufficient action had been taken, within target deadlines, to conclude that the systems could be given an unqualified opinion. It is noted that the two areas where sufficient progress was not noted are both work streams within the 2014 Transformation agenda, therefore risks are being monitored closely by management who decided that the cost of completing the action at the target deadline would not have constituted value for money. Both areas will be revisited as part of the 2010/11 audit plan.

3.5 Other Outside Assurances

3.5.1 Schools - The audit of schools within Havering in 2009/10 did form part of the in house teams audit plan and the service is provided through a combination of a risk based triennial audit by auditors appointed through competitive tender (currently Deloitte and Touche Public Sector Internal Audit Ltd) and an annual health check audit provided as part of Children's Services' School Funding and Assurance section.

3.5.2 As in previous years a full report for 2008/09 will be presented at the September Audit Committee meeting to advise the Committee of the results of all audits undertaken within the period.

3.5.3 In addition an internal review regarding the schools audit arrangements in place has been undertaken; this includes comparisons with other Boroughs regarding results of audit work and also consideration of the robustness of internal and external reporting arrangements. The results of this work were reported to management in June 2009. As the contract with Deloitte & Touche expires in 2010/11 and the Audit team has experienced schools auditors who can provide a quality service, the Council has decided to bring this service back in house.

3.5.4 The National Non Domestic Rates administrative processes are undertaken by the London Borough of Barking & Dagenham under the shared service agreement. Assurances regarding performance are

provided to the services Project Board, which comprises representatives from both organisations.

- 3.5.5 The Internal Audit Service for Homes in Havering is provided by RSM Bentley Jenison and links have been established to gain assurances regarding the controls within that organisation as shared risks are present. Meetings take place at least twice a year to discuss audit findings.

3.6 Risk Management Arrangements

- 3.6.1 An annual review of risk management arrangements and the Council's strategy was undertaken and reported to Audit Committee in December 2009. No significant issues arose from this review.

- 3.6.2 The operational and strategic Risk Management Groups continued to meet during the year to ensure that changing/emerging risks are identified, discussed and communicated across the organisation.

- 3.6.3 The corporate risk register is updated at least twice a year by Corporate Management Team and presented to Audit Committee.

3.7 Review of Other Strategies

- 3.7.1 Other corporate arrangements and strategies such as the Internal Audit, Whistle Blowing and Money Laundering were also reviewed in year.

4. KEY MESSAGES

4.1 Complaints

- 4.1.1 A new system to manage corporate complaints was implemented in 2008/09. The audit identified a number of weaknesses regarding the efficiency of the process and the management information available. These issues were rectified during the year.

4.2 Contracts

- 4.2.1 Audits of corporate contracts, contract procedure rules and contract monitoring provided unqualified opinions to management, however during other audits of individual service areas there have been instances identified where robust contractual arrangements are not in place or where contract monitoring procedures could be strengthened.

4.3 Information Governance

- 4.3.1 This risk area appears on the Corporate Risk Register and encompasses how manual and electronic data are protected as well as compliance to legislation relating to freedom of information and IT security. The Council's system of internal control is dispersed across all services, with

highest risks relating to data held by Social Care and Learning due to its nature. Three separate service areas in two different directorates leading on enhancing the controls corporately. A working group has been set up to consider risks and increase communication between directorates and service areas, this group reports to Corporate Management Team via the officer Governance Group. This issue has been considered by Governance Group and will be included on the Annual Governance Statement as although significant progress has been made in 2009/10 more work will be required to ensure consistent controls are in place across the whole organisation.

4.4 Access to systems and Data

- 4.4.1 This issue is linked to information governance above within some audits controls regarding appropriateness of access rights and periodic reviews were noted.

4.5 Management Information

- 4.5.1 Quality of data and resulting management information produced within the organisation has in previous years been a theme of audit reports. In some audits this year it has been noted that information needed by management to make decisions and manage risks can not be efficiently or effectively produced. Management Information is often not available, reliable or robust enough for manager to gain assurance and manage risks. Managers are also not always identifying and using the information that is available to them in a proactive manner. This finding is often as a result of systems not "talking" to each other, manual systems being open to human error or a lack of consideration about where reliable assurances could be sought.

- 4.5.2 One particular example of this identified in 2009/10 relates to management of Criminal Records Bureau checks where manual resource intensive processes struggle to produce the required information to provide assurance and manage risk effectively.

Another example relates to payments to individuals and establishments where systems do not link and pick up anomalies in data.

- 4.5.3 This issue is identifiable in the work plan for the 2014 Transformation agenda as part of the review of the systems the Council uses. This is a significant issue and has been raised for consideration by the Officer Governance Group for inclusion in the Annual Governance Statement.

4.6 System Implementation

- 4.6.1 It has been noted that management of risks arising during the implementation of new systems can often be weak. This can be due to insufficient resources being dedicated to the project, changes in personnel once the project has commenced or lack of appropriate planning and consideration at the specification stage. Financial constraints have in the

past led to a compromise of the best solution being procured. It has been acknowledged and processes to rationalise and review the council's systems should resolve many resulting issues. However the Transformation Agenda itself brings its own challenges contributing to comments in 4.9 below.

4.7 Compliance

- 4.7.1 Non compliance with corporate policies and procedures has been identified during audit and particularly fraud work during 2009/10. A non compliant culture regarding some of the corporate requirements i.e. Personnel Development Performance Appraisals and one to one supervisory meetings or completion of flexi or leave sheets may at first not pose a significant risk to the Council. However it is noted that often where general non compliance of corporate procedures exists weaknesses in the management of staff performance or financial controls such as income collection also occur and non compliance with more significant key controls results.

4.8 Disaster Recovery

- 4.8.1 Delays in the project to implement a reliable disaster recovery solution for the Council's IT infrastructure have meant that this is will not be completed until September 2010. Until full implementation highest risks are being managed by interim solutions. Given the Council's reliance on IT systems this business risk is being closely monitored and audit work to provide assurance has been included in the 2010/11 audit plan.

4.9 Increasing Resource Pressures

- 4.9.1 The responsibilities on local authorities have increased year on year and are likely to continue to do so as other central government organisations are closed down to achieve savings. As an organisation there will be a need to achieve more with less, be it human or financial, resources. Management of risk and prioritisation of resources will therefore be key to minimising having to cut services to residents. Also implementing efficient controls that are not manual or resource intensive in nature will be important and as mentioned before these sorts of efficiency issues are included in the 2014 transformation agenda. Risk management will also play a critical role in assessing where cuts can be made to achieve the estimated savings required in the next five years. It will also be key that financial resources are reprioritised to the area with the greatest need and ensuring that consideration of risk is across the directorate and if necessary the Council and pressures are not left to be resolved in service areas.

4.10 Transformation

4.10.1 It is anticipated that many of the weaknesses identified within audit work can be reduced or eliminated if the 2014 transformation agenda achieves its objectives.

5. INTERNAL AUDIT QUALITY ASSURANCE

5.1 Peer Review

5.1.1 Annually the audit service undertakes a self assessment against the CIPFA Code. This self assessment is then peer reviewed by a neighbouring borough and a report received; the findings are reported to Audit Committee in September each year. At the time of the 2009/10 review there were four recommendations outstanding these will all be actioned by the 2010 review.

5.2 Liaison with Other Boroughs

5.2.1 Periodic meetings with other East London Solutions Boroughs have taken place throughout 2009/10 to share good practice and investigate how the Council's can work together to share information and best practice.

5.2.2 The Internal Audit & Corporate Risk Manager also attends a London Audit Group who receives presentations on and discusses new emerging risk areas and again shares issues arising and best practice.

5.3 Delivery of Planned Audit Work

5.3.1 97% of the 2009/10 Internal Audit Plan was delivered by 31st March 2010. The plan was flexible to accommodate the needs of management with some audit areas being included during the year within the plan. As a result some audits were delayed to 2010/11 but this was due to changes within the services i.e. restructures or system implementation dates delayed.

5.3.2 The Audit Committee and Corporate Management Team receive performance reporting quarterly.

5.4 Feedback from Auditees

5.4.1 Following every audit, the managers receiving the audit report was also sent a feedback survey form.

5.4.2 50 surveys were returned for 2009/10 audits. 99% of the feedback received rated the service satisfactory or above. All comments received from managers are reviewed monthly and fed into the team's one to one meetings and Personal Development and Performance Appraisal meetings.



**AUDIT
COMMITTEE**

23 June 2010

Subject Heading:

EXTERNAL AUDIT FEES 2010/11

Report Author and contact details:

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Ciaran McLaughlin
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PricewaterhouseCoopers

Policy context:

The Audit Committee are required to consider the External Auditor's fees.

Financial summary:

The letter from PwC sets out the proposed fees for the audit year 2010/11. The fee proposed is marginally lower than that for 2009/10.

REPORT OF THE CHIEF EXECUTIVE

SUMMARY

The External Audit providers, appointed by the Audit Commission, are rotated after maximum of seven years service to an organisation. The Council's External Auditor is now PricewaterhouseCoopers (PWC).

A report was considered by the Committee in June 2009 setting out the work that was proposed for the 2009/10 audit and the resultant fee.

This report presents the fee for the 2010/11 audit, and asks the Committee to note that the audit plan for the year will follow in due course.

RECOMMENDATIONS

The Committee is asked to:

1. Consider and comment on the contents of the report and the fee letter.
2. Note that the 2010/11 audit plan will be presented at a subsequent meeting.

REPORT DETAIL

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

The attached letter sets out how the fee for the 2010/11 audit has been arrived at, and shows a comparison to the fee for the 2009/10 plan.

The fee letter is presented for the Committee to review and make any comments on, taking into account that the plan covered by the fee will be presented to a subsequent meeting.

PwC has confirmed in their letter that the indicative audit fee for the Council's 2010/11 financial year:

- Is based on the risk-based audit approach set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11; and
- Reflects only the audit element of their work, excluding any inspection and assessment fees.

The letter goes on to outline:

- The impact of International Financial Reporting Standards (IFRS)
- The value for money work to be undertaken, and
- The grant certification work.

Representatives from PwC will be present at the meeting to explain the proposed fees further.

IMPLICATIONS AND RISKS

Financial implications and risks:

The Committee received a report in June 2009, summarising the proposed external audit fee, and containing the audit fee letter from PwC. The attached plan sets out the proposed fee for the 2010/11 audit year.

The details of the proposed fee as follows:

The total audit fee from the 2009/10 plan was £346,731. The fee now proposed for the 2010/11 audit is £370,110. This represents an overall increase of 6.7%. In addition, further charges will be made for:

- The certification of claims and returns, £78,000, as against £105,000 for the previous year, a reduction of £27,000, and
- The pension fund audit, £35,000, the same sum as for 2009/10.

The overall fee, taking into account all these elements, will be £483,110, as against the previous year’s figure of £486,731, a minor reduction of £3,621 or 0.7%.

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

Element	2010/11 Fee £	2009/10 Fee £
Audit of accounts	300,010	247,724
Use of Resources, Data Quality and Value for Money Conclusion	70,100	99,007
Total	370,110	346,731
Certification of claims and returns	78,000	105,000
Pension Fund	35,000	35,000
TOTAL FEE	483,110	486,731

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

The proposed fees are within the budget provision. There are no other financial implications or risks arising directly from this report.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

London Borough of Havering 09/10 Audit Plan – PricewaterhouseCoopers



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Andrew Blake Herbert
Group Director Finance and Commerce
London Borough of Havering
Town Hall
Main Road
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26 May 2010

Dear Andrew

London Borough of Havering Annual Audit Fee 2010/11

As part of our annual audit planning, we are writing to confirm the indicative audit fee for the Councils' 2010/11 financial year. The fee:

- is based on the risk-based audit approach set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11; and
- Reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on inspection fees.

As we have not yet completed our audit for 2009/10, the audit planning process for 2010/11 including the full risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary. We will write to you again formally in November setting out our detailed audit risk assessment for 2010/11 and any impact on the proposed fee.

The total indicative fee for the audit for 2010/11 is for £370,110 (exclusive of VAT) which compares to the planned fee for 2009/10 of £346,731. A summary of this is shown in the table below.

Audit fee

Audit area	Planned fee 2010/11	Planned fee 2009/10
Financial statements	300,010	247,724
Use of Resources/VFM Conclusion work (includes data quality)	70,100	99,007
Total audit fee – excluding Pension Fund	370,110	346,731
Pension fund audit*	35,000	35,000
Total audit fee – including Pension Fund	408,610	385,231
Certification of claims and returns	78,000	105,000
TOTAL AUDIT FEES	483,110	486,731



* We will present a separate audit plan for the 2009/10 Pension Fund audit to the Pensions Committee in due course and cover the 2010/11 audit fee as part of that process.

The Audit Commission has published its work programme and scales of fees for 2010/11. The scale fee for London Borough of Havering is £349,160. The fee proposed for 2010/11 is 6% above the scale fee. This represents a reduction on the 2009/10 fee which was set at 8% above the scale fee. In setting the fee at this level, we have used the knowledge gained from our audit of the 2008/09 accounts and our ongoing liaison with the finance team. We have also assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10.

Impact of IFRS

From 2010/11, the Council is required to prepare accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS will increase audit work, particularly in the first year when the previous year's accounts must be restated on the new basis, to provide prior year comparatives. The scale fees include a standard 6% uplift for this additional work. The Audit Commission has undertaken to subsidise the one-off costs arising from this move.

However, the proposed scales of fees do not include provision for review of the accounting treatment of private finance initiative (PFI) or public private partnership (PPP) schemes, as a result of the transition to IFRS. Our proposed fee therefore reflects the additional costs involved in reviewing your PPP scheme under IFRS.

A separate plan for the audit of the financial statements will be issued in November 2010. This will detail the risks identified, planned audit procedures and any changes in fee.

Value for money work including use of resources

The Audit Commission plans to review the current approach to local value for money audit work, including use of resources, with a view to making changes with effect from 2010/11. Therefore, it has not yet released details of the specified key lines of enquiry or the timetable for 2010/11 use of resources assessments. We will update you when more details are available.

We have not identified any significant risks in relation to our value for money conclusion, based on our 2009 assessment of use of resources. We provided management with our use of resources risk assessment document in February 2010 and will consider the findings from that work in determining whether any additional work is needed to support our value for money conclusion.

Grant certification work

The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. In 2010/11, the de minimis threshold below which we are not required to certify individual claims and returns will be £125,000, and the intermediate threshold below which are required to undertake only a light touch review will be £500,000. Above this threshold, certification work will be risk-based, taking account of the authority's overall control environment.

The Commission recently published its report *Review of Arrangements for Certifying Claims and Returns*. Following on from this report the Commission is taking steps to raise the profile of certification work and now requires us to report annually to those charged with governance on the results of certification work. We issued our first report in February 2010. In that report we noted that we are now also required to undertake focused, risk-based work on certification of claims and returns at authorities with a consistent record of high error levels, adjustments or qualifications to claims and returns. The only claim identified which meets this definition is Housing Benefits (BEN01) which due to its financial materiality we audit each year in any event. We therefore do not propose to undertake any other such work at the Council.

Fee amendments and assumptions

If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with the Group Director Finance and Commerce and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.



The audit fee is based on the assumption that detailed working papers, and other specified information, including IFRS related material, are provided to an agreed timetable and adequately address the audit requirements. Where the authority does not meet agreed timetables and/or provides poor documentation such that additional audit work is necessary, or our audit is delayed, we will charge additional fees to cover the costs incurred.

Other matters

We will issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 1.

The key members of the audit team for the 2010/11 are:

Engagement Director – David Braithwaite (*020 7804 2369 david.braithwaite@uk.pwc.com*)

Audit Senior Manager – Ciaran McLaughlin (*020 7213 5253 ciaran.t.mclaughlin@uk.pwc.com*)

Audit Manager – Keeley Gibbons (*020 7212 3440 keeley.m.gibbons@uk.pwc.com*)

We are committed to providing you with a high quality service to meet your needs. If you would like to discuss how we can improve our service, or if you are dissatisfied with any aspect of our services, please contact me in the first instance.

Alternatively, you may prefer to discuss matters with Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Yours sincerely

David Braithwaite

cc Chief Executive



Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Audit plan	December 2010
Annual certification report (relating to claims and returns certified in the previous year)	February 2011
Internal Control Issues and recommendations for improvement	May 2011
Annual Audit Letter (incorporating specific requirements of International Standard on Auditing 260)	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011