



Havering

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.30 pm

**Thursday
22 September 2011**

**Town Hall, Main Road,
Romford**

Members 6: Quorum 3

COUNCILLORS:

**Conservative Group
(4)**

Georgina Galpin (Chairman)
Osman Dervish (Vice-Chair)
Roger Ramsey
Frederick Thompson

**Residents' Group
(1)**

Clarence Barrett

**Labour Group
(1)**

Paul McGeary

For information about the meeting please contact:

James Goodwin 01708 432432

email: james.goodwin@havering.gov.uk

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DECLARATION OF INTERESTS

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

4 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the meeting held on 21 June 2011 and authorise the Chairman to sign them.

5 ANNUAL STATEMENT OF ACCOUNTS 2010/2011 (Pages 7 - 10)

Report attached.

6 REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260 (Pages 11 - 18)

Report attached.

7 RESPONSE TO AUDITORS: REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260 (Pages 19 - 22)

Report attached.

8 UPDATE ON OBJECTION TO ACCOUNTS ACTION PLAN (Pages 23 - 40)

Report attached.

9 UPDATE ON PSL (Pages 41 - 46)

Report attached.

10 INTERNAL AUDIT PROGRESS REPORT (Pages 47 - 62)

Report attached.

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11 FRAUD PROGRESS REPORT (Pages 63 - 72)

Report attached.

12 UPDATE ON THE FUTURE OF THE AUDIT COMMITTEE

An oral report will be given.

13 URGENT BUSINESS

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

14 EXCLUSION OF THE PUBLIC

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

15 TREASURY MANAGEMENT UPDATE (Pages 73 - 84)

Report attached.

**Ian Buckmaster
Committee Administration &
Member Support Manager**

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**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Havering Town Hall
21 June 2011 (7.30pm – 8.10pm)**

Present:

COUNCILLORS:

Conservative Group Osman Dervish (Vice-Chairman) (in the Chair), Roger Ramsey, *Billy Taylor and Frederick Thompson

Residents' Group Clarence Barrett

Labour Group: #Denis O'Flynn.

Apologies for absence were received from Councillors *Georgina Galpin (substitute Councillor Billy Taylor) and #Paul McGeary (substitute Councillor Denis O'Flynn).

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

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

Councillor Thompson declared a non prejudicial interest in item 9 as he was a governor of Broadford Primary School.

1. MINUTES

The minutes of the meeting held on 15 May 2011 were agreed as a correct record and signed by the Chairman.

2. MATTERS ARISING FROM THE MINUTES

Officers advised the Committee that the letter to the Secretary of State for Communities and Local Government was with the Group Director, Finance and Commerce for signing. Copies of the letter would be circulated to members of this Committee and the Governance Committee for information.

3. UPDATE ON OBJECTION TO ACCOUNTS ACTION PLAN

Consideration of this report was postponed until the next meeting, although an assurance was given by officers that regular reports would be submitted to the Committee until the matter was resolved.

4. PRIVATE SECTOR LEASED ACCOMMODATION

Consideration of this report was postponed until the next meeting, although an assurance was given by officers that regular reports would be submitted to the Committee until the matter was resolved.

Councillor Ramsey advised the Committee that the matter was also under review by the Debt Management Board who were scrutinising the situation.

5. STATEMENT OF ACCOUNTS 2010/11 - UPDATE

The Committee was reminded that the Council's Statement of Accounts must be approved and signed by the Group Director, Finance and Commerce no later than 30 June 2011.

For the first time the accounts were based upon International Financial Reporting Standards (IFRS). Since the last meeting discussions had been held with the external auditors following which a further change had been agreed to comply with the code. As a consequence, the Council's accounts had been amended in order to remove the net assets of Foundation and Voluntary-aided Schools and to restate the relevant revenue transactions.

The Committee:

1. **Approved** the Statement of Accounts for signing by the Group Director, Finance and Commerce,
2. **Noted** that a copy of the accounts would be circulated to members once signed;
3. **Noted** that the accounts will need to be considered and approved by the Committee no later than 30th September 2011,
4. **Noted** that the accounts must be published no later than 30th September 2011, and
5. **Noted** that specific training on the format of the new accounts will be delivered to the Committee prior to the next meeting.

6. EXTERNAL AUDIT PROGRESS REPORT

Consideration of this item was postponed as the External Auditors had advised officers that there were no matters to report.

7. INTERNAL AUDIT PROGRESS REPORT

The Chairman agreed, pursuant to section 100B(4) of the Local Government Act 1972, that the Committee should consider the following as an urgent matter, in order to not delay the Committee's consideration of the work completed to finalise the 2010/11 Internal Audit Plan. .

Officers advised the Committee that by the end of May the Internal Audit Plan for 2010/11 had been completed. Five audits had been completed all of which received unqualified opinions. In response to questions officers informed the

Committee that their concerns related to the time lag between planning permission being granted and a section 106 agreement being completed and a project being undertaken, as the council's priorities might change during this period. The introduction of the Community Infrastructure Levy should resolve this issue.

In the same period 15 school audits had been completed. One of which had attracted a Limited opinion. A number of questions were raised concerning the school with a Limited assurance. Officers were able to assure the Committee that the school would be subject to an Annual Health Check by Social Care & Learning to check that the recommendations were being implemented.

The report was **noted**.

8. ANNUAL AUDIT REPORT

Officers submitted the Annual Report for approval. This provided a summary of the work undertaken by the Internal Audit Team during 2010/11, as well as communicating key messages, and gave an overall opinion on the system of internal control from the Internal Audit & Corporate Risk Manager. The annual report covered a number of key issues, including:

- Project Management
- Contracts and Supply Chain Resilience
- Information Governance
- Access to Systems and Data
- Management Information
- Resource Pressures and Loss of Knowledge and Experience

The report was **noted**.

9. ANNUAL GOVERNANCE STATEMENT

Last December the Committee had received a report on the Council's Corporate Governance arrangements and the work of the officer Governance Group during the year. Since that meeting the following actions had been taken:

- a. Heads of Service had provided signed "mini" governance returns confirming that appropriate governance arrangements were in place across all services of the Council.
- b. Members of management teams had reviewed these returns and then submitted a return for their portfolios, having regard to the overall position.
- c. These returns had been reviewed to ensure that all relevant issues had been identified and included in the draft Annual Governance Statement (AGS)..
- d. The results of the 2010/11 audit work had been formally reviewed as part of the production of the Annual Audit Report and Head of Internal Audit Opinion to identify any additional potential issues for inclusion in the AGS.

- e. An evidence file had been produced documenting the process and evidencing the assurances received.
- f. The Officer Governance Group had discussed the outcome of the above end of year actions and agreed the outcomes.
- g. Senior Management had commented on the final version.

Of the four issues highlighted in the 2009/10 AGS, two, relating to Homes in Havering and Disaster Recovery, had been fully addressed at the end of March 2011. The remaining issues - Data Quality and Management Information and Information Governance, were areas with wide reaching implications and although significant progress had been made in each area it was felt that the issues remained open.

Two new issues relating to Project Management and Contracts and Supply Chain Resilience had been included for 2010/11.

The Committee approved the final version of the 2010/11 Annual Governance Statement as attached to the report.

10. ANNUAL TREASURY MANAGEMENT REPORT

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

The Council was required by regulation to produce an Annual Treasury Report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/11. During 2010/11 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year,
- A mid year (minimum) treasury update report, and
- An annual report following the year describing the activity compared to the strategy.

Recent changes had placed a greater onus on members for the review and scrutiny of treasury management policy and activities. The Council had complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by this Committee before they were reported to the full Council.

The Committee approved the final 2010/11 prudential and treasury indicators in the report and recommend the annual treasury management report for 2010/11 to full Council.

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AUDIT COMMITTEE

22 September 2011

Subject Heading:	Annual Statement of Accounts 2010/2011
Report Author and contact details:	Contact: Mike Board Designation: Financial Services Manager Telephone: (01708) 432217 E-mail address: Mike.Board@havering.gov.uk
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

The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts; no later than 30th September 2011. At this stage our auditors, PricewaterhouseCoopers expect to issue an unqualified opinion on the Statement of Accounts.

RECOMMENDATIONS

The Committee is asked to:

- a) Approve the Statement of Accounts confirming that no amendments are required to be made to the accounts in respect of the items set out in the auditors report.
- b) note that the audited accounts must be published by 30th September 2011.

REPORT DETAIL

1. Statement of Accounts 2010/11

Our auditors, PricewaterhouseCoopers have completed their audit of the Statement of Accounts and expect to issue an unqualified opinion. A formal report on their findings is included as item 2 on the agenda.

Appendix A ; the draft Statement of Accounts will be circulated prior to the meeting incorporating any changes agreed with the auditors.

Following approval by this Committee, the accounts must be signed by the Chair of the Committee and the Group Director of Finance and Commerce.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no material financial implications arising directly from the publication of accounts.

Legal Implications and risks:

Regulation 8 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2011.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

Appendix A

Statement of Accounts

The draft Statement of Accounts will be circulated as a late item prior to the meeting.

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AUDIT COMMITTEE

22 September 2011

Subject Heading:

**Report To Those Charged With
Governance
International Standard of Auditing
(ISA) 260**

Report Author and contact details:

Contact: Mike Board
Designation: Financial Services Manager
Telephone: (01708) 432217
E-mail address:
Mike.Board@havering.gov.uk
Audit Committee responsible for
approving accounts.

Policy context:

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 draft ISA 260 report from the external auditor PWC will be circulated to members prior to the meeting. It summarises their findings from the 2010/11 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate. The draft Letter of representation is included as appendix B.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2011.

RECOMMENDATIONS

To note the contents of the Report To Those Charged With Governance (ISA260) and the draft Letter of Representation and consider any issues raised by the external auditor.

REPORT DETAIL

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2011.

The draft report from the external auditor summarises their findings from the 2010/11 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate. The Committee is also asked to consider the draft Management letter setting out the assurances required of the Group Director of Finance and Commerce by the auditors.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2011.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the external auditor will be addressed as part of the Council's response.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

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Appendix A

Report To Those Charged With Governance International Standard of Auditing (ISA) 260

The report will be circulated as a late item prior to the meeting.

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Appendix B

Letter of Representation

The draft letter will be circulated as a late item prior to the meeting.

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AUDIT COMMITTEE

22 September 2011

Subject Heading:

Response to Auditors: Report To Those Charged With Governance International Standard of Auditing (ISA) 260

Report Author and contact details:

Contact: Mike Board
Designation: Financial Services Manager
Telephone: (01708) 432217
E-mail address:
Mike.Board@havering.gov.uk
Audit Committee responsible for approving accounts.

Policy context:

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 draft ISA 260 report from the external auditor PWC will be considered by the Committee as Item 2 to this agenda. A separate report from Management will be circulated to the Committee prior to the meeting setting out their responses.

RECOMMENDATIONS

To consider and note the responses from management to the “Report To Those Charged With Governance (ISA260)” and the draft Letter of Representation and consider any issues raised.

REPORT DETAIL

A detailed response will be circulated to the Committee prior to the meeting.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the external auditor will be addressed as part of the Council's response.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

Appendix A

Response to Auditors: Report To Those Charged With Governance International Standard of Auditing (ISA) 260

The management response to the report will be circulated as a late item prior to the meeting.

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AUDIT COMMITTEE

22 September 2011

Subject Heading:

Update on Service Charges following the 2010 PWC report on the complaint from a leaseholder, Mr M.

CMT Lead:

Cynthia Griffin Group Director of Culture and Community

Report Author and contact details:

Sue Witherspoon, Head of Housing and Public Protection, extension 3747

Policy context:

The report of 2010 by PWC raised a number of issues concerning council contracts and recovery of costs through service charges. At its meeting on 16 May 2011, the Audit Committee considered a report on these matters. This report updates the Committee on the issues.

Financial summary:

The report updates the Committee on the recovery of costs in relation to the provision of TV aerials in the housing stock. It also updates Members on the recovery of costs for other services through service charges, and on the on-going Tribunal action in the case of leaseholder Mr M.

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	x

SUMMARY

This report follows the report to the Audit Committee on 16 May 2011 and updates Members as follows on three main issues:

- 1) The action taken with the television aerial contractor Surtees which has resulted in a reduction in costs. Extending the charge to all the residents who receive the service will generate additional income, and as a result of these actions, we expect to recover our costs in full. Work to establish our ability to re-tender the contract is continuing.
- 2) The review of other service charges is continuing and will lead to fuller recovery of costs from tenants and leaseholders.
- 3) The Council's appeal to the Upper Tribunal of the Leasehold Valuation Tribunal against the original decision that our service charge for the provision of TV reception to his home was too high.

RECOMMENDATIONS

That the Committee:

- 1) notes the further actions taken in relation to the report by PWC on service charges
- 2) notes that final decisions on implementing some of the actions identified in this report (such as extending charges to a wider group of residents) will be taken at the March Cabinet meeting as part of the annual rent increase process

REPORT DETAIL

Background:

- 1) On 9 August 2010 the Council's auditors PWC wrote to the council with the findings of their investigation into a complaint by a leaseholder, Mr M. The complaint concerned charges for building insurance and TV reception.
- 2) On 16 May 2011 the Audit Committee considered a report on the matter. A copy of this report, along with the original PWC action plan, is given as an appendix. The current report brings the Committee up to date with the implementation of PWC's recommendations.

Recovery of the cost of television aerials

- 3) A central finding of the PWC report was that the council was under-recovering the cost of this service. Since the Committee's last meeting, staff have negotiated a number of changes to the way Surtees charges for the service. The main changes were to delete the charge for the Mardyke Estate and to charge only one amount

for each address, even where the address has more than one TV point. Officers have also agreed with the contractor a schedule of the addresses which receive the service. These actions have led to reductions in costs. We have also drawn up plans to extend the charge to all residents on the schedule of addresses, as some 664 tenants and 391 leaseholders had been wrongly omitted. As a result of these various actions the amount recovered in service charges will rise and should in time cover the contract costs. Increases in the amount we can charge any individual tenant are however constrained by the rent restructuring rules and there may be a delay in achieving full recovery as new charges are phased in.

Review of other service charges:

4) In response to the PWC report, officers started a comprehensive review of the recovery of the costs of other services provided to tenants and leaseholders. This work is still in progress. As reported to the committee's meeting on 16 May, four service charges have already been raised after resident consultation (Caretakers, Neighbourhood Wardens, fixed CCTV and Bulk refuse collection). The charges for these services fully meet the cost.

5) The position in respect of the other heads of charge is as follows:

- Door Entry systems maintenance. This service is provided under the same contract as television reception, although unlike the TV element of the contract, the contractor does not own the equipment. The contractor has agreed to a reduction in charges of 25%, and we continue to recover sufficient to meet costs and build up a reserve fund to meet the cost of future equipment replacement.
- Grounds maintenance. Officers have updated the schedule of address which receive the service. Recent calculations carried out in partnership with Homes in Havering (HiH) have shown that 1,900 tenants should pay this service charge but currently do not. As a result the flat rate charge of £2.78 does not meet the cost of the service. It is proposed to extend the charge to these additional residents as quickly as the rent restructuring rules allow.
- Cleaning in the general stock. There is currently an under-recovery of costs. The scale and nature of the service is currently under review. The question of increasing the charge for cleaning will be addressed once decisions have been taken about the future of the service. It may be appropriate to phase in any increases.
- Cleaning in sheltered accommodation. The financial position is generally in balance with the costs covered by the income. However, it is proposed that more work is done on consulting tenants about the level of cleaning required in each scheme, and the appropriate charge. This may lead to different levels of cleaning in each scheme, depending on the tenants' choices, and different levels of charges to match.
- Heating and hot water. Some tenants pay a separate service charge, while others pay for the service through a pooled rent. For those residents whose charge is de-pooled, we are fully recovering the cost.
- Mobile CCTV. Resident consultation on this showed some dissatisfaction with the service, and therefore no increase has been applied. The service will be reviewed in the light of this.

Ensuring fairness between tenants and leaseholders

6) Quite understandably, residents often complain that charges to tenants and leaseholders are not the same. Although it is of course desirable for them to be comparable, they are unlikely to be identical because the way they are calculated is completely different. Tenants pay a share of the overall cost of a service, across the whole stock, whereas leaseholders pay a contribution to the cost of providing the service at their own block. In the long run we aim to move towards charging tenants at block level, but until this is achieved the charges will continue to differ. Another issue is that because of the 48 week rent year for tenants, the weekly charges will differ, but of course they are the same over a whole year.

Update on Mr M's complaint

7) The Council has appealed against the Leasehold Valuation Tribunal (LVT) decision in 2010 which found that our service charge for the provision of television reception was excessive. We believe it is important to pursue this as the decision as a matter of principle.

8) We have recently been contracted by the Upper Tribunal about the case. The Tribunal has indicated that they may remit the case back to the LVT for a fresh hearing. The Head of Legal Services has indicated that he would be happy with this.

9) Whether the case is dealt with by the Upper Tribunal or the LVT, the Council will appoint a barrister to present our case. It is likely to be heard in the first half of 2012.

The future of the TV Aerial and Door Entry contract

10) The exercise to collect benchmarking data on the cost of the TV element of the contract has shown how difficult it is to achieve valid comparisons. Each landlord structures their services in a different way and it was hard to draw definitive conclusions from the data which was obtained. However, it does seem that the cost of our contract was higher than average, and it is therefore important that reductions have been achieved.

11) Legal advice is being obtained about the Council's ability to terminate the contract. The contract documents are ambiguous and we propose to obtain Counsel's opinion in order to be as clear as possible about the position. Once we have definitive advice, decisions will be taken as to whether to negotiate with the contractor for further cost reductions (to either or both parts of the contract), or to terminate either or both elements.

Conclusion

12) Much depends on the legal advice we are currently awaiting on the contract for TV reception and door entry. The advice will enable us to make decisions about our strategy for achieving further improvements in value for money for our residents.

13) The work on the other service charges has brought in additional income to the HRA in the current financial year, and this process is set to continue in future years.

IMPLICATIONS AND RISKS

Financial implications and risks:

1) This report is for information. It gives an update on the action taken to improve procedures for the recovery of costs associated with the provision of TV reception and other services.

2) The costs concerned are contained within the ring fenced HRA, and do not impact on the general fund. Full recovery of charges will add to the HRA income and lead to fairer charging between tenants and leaseholders.

Legal implications and risks: As stated in paragraphs 7-11 above

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 Housing and Public Protection Service.

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AUDIT COMMITTEE

16 May 2011

Subject Heading:

Response to a report from PWC on a complaint from Mr Macdonald

Report Author and contact details:

Sue Witherspoon, Head of Housing and Public Protection Extension 3747

Policy context:

The London Borough of Havering received a report from PWC detailing their recommendations in relation to a complaint from Mr Macdonald about his service charges. This report provides an update of actions taken.

Financial summary:

The report summarises the position on the costs and income related to the provision of TV aerials and satellite services for tenants and leaseholders of the London Borough of Havering. It notes that the cost of the service has not been reviewed by means of a tendered service since 1992; and considers the way forward to ensure value for money from this contract. It also notes that the cost of the service is not fully recovered from the tenants and leaseholders, and notes the proposed way forward to address this. The net cost of this service in 2010/2011 was around 175k

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. The Council's Auditors, PWC wrote to the Director of Finance & Commerce on 9 August 2010 with the findings of an Investigation into a complaint from Mr Macdonald about the way in which charges for TV aerial services are levied.
2. This report sets out progress by the Housing Service against the recommendations of PWC in response to this complaint. A copy of the action plan is appended to this report.

RECOMMENDATIONS

That the Committee:

1. Note the progress on actions in relation to the report by PWC on the issue of Service Charges

REPORT DETAIL

Background

1. The Council's Auditors, PWC wrote to the Director of Finance & Commerce on 9 August 2010 with the findings of their investigations, into a complaint by a leaseholder, Mr Macdonald. The complaint related to the way in which building insurance charges were levied, and the way in which charges were levied for access to TV and Satellite access points.
2. PWC were satisfied that the charges on buildings insurance were reasonably calculated and reflected the costs incurred by the Council, and made no recommendations as to any action in respect of this item.
3. In respect of the charges relating to TV/Satellite access points, PWC found that the Council was lawfully entitled to levy the charge. However, in 2005/6 the basis of recharging to leaseholders changed, but there was insufficient documentary evidence retained to explain how that decision had been arrived at. Also, PWC were concerned to note, that the full costs of the service were not being recovered and that the income from tenants and leaseholders did not cover the full charge. PWC recommended that this charge be reviewed.

4. PWC also noted that Mr Macdonald had not been properly charged for his TV Aerial access, and that this was the result of an oversight. PWC recommended that the Council check to ensure that there were not similar errors occurring in respect of other charges and other tenants or leaseholders.
5. PWC raised a concern that the decision taken by the Council in 2005, whilst strictly legal, as considered by the Council's Monitoring Officer, could have been better justified had a formal decision been recorded as an officer decision, either in consultation with the Lead Member (or the equivalent process at that relevant date).
6. A further point considered by PWC was the lack of transparency for the difference in the way in which leaseholders and tenants were charged. PWC considered that the charges should be the same, unless the services were different. Any difference should be justified in line with rational criteria. The charges to leaseholders were based on a figure for 52 weeks of the year, but the charges to tenants were based on a figure of 48 weeks of the year.
7. One of the points raised as part of the review, was that payments under the contract that the Council holds with Surtees, (who provide the access points for TV and Satellite television and who also maintain the equipment) have not been reconciled. The payments to Surtees are based on the number of access points, whilst there is no agreed list of access points between Surtees and the Council. PWC recommended that reconciliation should take place, and a review of the whole of the contract, and whether it provides value for money, should be undertaken.
8. Given the concerns with aspects of the contract with Surtees, PWC also recommended that there should be a review of all high value or lengthy contracts that are currently held by the Council.

Action taken to address the concerns raised

Basis for charging

9. The Housing Service has instituted a review of all service charges made to leaseholders and tenants. The review established a joint working party between Homes in Havering and the London Borough of Havering, to oversee the project, and a dedicated project officer has been undertaking the work. The review involved consultation with tenants through focus groups, a survey of all tenants, and workshops at the annual tenants' conference in October 2010.
10. Service charges in respect of most services have now been set in line with tenants' expressed wishes. Four service charges have been raised to ensure that the full cost of the service is being recovered:
 - Caretakers
 - Neighbourhood wardens

- CCTV (fixed)
- Bulk refuse removal
-

Two service charges were not increased in 2011/12 as tenants strongly expressed their view, that the service was not of an adequate standard. It has therefore been decided to carry out a full review of the service, and ensure that it is improved to an acceptable standard before service charges are raised. These services are:

- Internal block cleaning
- CCTV (mobile)
-

Other services are due to be reviewed in the course of 2011/12. These are:

- Heating and hot water
- Grounds maintenance
- Sheltered cleaning
- TV access

Surtees contract - higher annual charges for leaseholders

- 14 As reported at the last meeting, although it is true that in charges raised directly through the service charges, leaseholders appear to pay more than tenants (through the annual charge), as the cost of the service is not fully met by the income, the shortfall has to be met by the HRA. This in effect means that tenants are subsidising leaseholders' services. The aim is to address this by raising charges for both leaseholders and tenants to ensure that they are fully recovered, and at the same time negotiate improvements in the value for money of this contract, to then reduce the cost to service charge payers, whether tenant or leaseholder.

General - errors in charging

- 15 The report from PWC identified that Mr Macdonald had actually not been charged for the TV aerial service in two successive years (2007/8 and 2008/09). When investigated, it emerged that this was an oversight. PWC therefore recommended that a check should be carried out to ensure that all leaseholders were being properly charged for all services that they received. This check has now been carried out, and tenants and leaseholders who were not being charged for the services that they were receiving were included in the service charge accounts for the year starting April 2011.

General - documentation of use of delegated powers

- 16 This has now been dealt with, and formal decisions are recorded in an appropriate format.

Surtees contract - signed copy of the original contract

- 17 Sealed copies of the original 1992 contract and the 1997 variation have been located. A poor quality copy of what appears to be a signed version of the 2001 variation, has also been located and it is accepted by Surtees that this is the appropriate document. Legal advice has been taken on the implications of these contractual documents and negotiations are currently underway on the subject of the TV aerial and satellite service

Surtees contract - numbers of access points

- 18 A full list of addresses where services are being provided has now been reconciled with Surtees, and there is one common list between the contractor and ourselves which is being used as the basis of our contract.

Surtees contract - benchmarking costs

- 19 One part of the Surtees contract relates to the provision of a repairs service for the door entry facilities. It has remained difficult to identify suitable benchmarking costs. The Council is seeking to tender the door entry part of the contract separately, which is the best form of benchmark. This matter is still in dispute between ourselves and Surtees.

Wider Contract Review

- 20 Homes in Havering have reviewed all existing contracts and are ensuring that these are tendered in a timely way.
- 21 The Council has commissioned a wider contract review in terms of commodity contracts the results are being considered by individual departments.

Conclusion

- 28 The PWC report has been helpful in identifying a number of difficulties in the way in which service charges have been calculated and recovered by the Council. The contract specifically for TV aerial (terrestrial and satellite) services was entered into in 1992, when the technology was new, and all landlords were relatively inexperienced in providing these kinds of services. The report has shown that the assumptions and charges made when the services were first provided are no longer appropriate, and that the Council needs to make sure it carries out regular reviews of such services and charges in order to ensure that its decision making remains logical and fair, and that the services provided are appropriate to its tenants and leaseholders. The intention is that the Council's re-negotiation of this

contract will produce better value, either through revised terms and conditions with Surtees, or through re-tendering.

- 29 It should be noted that a further objection to the accounts has been received from Mr Macdonald, and that a meeting has been held between PWC and Mr Macdonald in January. The basis of his objection appears to cover much of the same ground – in particular Buildings Insurance and the charge for TV terrestrial and satellite aerials. There are some areas where PWC have indicated that they will do further investigation, but there are others where they have indicated that these matters have either been dealt with, or are subject to other methods of investigation – e.g. Information Commissioner, Leasehold Valuation Tribunal or the Police.

IMPLICATIONS AND RISKS

Financial implications and risks:

1. This report is presented for information. It provides an up-date on actions being taken to improve procedures for TV/Satellite access charges, and service charges more widely.
2. The report refers to various actions being taken to improve process. As explained changes are being made so that the costs of various HRA services are more closely reflected by charges to the service recipients. Though the HRA has been able to absorb deficits, this has meant that some costs are being met by remaining tenants, and is being addressed as quickly as practicable.

Legal implications and risks:

The report by PWC confirms that the objections to the accounts lodged by Mr Macdonald do not identify any illegal charging by the Council. Mr Macdonald made an application to the Leasehold Valuation Tribunal against the imposition of these charges. Whilst the Tribunal accepted that the charges were lawful, they found against the Council in terms of the amount of charge. The Council has obtained permission to appeal to the Upper Tribunal against this finding and the outcome should be known around about June or July 2011

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 Housing and Public Protection Service.



Observation	Recommendation	Priority	Management Response
<p>Basis of Charging</p> <p>In 2005/06 the Council changed the basis of charging. This coincided with the application of a separate service charge for aerial access to tenants for the first time. At this time, the Council calculated a weekly charge based on the costs incurred in providing this service. This charge has subsequently been increased each year by RPI +0.5% to match the policy for tenants. It has not been possible to confirm the validity of the original calculation of the 2005/06 service charge as the supporting records were not all retained, although it is clear that the amounts recovered from tenants and leaseholders annually are lower than the amounts paid to the provider.</p>	<p>We recommend that the Council reviews the calculation of the service charge to ensure that it remains appropriate and reflects the costs incurred in the provision of the service.</p>	<p>High</p>	<p>A complete review of all service charges has begun, and in the first year the following charges have been reviewed and set: for the year 2011/12:</p> <ul style="list-style-type: none"> CCTV (fixed) CCTV (mobile) Caretakers Neighbourhood wardens Internal block cleaning Bulk refuse <p>A strategy to move to a full cost recovery of these charges has been established. The remaining charges will be reviewed in 2011/12. These are</p> <ul style="list-style-type: none"> Heating and hot water Grounds maintenance Sheltered block cleaning TV aerial access <p>These charges will be re-set in March 2012 and will be in line with the strategy agreed to move towards full cost recovery.</p>



Observation	Recommendation	Priority	Management Response
<p>Higher annual charges for leaseholders</p> <p>We have identified that the Council charges tenants for 48 weeks, while leaseholders are charged for 52 weeks service. In our view the rationale for the decision and the basis of its application should have been documented at the point at which it was exercised.</p> <p>As the decision was not documented, we cannot identify whether there was an intention to charge a higher yearly charge to leaseholders. Our understanding from explanations provided from officers is that the intention was to apply the same basis of charge for tenants to leaseholders and therefore we would have expected that the charging process would ensure that charges to leaseholders are the same as those charged to tenants, unless a difference in service provision exists.</p>	<p>We recommend that the Council reviews the rationale for different annual charges to tenants and leaseholders</p>	<p>High</p>	<p>The Service charge review has been completed for the first tranche of service charges, and have been set in line with the views of tenants, following extensive consultation.</p> <p>The rationale for charging leaseholders is based on the level of service that they receive. This will vary from leaseholder to leaseholder, depending on the location of their block. For example, the cost of the neighbourhood warden service is apportioned in relation to the time spent at each estate or block, which has been fully time recorded.</p>
<p>Errors in charging</p> <p>We have also noted that in both 2007/08 (actual service charges) and 2009/10 (estimate of service charges for the year) Mr Macdonald has not been charged for TV Aerial access. We understand from the Home Ownership Manager that this was as a result of error.</p>	<p>We recommend that a detailed review of the cause of these errors should be carried out including the extent to which such errors may have occurred in respect of other leaseholders' service charges to ensure that the correct charges are being applied to all leaseholders.</p>	<p>High</p>	<p>A full review of all tenants not paying each service charge was undertaken. Homes in Havering then reviewed each tenant not paying a particular service charge, and concluded whether this charge had been appropriately not charged. For example, where a tenant was not charged for grounds maintenance, the appropriate Homes in Havering officer reviewed whether there was any grounds currently being maintained which could be properly assigned to the tenants block. If not, then clearly the charge had been appropriately not charged.</p> <p>Tenants and leaseholders not charged for TV satellite and aerial connections will be charged in their service charge bills for 2012/13.</p>



Observation	Recommendation	Priority	Management Response
<p>Documentation of use of delegated powers</p> <p>The Monitoring Officer has advised us that not all use of delegated authority is formally documented within the Council and is not required by the Council’s constitution, stating “This is not necessarily unusual in that staff with delegations do record decisions occasionally on a Form C or Form D if they are considered important and put them on file. Other decisions rest purely on the action taken i.e. the fact that the leaseholders here were notified by Housing of the action to be taken.” We have confirmed that the Council included details of the estimated charges on leaseholder service charge estimates and final bills each year following the decision and therefore have accepted the Monitoring Officer’s view that the decision to make a weekly charge to leaseholders at the same level that applied to tenants was taken by the Head of Housing in 2005 under proper delegated authority in line with the Council’s constitution.</p>	<p>We recommend that the Council formally documents all future changes to leaseholder charging arrangements of this nature before implementation.</p>	<p>Medium</p>	<p>This approach has been adopted.</p>
<p>Signed copy of the original contract</p> <p>The Council entered into its contract with the provider in 1992 and it was subsequently extended and amended in 1997 and 2001. We are aware that the Council has not been able to locate the original signed copy of the contract, which raises a risk that the Council may not have a copy of the finally agreed contract which could make any future negotiations more difficult.</p>	<p>We recommend that the Council continues to search for the signed contract and considers what impact the absence of a signed contract will have on its ability to renegotiate or terminate the contract..</p>	<p>High</p>	<p>Sealed copies of the original 1992 contract and the 1997 variation have been located. A poor quality copy of what appears to be a signed version of the 2001 variation, has also been located and it is accepted by Surtees that this is the appropriate document. Legal advice has been taken on the implications of these contractual documents and negotiations are currently underway on the subject of the TV aerial and satellite service</p>



Observation	Recommendation	Priority	Management Response
<p>Numbers of access points</p> <p>Our review of the information provided by the Council in relation to payments to the provider under the contract for 2008/09 highlighted discrepancies between the numbers of access points billed to the Council by Surtees and the number of tenants and leaseholders charged for services by the Council. We have not as part of this investigation attempted to reconcile the two sets of numbers as it appears likely that the discrepancies arise from administrative errors in the contract monitoring arrangements put in place by the Council.</p>	<p>We recommend that the Council completes a full reconciliation of its records with those of the contractor.</p>	<p>High</p>	<p>This is complete and an agreed list of properties where terrestrial and satellite points exists, which is accepted by both parties.</p>
<p>Benchmarking costs</p> <p>The Council has not formally benchmarked the costs of its service relative to those raised by other local authorities. However, it has undertaken a high level review which suggests that the contract is comparatively high cost and may provide poor value for money.</p>	<p>We recommend that the Council conducts a review of the basis and cost of the contract and determine whether there is a basis to renegotiate the contract terms or to terminate the contract and re-procure the services at more favourable rates.</p>	<p>High</p>	<p>Negotiations are underway, and improvements in the value for money of this contract have been achieved. As a result of these negotiations, a saving of 23% has been achieved on the 2010/11 cost. However, there remain some outstanding issues between the parties which remain in dispute.</p>

Observation	Recommendation	Priority	Management Response
<p>Wider contract review</p> <p>In our round table meeting in June to review the issues raised by Mr Macdonald, we discussed what actions the Council had taken to ensure that there are no similar contracts in operation within the Council. The response provided to us from the Director of Community Services on 12th July outlined the steps the Council has taken to satisfy itself on this matter.</p> <p>We consider that, given the extent of the issues identified with the contract with Surtees, the action taken to date is insufficiently thorough to conclude on the risk of similar issues existing in other contracts for service charges.</p>	<p>We recommend that the Council should conduct a risk assessment across its service contracts to identify any contracts which meet an agreed set of criteria. Examples of the type of criteria that could be taken into account would be:</p> <ul style="list-style-type: none"> • Contracts that are more than 3 years old • Contracts with a contract life of more than 10 years • Contracts where the contractor is paid based on management information produced by them • More than £0.5m per annum expenditure • Informal contract management arrangements in place • Contracts covering more than one service area <p>It should also review the contract management arrangements in place for selected contracts to ensure that they are fit for purpose and implement action plan for improvement, where existing arrangements are not fit for purpose.</p>	<p>High</p>	<p>Homes in Havering have a Contracts Register in place, and their review has been completed.</p> <p>A separate Procurement Review has been undertaken by the Finance Department, covering all areas of high spend.</p>

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AUDIT COMMITTEE

22 September 2011

Subject Heading:	Private Sector Leased Accommodation (PSL)
Report Author and contact details:	Sue Witherspoon, Head of Housing and Public Protection Extension 3747
Policy context:	Private Sector Leased Accommodation is a form of temporary accommodation primarily used to discharge the Council's duty to provide interim accommodation for homeless households
Financial summary:	The report summarises the financial position of PSL accommodation showing that on a turnover of £c9m, the Council collect around 96.5%.

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

Audit Committee asked for a further update on the financial position with regard to Private Sector Leased Accommodation (PSL). This report provides some additional information, and comparisons with other debt collection activities that the Council carries out.

RECOMMENDATIONS

That the Committee:

1. Note the financial position of the Council's Private Sector Leased (PSL) accommodation;
2. Note that the activity provides financial security for the Council's activities in relation to temporary accommodation.

REPORT DETAIL

Background

1. At its meeting in May, the Audit Committee received a report which set out the duties of the Council in relation to the provision of temporary accommodation. A copy of this report is attached as an appendix for information.
2. The current financial regime for temporary accommodation is due to continue until March 2013, and therefore there is a relatively stable period for the Council to procure and manage temporary accommodation to meet its statutory obligations, as well as its powers to assist households who need accommodation, but towards whom the council has not statutory duty.

Current Position

4. The Council currently leases 810 units of PSL accommodation from 650 different landlords. The rents payable by the tenants are, for 2011/12:

Size	Rent per week
1 BED	£180.19
2 BED	£216.54
3 BED	£258.08
4 BED	£330.77

5. The total rental income from this in 2010/11 was **£8,677,650**. In the year ended 31st March 2011, the PSL team collected **£8,374,175**, which comprises a collection rate of 96.5%. The compares favourably with the collection rate of Council Tax (96%) and is comparable to that of Council housing rents (98%). The rents are very much higher than Council rents, so the arrears will accumulate more quickly. In addition, as the accommodation is only temporary, there is a higher proportion of people who leave without giving notice. Homeless households generally are more

vulnerable and likely to have complex life histories, and therefore a collection rate of 96.5% in this context is very good. The current arrears represent 5.8% of the current annual debit.

6. Arrears at 5th September 2011 owed by current tenants amount to **£544,577**, and the in-year collection rate so far is 94.1%. This highlights a slight reduction the collection rate compared the 2010/11 outturn of 96.5%. Income management continues the main focus for the PSL Team and as part of the Housing and Public Protection re-structure that was implemented on the 1st April 2010, a dedicated post was established to recover current rent arrears. In order to address the recent increase in current arrears and the slight reduction in collection rate, additional resources has been put in place. The impact of the additional resources and the performance is being monitored on a weekly basis.

Former Tenants' Arrears (FTAs) that is, rent arrears which are owed by tenants who have left their accommodation amounts to **£619,641** at the 5th September 2011. These arrears are owed by 233 tenants. At the 31st March 2010, the FTAs totalled £634,681. Since that time, an additional £87,185 has been added to the total FTA account where households have left their PSL accommodation owing outstanding rent to the Council. Despite the significant level of new FTA cases the current FTA total shows a 2.4% reduction since the 31st March 2011. This has been a result of appointing a dedicated FTA Officer on a six month agency contract running from March to September this year to carry out a range of focussed to maximise the recovery of FTA debt. FTAs represent 6.6% of the current debit.

7. The Council has powers to assist households who are in housing need, where they have difficulty accessing the private rented sector. This can be by leasing properties, which are then let to households, or by acting as managing agent, and charging a fee for managing the properties that landlords wish to let. It is proposed that this area of activity should be expanded in the period before the significant changes in the regime anticipated. This will enable the council to assist more households in housing need, and at the same time, cover its costs in the management and provision of temporary accommodation.

IMPLICATIONS AND RISKS

8 Financial implications and risks:

Collection

This report was requested to clarify the arrears position on PSLs. The arrears have grown, year on year, as the operation has similarly grown:-

Arrears	Year ending 2008/09	Year ending 2009/10	Year ending 2010/11	31 st August 2011
Current	309,783	363,929	455,554	544,577
Former	290,015	443,480	634,681	619,641
Total	599,798	807,409	1,090,235	1,164,218

These arrears are covered in the accounts by a Bad Debt provision. While, at 31st March 2011, there is £1,090,235 of arrears, there is actually £923,000 worth of Bad Debt provision as cover, should some of the arrears prove non collectable.

As explained in paragraph 7 above, these debts are difficult to collect; it is for this reason that some councils ensure near 100% bad debt provision in this area. Paragraph 8 refers to measures being taken to improve the collection rate. This said, however, the context of these arrears is a collection rate running at 96.5% (paragraph 5 above).

Medium Term

Currently the PSL scheme is a cost effective method of providing temporary accommodation. Paragraph 11 refers to possible changes from 2013/14 in the government's subsidy system for PSLs. This may make the regime less attractive financially. Any such changes will need to be monitored and addressed – in service and financial terms – when and if they become firmed up.

Legal implications and risks:

The Council has both a duty and a power to provide temporary accommodation for people who are homeless and in priority need whilst investigations are carried out into their cases. In addition, the Council has a duty to provide temporary accommodation for those to whom it owes a duty

to provide settled accommodation, but where it is unable to provide that accommodation immediately. The Council further has powers to provide temporary accommodation in order to prevent people from becoming homeless.

Debt collection action can be taken in almost all cases where arrears have accrued, however, unless there is any realistic prospect of recovery this is often unproductive.

Human Resources implications and risks:

None arising directly from this report.

If it is decided in the future, to reduce our stock of PSL accommodation, this will have implications for the team that manage the temporary accommodation function. However, this report does not propose any change of policy at present.

Equalities implications and risks.

A significant number of households who are assisted with temporary accommodation have vulnerabilities. This is because homelessness amongst families is often associated with difficult life events, such as debt, relationship breakdown and domestic abuse. In addition, those households who are assisted because they are vulnerable will have particular difficulties. They will only be entitled to assistance because they are vulnerable by reason of their age (this could be either old age, or young and vulnerable) disability, mental illness or other special reason.

Nothing in this report changes our duties to these households, who will continue to be assisted in line with current legislation.

BACKGROUND PAPERS

Working papers held within the Housing and Public Protection Service.

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AUDIT COMMITTEE

22 September 2011

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 approved audit plan in quarter one of 2011/12.
Financial summary:	N/a

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

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

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 1st April 2011 to 30th June 2011.

RECOMMENDATIONS

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

REPORT DETAIL

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

Section 1 Audit Work 1st April to 30th June 2011

A summary of the work undertaken in quarter one is included in this section of the report.

Section 2 Resource Information

The current resource position and information about the team's restructure are included for information.

Section 3 Key Performance Indicators

The actual performance against target for key indicators is included.

Section 4 Changes to the Approved Audit Plan

The changes made to the audit plan since the start of the financial year are detailed and explained in this section of the report.

Section 5 Outstanding Recommendations Summary Tables

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

Appendix 1 Review of Money Laundering Arrangements

The action plan resulting from our review is included within this appended document.

Appendix 2 Outstanding Recommendations Full Table

The full list of outstanding recommendations is included within this appended document.

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:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None.

Section 1 Audit Work 1st April 2011 to 30th June 2011.

At the end of June 17% of the audit plan had been delivered. This was against a target for the period of 13%.

At the end of June 13 assignments were in progress but none had reached the final report stage. A number of final report relating to 2010/11 assignments were issued in this period the outcome of this work was reported to Committee in May.

Work in progress includes:

- School Audit – Brady Primary & Nelmes Primary.
- Probity Audit – St Klida’s Children’s Centre.
- Computer Audits – Network Infrastructure, Enterprise Project and BACs IP.
- Risk Based Systems Audits – Complaints, Supply Chain Resilience, Disabled Facilities Grants, Commercial Property, Non Domestic Rates and Public Protection.
- Substantive Testing – Internal Shared Services.

The team reviewed the grant files for two grants: Rainham Bus Interchange and Play Capital and, as required by the funding body, provided assurance that the Council had complied with the requirements set out in the grant conditions.

The annual review of the Council’s Money Laundering Arrangements has also taken place. The Council has in place arrangements, outlined in a strategy and policy statement, to reduce the risk of its services being exposed to Money Laundering, be party to terrorist financing or recipients of the proceeds of organised crime generally.

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

The Internal Audit Team has received no money laundering reports in the period April 2010 to March 2011.

As part of this years review the team have:

- Reviewed policy and strategy documentation;
- considered all activity;
- risk assessed the activity;
- spoken to relevant officers within teams;
- considered the appropriate mechanism to raise awareness i.e. informal discussions with staff, formal notification to team briefer or formal workshop or training; and
- planned the resulting list of actions.

The review has concluded there are gaps in awareness and training for officers which may increase the risk of appropriate action not being taken by Council. The full action plan resulting from this review is attached as Appendix 1 of this report.

Section 2 Resource Information

On 27th July 2011 a proposed restructure of the Internal Audit Team was launched and is currently in a 90 day consultation period. There are further plans to create a Corporate Fraud Team in the next 18 months.

The restructure of the Internal Audit team aims to:

- Ensure the available resources are appropriately utilised to the maximum benefit of the organisation ensuring value for money is achieved and necessary savings are met;
- Respond to changing demands on the services and the increasingly complex work required to fulfil the respective service's objectives;
- Enable the team to effectively deliver the schools audit programme, which was brought back in house from October 2010, and to be a viable provider to Academy schools;
- To implement the right foundations for to enable a Corporate Fraud Team to be established before March 2013;
- Enable the audit team to effectively deliver an internal audit service to Homes in Havering a service which commenced in June 2011;
- To enable the team to seek other opportunities to provide services which will further generate income to the budget;
- To facilitate effective succession planning to secure the future of the service; and
- To ensure that the services continue to develop team members so that it can meet future needs of the organisation.

Currently the Principal Auditor Fraud is acting up into the vacant Principal Auditor Systems and Risk Management post and his substantive post is being covered by an agency worker. The Senior Audit Systems and Contracts returns from maternity leave in October 2011. Additional agency resources will join the team in September 2011 on a part time basis to increase resources available to deliver the internal audit plan.

Section 3 – Key Performance Indicators

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

Audit Plan Delivered (%)										
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Actual	17									
Cumulative Target	13	20	27	35	45	55	63	74	85	95

It is anticipated that at the end of March 2011 there will be approximately 5% of the plan (73 days) to be delivered. This relates to finalisation of 2011/12 audit work. At the end of June 2011 the team is ahead of target with 17% of the audit plan having been delivered.

KPI 01 - Briefs issued										
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Actual	12									
Cumulative Target	12	17	22	29	36	43	48	55	60	60

It is estimated the team will undertake 60 audit assignments. Outputs from Fraud cases are not counted in the 60. At the end of June the team were on target with regards issuing of audit briefs.

KPI 02 – Draft Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	4										
Cumulative Target	5	8	10	14	19	26	35	40	48	55	60

At the end of June the team were one draft report behind target.

KPI 03 – Final Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	0										
Cumulative Target	3	5	7	10	16	23	30	37	45	50	60

No final reports had been issued at the end of June.

Section 4 – Changes to the Approved 2011/12 Audit Plan

In March 2011 the Audit Committee approved an Annual Audit Plan for the 2010/11 financial year totalling 1466 days.

The table below provides a summary of the audits removed from, and added to, the 2011/12 approved audit plan and the reason for the change.

The impact on the total days in the plan has been managed by adjusting the contingency budget for the year.

Audit Title	Days	Revised Days	Directorate	Reason
Transitions (Children to Adults)	10	0	SC&L	Control weaknesses were identified in 2010/11. Sufficient improvements are yet to be implemented to require further audit work and Transitions has been identified as a transformation work stream, where savings can be achieved.
Complaints	0	17	SC&L	Added to 2011/12 plan.
Non Domestic Rates	0	25	C&C	Added to 2011/12 plan.
Climate Change	10	5	C&C	Reduced budget as external audit of area reduce scope of work.
Pupil Services – educational computer centre	15	12		Scope will focus on one specific area; budget was reduced at planning stage of audit.
Enterprise Project	0	12	F&C	Added to 2011/12 plan.
Contingency	50	14		Contingency budget reduced to accommodate overall increase in planned work.
Total Effect	85	85		Audit plan totals 1466.

Section 5 – Outstanding Recommendations Summary Tables

Categorisation of recommendations

High: Fundamental control requirement needing implementation as soon as possible

Medium: Important Control that should be implemented

Low: Pertaining to Best Practice

Appendix 2 includes a full list of all recommendations summarised in the tables in this section.

Outstanding Internal Audit Recommendations – 2008/09

Review in 2008/09	HoS Responsible	Outstanding			Position as at end June 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
E Payments	Business Systems		1		1		
Commissioning of Works	Asset Management	1			1		
IT Security & Data Management	Business Systems	2			2		
Telecommunications	Business Systems	1			1		
	Total	4	1		5		

Outstanding Internal Audit Recommendations – 2009/10

Review in 2009/10	HoS Responsible	Outstanding			Position as at end June 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Integrated Youth Services	Children's and Young people		1	1	2		
Climate Change	Culture & Community		1		1		
Government Connect GCSx	Business Systems	2	2		4		
Commensura	Shared Service		1		1		
Contract Completions	Asset Management			2	2		
Integrated Children's Systems	Children's and Young People		2		2		
	Total	2	7	3	12		

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Outstanding Internal Audit Recommendations – 2010/11

Review in 2010/11	HoS Responsible	Outstanding			Position as at end June 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Tranman	Asset Management	3	1		4		
Service Desk	Business Systems		2	1	3		
Corporate Support Team	Asset Management		1	1	2		
Section 106	Development & Building Control		1				
	Total	3	5	2	9	1	0

Appendix 1 – Money Laundering Action Plan

Action Ref	Action	Responsible Officer	Target Date
1	Undertake proactive work to ensure failure to report suspicious activity occurred in 2010/11.	MLRO	November 2011
2	Update intranet information.	MLRO	November 2011
3	Include reference to Proceeds of Crime within the 'E' fraud awareness package.	MLRO	March 2012
4	Complete planned programme of front-line staff awareness raising actions	MLRO	March 2012
5	Liaise with management to ensure appropriate procedural information is available for officers in key transactional areas.	MLRO	March 2012
6	Complete surveys to gain assurance regarding Service Area awareness – to feed into next review.	MLRO	May 2012

MLRO = Money Laundering Reporting Officer

Ref	Name of Audit	Year	Rec.	Recommendations	Priority	Person Responsible	Date due	Position/Progress to date	HoS Directorate
CM0045	E-payments	2008/2009	7	Procedures should be formulated to identify if transactions could be recreated in the event of the main server becoming unavailable and before the end of the day transactions are sent to the bank.	Medium	Corporate & Business Applications Manager	March 2009 - Revised March 2010 Revised September 2010 Revised November 2010 Revised March 2011. Revised July 2011.	Data on server is backed up every night and can be restored on receipt of a service desk ticket. System Provider (Northgate) can not provide a solution but there is an option to do this from the database. As part of the data centre move we are looking at database resilience which could deal with this audit requirement. This action is dependant on moving the Paris system to the new data centre. This work will be complete by the end of March 2011. Paris will be moved into the new data centre and transactions will be resilient and therefore this issue will never arise. <u>Update April 2011</u> - Due to need to comply with PCIDSS standards, investigation current ongoing into the remote hosting of this system.	Business Systems Finance & Commerce
PR0016	Commissioning of Works	2008/2009	2	A signed copy of the approved contract and financial submission for Architectural and Surveying (Property) contract should be supplied to the Head of Asset Management. A signed copy of the approved contract and financial submission for Civil Engineering (Highways) should be supplied to the Head of Street care.	High	Head of Legal Services	December 2009 - Revised April 2010. Revised September 2010. Revised November 2010. Revised February 2011. Revised July 2011. Revised December 2011.	Both contracts have now been executed on the Council's part and issued to Jacobs solicitors.	Asset Management Finance & Commerce
CM0043	IT Security & Data Management	2008/2009	2	A corporate information identification, classification and assessment exercise should be conducted. A resource that details all the Council's information (including data owners, retention periods, sensitivity etc) should be developed as well as an information management policy document which could consider the adoption of the Local Government Classification Scheme.	High	Information Governance Group Chaired by Head of Legal Services	March 2010 - Revised June 2011. Revised September 2011.	The issues regarding information governance within this report have been evaluated and fed into a project looking at the Council's overall arrangements. This work is being led by Corporate Risk Manager & Head of Legal Services and involves relevant officers from across the Council, who have formed an operational group. Strategic direction is being provided by the officer Governance Group, chaired by the Group Director Finance & Commerce.	Legal & Democratic Services
CM0043	IT Security & Data Management	2008/2009	4	Management should enhance the current controls over USB devices. This should ensure that the following elements are put in place:-Only Council issued devices are to be used for Council business - Device asset register maintained/or record of distribution - USB devices should have encryption enabled - Password access controls put in place for USB devices	High	Infrastructure Support Manager	October 2009 - Revised December 2009. Revised June 2010. Revised November 2010. Revised June 2011 Revised December 2011.	Being implemented as part of the GCSx CoCo work As we roll out encryption this will ensure control over USB devices. Non Council purchased devices will not work with Council equipment. Checkpoint encryption system in rollout phase. This will encrypt every laptop and USB device. Desktop USB ports to be disabled and then only enabled by exception, at which point encryption will be utilised. Rollout to be expediated with additional resources if necessary, as transformation work activities are utilising all in house resources. New build workstations being rolled out in line with COPS2 schedules, these will have USB ports controlled with limited access to deploy programs. Over 316 laptops are now encrypted.	Business Systems Finance & Commerce
CM0037	Telecommunications	2008/2009	1	The Council should develop and test a Disaster Recovery and Business Continuity plan for telecommunications or alternatively consider these arrangements in consultation with the system supplier (Damovo) to ensure that telecommunications can be recovered and restored in a timely manner. This should be performed in line with service expectations of the recovery time objectives for telecommunications.	High	ICT Infrastructure Support Manager	March 2010 - Revised June 2010. Revised December 2010. Revised June 2011 Revised December 2011	Work is continuing to fully evaluate the future telecommunications strategy in terms of voice and data network convergence, wan provision, DR and continuity in line with the forthcoming customer services strategy. In the interim, capital budget was allocated to enhance existing telephony switch power and environmental infrastructure resilience. Several additions to telephony systems and database back up services have now been implemented. Work is to begin shortly on converting the existing SPOF that is the central core switch into a shared and distributed server based topology, thus creating a resilient system across the network. Infrastructure is being built/offsite ready for testing. Deployment is scheduled for the second quarter of 2011	Business Systems Finance & Commerce

Ref	Name of Audit	Year	Rec.	Recommendations	Priority	Person Responsible	Date due	Position/Progress to date	HoS Directorate
SC0038	Integrated Youth Services	2009/2010	6	Re-evaluate the provision of supervisions: <input type="checkbox"/> Consider devolving supervision responsibilities to area managers. <input type="checkbox"/> Decide upon and implement a minimum criteria for supervision frequency.	Medium	Workforce Development Worker	April 2010 - Revised December 2010. Revised April 2011. Revised January 2012	That personal supervision be developed to full time staff with senior part time staff undertaking unit staff team meetings. Frequency to be extended to 8 weeks (currently 6). Action will need change to senior part time workers job profile. Rec to senior management team for approval end August 2010. meeting held with Janice Horslan. Issues regarding frequency and quality of supervision and monitoring will need to be in place. supervision training for the managers will be addressed. supervision will be in four parts with group supervision for part-time staff. Frequency of supervision remains at 6 weekly intervals with team supervision for part time staff, undertaken twice per term. new agreement tot be included in staff development and training guidelines <u>Update April 2011</u> - Post of Workforce Development and Area Managers at risk due to savings requirements, new process will be required. Will need to built into new restructure of service in Autumn for 2011 roll out. Interim arrangements will therefore be put in place detailed from HR1.	Children's Services Social Care & Learning
SC0038	Integrated Youth Services	2009/2010	8	Review data and file storage procedures to ensure they meet Service needs.	Low	Deputy Service Manager	September 2010 and ongoing - Revised December 2010. Revised May 2011. Revised October 2011	Process underway with Mark Scanlon (ISM) to link on line data storage and electronic filing with and for our admin team. Training in respect of electronic data management to take place during March 2011 with documents at the central office being back scanned by May 2011, at which time the system should become fully operational. Appropriate documents are now archived with Iron Mountain. <u>Update April 2011</u> - Training has been delayed and will take place late May/early June 2011. The system is due to become operational by the end of May 2011.	Children's Services Social Care & Learning
CO0033	Climate Change	2009/2010	1	It is recommended that the service consider the establishment of a formal protocol for input by the Environmental Strategy Team into Asset Management and construction standards / projects.	Medium	Head of Asset Management/Energy Management Officer	April 2010 - Revised September 2010. Revised December 2010. Revised January 2011. Revised September 2011.	The recommendation was reviewed by the Climate Change Working Group on 20.9.10 in the light of Cabinet's proposed deferral of LDF planning requirements for higher standards in new development. Revised protocol to be drafted by Head of Asset Management in conjunction with Head of RP&P, omitting reference to standards, but ensuring timely input to construction projects. Report being prepared for Climate Change Working Group in Sept 2011.	Asset Management Finance & Commerce / Regeneration, Policy and Planning Culture & Community
CM0048	Government Connect GCSx	2009/2010	2	Management should urgently implement the requirement for password complexity in compliance with GC requirements	High	Infrastructure Manager	July 2010 - Revised November 2010. Revised June 2011. Revised August 2011	This forms part of the migration to MS AD, it has been delayed due to issues with the Identity Manager upgrade but should be supported once the upgrade has been completed in July. Delays in the roll out of AD & IM upgrades have meant that the implementation has been revised. Work now proceeding with revised implementation date. Complex passwords now ready to be deployed, however a further piece of work is being implemented to roll out a 'password safe' system in line with LBN processes. A revised date is therefore set for the second quarter of 2011. FU update MS Outlook instead of Groupwise has been implemented, however, Netware is still installed. A product called Password Safe is also being implemented at the same time and Active Directory by end of April 2011 but the Password Safe product will be rolled out first to assist users to manage complex passwords which will be enforced by Active Directory <u>Update June 2011</u> This has now been subsumed into the Unified Communications Project which will replace our current telecommunications infrastructure. This will include DR, survivability contingencies and high availability for business continuity.	Business Systems Finance & Commerce
CM0048	Government Connect GCSx	2009/2010	4	In compliance with the GC return made by the Council, management should urgently address the requirement of ensuring that the IDS (Intrusion Detection Service) installed performs detection of the traffic through the network installation, blocks any unauthorised access attempts and a review is carried out of the logs generated by the IDS.	High	Information Governance Officer	March 2010 - Revised December 2010. Revised March 2011. Revised Sept 2011	<u>Update April 2011</u> - IDS is recommended within the GC CoCo. We are reassessing our need for IDS and considering the alternative provision of the PARIS application. FU Update Not Applicable - No Further Action	Business Systems Finance & Commerce

Ref	Name of Audit	Year	Rec.	Recommendations	Priority	Person Responsible	Date due	Position/Progress to date	HoS Directorate
CM0048	Government Connect GCSx	2009/2010	10	Management should ensure that all users have positively signed an Acceptable Usage Policy or commitment statement as recommended by GC and that a record is retained of the signed document.	Medium	Interim Information Security Advisor	April 2010 - Revised December 2010. Revised March 2011. Revised July 2011	<u>Update April 2011</u> - This is in place for all users with a GCSX account. The technical solution to provide an automatic logging of agreement with AUP is dependant on the removal of Novell and deployment of MS Active Directory. FU Update Every GC user has to undertake the on line training and sign the Personal Commitment Statement (same as AUP). Those users who have not undertaken the training are being followed up.	Business Systems Finance & Commerce
CM0048	Government Connect GCSx	2009/2010	13	Management should undertake a review of its data and undertake a process to classify data in accordance with the recommended national and Government classification scheme so that it can begin to protect its data and grant access on the classification assigned to the data.	Medium	Information Governance Group Chaired by Head of Legal Services	September 2010 - Revised December 2010. Revised June 2011. Revised September 2011	<u>Update June 2011</u> - The on line training to be completed covers 'Protective Marking and is also mentioned in the Business Systems Policy. However, work is still being completed to classify all the data within the Council.	Legal Services Legal & Democratic Services
FC0047	Comensura	2009/2010	1	It is recommended that when the Comensura contract is re-tendered in 2011, measurable performance indicators and targets should be formally agreed.	Medium	Interim Recruitment and Contracts Manager	April 2011 - Revised December 2011	<u>Update June 2011</u> the Comensura contract comes to an end August 2012. We will be possibly preparing to go out to tender Nov/Dec 2011 where we will put into the specification measurable performance indicators and targets to be reviewed and measured on a Qtr basis.	Head of Shared Services Finance & Commerce
CO0028	Contract Completion Final Accounts	2009/2010	1	It is recommended that a system of management or peer reviews is implemented to ensure -suitable safeguards are being applied to prevent service exposure / liability to unconfirmed or unbudgeted works from informal works orders, instructions and variations; only correctly specified and agreed works are being commissioned and only fully completed works certificated; that projects are progressed in logical and methodical manner; and the status of all projects is readily discernable.	Medium	Facilities Group Manager	March 2011. Revised December 2011.	The implementation of this recommendation has been delayed due to a restructure in the service. Internal Audit will be working with the Service to ensure the system of internal control is efficient and effective and makes the best use of resources available.	Asset Management Finance & Commerce
CO0028	Contract Completion Final Accounts	2009/2010	2	It is recommended that post completion reviews for projects, incorporating client feedback as to whether their expectations were met, are completed and results monitored.	Low	Facilities Group Manager	March 2011. Revised December 2011.	As above.	Asset Management Finance & Commerce
	Integrated Childrens Systems	2009/2010	6	Management should perform a review of the MS Word documents and manual notes that are used by the Social Care teams when monitoring the completion of work by social workers. The use of these documents should be standardised and consistent within the Department.	Medium	Project Manager ICS/e-CAF	June 2011. Revised October 2011	As per discussion with Mark Scanlon and Neil Chittenden, it was determined that as part of the re-implementation project a process has been undertaken to identify team specific forms that are in use. Guidance has been provided on the use of standardised names for these forms when they are stored on the system [Ref: R6-01]. This guidance was provided at the ISIS working group meetings. Additionally, work has begun to redesign the forms in use by the Duty and Assessment team. Some sample forms have been provided for review and approval by the team [Ref: R6-02]. It was further noted that in light of changes in legislation some of the standard forms have been re-designed on a national level. Further Action: The MS Word documents for each of the other teams within the service will be reviewed and updated as part of the re-implementation project. <u>Update June 2011</u> a number of documents have had standard word forms created for them, however the implementation of Civica, an electronic document management system, has raised issues on where and how case documents should be stored. This is occurring in hand with the completion of a new policy document regarding the recording of case information. The DFE's response to the Munro Report will mean fundamental changes to the recording of assessments as they review the assessment policy based on trial authorities which will conclude in December 2011. Work to identify all current standardised forms will be	Children and Young People's Services Social Care & Learning

Ref	Name of Audit	Year	Rec.	Recommendations	Priority	Person Responsible	Date due	Position/Progress to date	HoS Directorate
	Integrated Childrens Systems	2009/2010	10	Management should ensure that appropriate arrangements are in place for the continuity and disaster recovery of the ISIS application. These arrangements should be tested on a periodic basis to ensure that they are operating as expected and in line with the service expectations and timeframes set out in the Business Continuity Plan.	Medium	Business Systems Support Manager	October 2010 Revised June 2011 Revised October 2011	As per discussion with Mark Kelly and Dave Lucas, it was determined that a call has been logged indicating the need to improve the DR arrangements for the ISIS application [Ref: R10-01]. Further Action: It was noted that the two data centres have been established and work is beginning to move the Council's systems to these data centres. An indication of when the ISIS application will be migrated has not yet been provided. The ISIS application will be moved into the replicated data centre environment and included within the formal Corporate DR arrangements. Once installed a formal annual DR test will be performed. This is dependent on the broader data centre project that is underway. <u>Update June 2011</u> This is still ongoing and relies on the migration of the ISIS (Sharecare) application to the new data centre at Telford. This is likely to be complete by the end of October 2011	Children and Young People's Services Social Care & Learning
CM0059	Service Desk	2010/2011	2	Consideration should be given to the introduction of Operational Level Agreements between the different functions within the Business Systems unit.	Medium	ICT Infrastructure & Support Manager	April 2011 Revised December 2011	<u>Update June 2011</u> - This is being investigated as part of the Business Systems restructure and will be formalised as part of that process.	Business Systems Finance & Commerce
CM0059	Service Desk	2010/2011	4	Management should ensure that Capacity and Availability Management processes are developed and the roles of these are assigned, ensuring that the functions integrate with other areas of the ITIL framework where appropriate.	Medium	ICT Infrastructure & Support Manager	April 2011 Revised December 2011	<u>Update June 2011</u> - this is being investigated as part of the Business Systems restructure and will be formalised as part of that process.	Business Systems Finance & Commerce
CM0059	Service Desk	2010/2011	5	Management should consider establishing IT Service Desk call overflow arrangements in cases where the volume of calls may require additional resources to meet call requirements.	Low	ICT Infrastructure & Support Manager	April 2011 Revised December 2011	<u>Update June 2011</u> - This is being developed as part of the roll out of the corporate contact centre system and is also being investigated as part of the discussions between ICT and ISS in sharing servicedesk functions.	Business Systems Finance & Commerce
FC0069	Corporate Support Team	2010/2011	1	As a matter of good practice, the procedures manual should indicate when the last review was undertaken. In addition, any procedures no longer applicable to the team should be removed from the manual	Low	Corporate Support Manager	April 2011 Revised April 2012	<u>Update June 2011</u> Due to additional projects and department restructure this has not been started on yet.	Asset Management Finance & Commerce
FC0069	Corporate Support Team	2010/2011	3	It should be mandatory for all new starters to sign to evidence that they have read and acknowledged the security guidelines before being issued their ID pass.	Medium	Corporate Support Manager	February 2011. Revised February 2012.	<u>Update June 2011</u> Staff sign issue sheet to confirm but ID application is being updated for staff member to sign.	Asset Management Finance & Commerce
CM0057	Tranman Application	2010/2011	1	Password parameters on the application should be configured to enforce the following password controls, • Minimum password length of 8 characters is enforced • Passwords should be constructed of a combination of alphanumeric characters and/or symbols • Default passwords should be force changed upon first access to the system or following password reset • The minimum password age and password history parameters should be set so it prevents users from using their previous passwords within a predefined period; and • User accounts should be locked following three unsuccessful attempts at system access. Following user account lock out, system access should only be reinstated by the System Administrator.	High	Passenger Transport Services Admin Manager	January 2011 revised December 2011	These functions are not currently available within the Tranman application. An order for changes has now been placed and we will soon be talking to Civica to confirm which, if not all, of the outstanding audit requirements they will be able to accommodate.	Asset Management Finance & Commerce

Ref	Name of Audit	Year	Rec.	Recommendations	Priority	Person Responsible	Date due	Position/Progress to date	HoS Directorate
CM0057	Tranman Application	2010/2011	2	The control total for the text file created from TimePlan should be received and reconciled against the total number of records imported into Tranman when the Read FUEL Records" process is run to ensure all records have been imported successfully. If any records have been rejected, the program should be investigated and re-run to correct any errors identified	High	Passenger Transport Services Admin Manager	January 2011 Revised November 2011	This is being investigated at the moment to see if anything can be done in house. If not we will speak to Timeplan about getting a control total added to the report. <u>Update June 2011</u> - there has been an extensive delay in obtaining funding for the Tranman upgrade which has only just been agreed. An order for changes has now been placed and we will soon be talking to Civica to confirm which, if not all, of the outstanding audit requirements they will be able to accommodate. Given that there is quite a lead time involved in system amendments, I suggest that these items continue to be shown as outstanding with a follow up date of 3 months hence.	Asset Management Finance & Commerce
CM0057	Tranman Application	2010/2011	3	Formal Disaster Recovery and Business Continuity Plans should be documented and implemented for the Tranman system. The Plans should include, though not be limited to the following areas: • Invocation and escalation procedures; • Alternative business continuity arrangements; • The anticipated time to recover the application (Recovery Time Objectives); and • Details of back-up tapes and their location. Once implemented, the BCP and DR plans should be subjected to annual review and testing.	High	Fleet Engineer	December 2010 Revised November 2011	Discussions to be initially carried out with ICT and the Emergency Planning Officer to confirm whether the disaster recovery arrangements for the Tranman application have been documented and also with Civica with a view to them backing up our server. <u>Update June 2011</u> - there has been an extensive delay in obtaining funding for the Tranman upgrade which has only just been agreed. An order for changes has now been placed and we will soon be talking to Civica to confirm which, if not all, the outstanding audit requirements they will be able to accommodate. Given there is quite a lead in time involved in system amendments I suggest that these items continue to be shown as outstanding with a follow up date of 3 months hence.	Asset Management Finance & Commerce
CM0057	Tranman Application	2010/2011	9	Management should review the current settings within the Tranman application to help ensure that audit trails are maintained to report on the following changes • Failed logon activity and potential security violations • Users who have input data i.e. user ID logged against transactions • Details of the data field modified • Details of the data present before and after a modification; and • Log amendments to system options (master and standing data)	Medium	Fleet Engineer	January 2011 revised December 2011	These are not currently available. We need to discuss with Civica and wait on a quote for these changes. <u>Update June 2011</u> - There has been an extensive delay in obtaining funding for the Tranman upgrade which has only just been agreed. An order for changes has now been placed and we will soon be talking to Civica to confirm which, if not all, of the outstanding audit requirements they will be able to accommodate. Given that there is quite a lead time involved in system amendments I suggest that these items continue to be shown as outstanding with a follow up date of 3 months hence.	Asset Management Finance & Commerce
FC0066	Section 106 Agreements	2010/2011	2	a) The Group Director Finance and Commerce should write to all Heads of Service to instruct them to provide quarterly updates regarding any S106 agreements within their service area. b) The quarterly updates should be co-ordinated and monitored by the Head of Development and Building Control and where not supplied this should be escalated to the Group Director Finance and Commerce.	Medium	a) Group Director Finance and Commerce b) Head of Development and Building Control	June 2011. Revised date September 2011	<u>Update June 2011</u> On back of the recommendation 1 memo, a framework for quarterly Section 106 updates to the Section 106 group, is being collated after which it will be communicated to Heads of Service	Development & Building Control Finance & Commerce

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AUDIT COMMITTEE

22 September 2011

Subject Heading:

Fraud Progress Report

Report Author and contact details:

Vanessa Bateman – Internal Audit & Corporate Risk Manager
ext: 3733 email:
vanessa.bateman@havering.gov.uk

Policy context:

To advise the Committee of the work and performance of the Council's anti fraud and corruption resources.

Financial summary:

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

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

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

SUMMARY

This report advises the Committee of the work and performance undertaken by the Benefit Investigation Section during the period 1 October 2010 to 30th June 2011 and the Internal Audit Fraud Team from 1st April 2011 to 30th June 2011.

RECOMMENDATIONS

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

REPORT DETAIL

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

Section 1. Background

Section 2. HB/CTB Fraud Work October 2010 to June 2011 & Internal Audit Fraud Work April 2011 to June 2011

- A) Referrals & Fraud Reports
- B) Outcomes
- C) HB/CTB fraud overpayments
- D) Savings & Losses

Section 3. Direction of Travel

IMPLICATIONS AND RISKS

Financial implications and risks:

Fraud and corruption will often lead to financial loss to the authority. By maintaining robust anti fraud and corruption arrangements and a clear strategy in this area, the risk of such losses will be reduced. Arrangements must be sufficient to ensure that controls are implemented, based on risk, to prevent, deter and detect fraud. The work of the fraud team often identifies losses which may be recouped by the Council. The work of the Benefit Investigation Team regularly identifies benefit to which claimants are not entitled which are to be recovered by the Council. There are however, no direct financial implications or risks arising directly from this report.

Legal implications and risks:

There are no legal issues arising out of the work done by Housing Benefit and Council Tax Benefit investigators, or Internal Audit Fraud Investigators.

Human Resources implications and risks:

The planned restructure of the Fraud resources will be dealt with in accordance with the Councils Managing Organisational Change and Redundancy policy, procedures and guidance.

Equalities implications and risks:

None arising directly from this report. These risks are considered as part of all corporate policies so as with the HR implications the planned restructure will take

account of equalities.

BACKGROUND PAPERS

None

Section 1 **Background**

- 1.1 The Committee has previously received separate reports detailing activity of the Benefits Investigations Team and the Internal Audit Fraud Team. Going forward one report will be presented at each of the quarterly meetings that communicate performance information for all of the Council's fraud resources for the previous quarter. This change in reporting reflects the decision that from 1st September 2011 a change in line management took effect and the Benefits Investigation Team now report to the Internal Audit & Corporate Risk Manager. This will result, via a planned future restructure, in the creation of a Corporate Fraud Team.
- 1.2 The decision to move to a Corporate Fraud Team is as a result of the following factors:
- The fraud risks the organisation faces are evolving and a sufficiently resourced, skilled and experienced team needs to be in place to respond;
 - There are economies of scale and increased flexibility in resources available where a centralised team and fully joined up approach is in place;
 - In April 2013 it is planned that Local Authority benefit fraud powers will be removed and a centralised fraud team will be formed within the Department of Work and Pensions;
 - The Benefit Investigations Team post April 2011 and prior to 1st September had been part of the Customer Services directorate within Culture and Community and it is believed that Fraud Resources are best placed separate from service delivery and reporting into the s151 officer.
- 1.3 There are no plans to dramatically change the way the Benefits Investigation Service operates, the restructure to create a Corporate Fraud Team will aim for an approval and implementation date no later than 1st January 2013 to ensure the Corporate Fraud team is formed in advance of the removal of benefit fraud powers and reduce the risk of loss of valuable skills and experience from the organisation.
- 1.4 The Benefit Investigations Section comprises one Principal Investigations Officer; one Senior Investigations Officer; one Financial Investigator; four Investigations Officers and One Investigations Assistant. This team is funded via the Benefit Administration Grant.
- 1.5 Two additional posts have been established for two years, funded by homelessness grant money, to tackle Housing Tenancy Fraud. To develop the skills and experience of current resources two of the Benefit Investigation Officers have seconded into these new roles and there substantive posts are being back filled by agency resources while the work load of cases is assessed.
- 1.6 The Internal Audit Fraud Team consists of three officers a Principal Audit Manager; Principal Auditor and Auditor.

Section 2 HB/CTB Fraud Work October 2010 to June 2011 & Internal Audit Fraud Work April 2011 to June 2011

A) Referrals & Fraud Reports

2.1 The table at para. 2.4 provides the sources of fraud referrals for the Investigations Section from October 2010 to June 2011. The fraud reports received by the internal audit team are also presented (*in italics*) for the same period.

2.2 Fraud reports for the periods prior to April 2011 have previously been reported to the Committee. They are however included here for comparison purposes. To avoid double counting any fraud reports received by internal audit regarding council tax or benefit fraud, have been excluded.

2.3 Totals for both teams are presented for each quarter. Information in future reports will be more concise as reporting timescales will have aligned and the report will therefore cover a shorter period of time and provide more timely reporting of performance information.

2.4

Source of Referrals/<i>Fraud Reports</i>					
Number of Referrals/ Type	Quarter 3 10/11	Quarter 4 10/11	Total QTR 3 & 4 10/11	Quarter 1 11/12	Overall Total
Anonymous	32	34	66	33	99
	<i>7</i>	<i>8</i>	<i>15</i>	<i>0</i>	<i>15</i>
External Organisations <i>(members of the public)</i>	29	40	69	162	231
	<i>2</i>	<i>1</i>	<i>3</i>	<i>3</i>	<i>6</i>
Internal Departments <i>(whistleblowers)</i>	70	63	133	55	188
	<i>3</i>	<i>4</i>	<i>7</i>	<i>7</i>	<i>14</i>
Total	131	137	268	250	518
Total	12	13	25	10	35

2.5 The significant increase in quarter 1 for benefit referrals is due to National Fraud Initiative matches and outcomes from the single person discount exercise.

2.6 The table at para. 2.7 shows the categories of the potential fraud referrals from October 2010 to June 2011.

2.7

Referrals by Category					
Potential Fraud	Quarter 3	Quarter 4	Total QTR 3 & 4	Quarter 1	Overall Total
	10/11	10/11	10/11	11/12	
Capital	6	10	16	25	57
Contrived Tenancy	10	2	12	0	24
Income from Other Sources	7	18	25	52	102
Living Together	46	47	93	37	223
Non-Dependant	11	10	21	14	56
Non-Resident/vacated	22	24	46	26	118
Other welfare benefits	0	0	0	0	0
Working	22	16	38	23	99
Non Commercial Tenancy	2	3	5	2	12
Other	5	7	12	71	95
Total	131	137	268	250	786

2.8 The table at para. 2.9 shows the categories of the potential fraud reports from April 2011 to June 2011. Prior quarter information is provided for comparison purposes.

2.9

Reports by Category					
Potential Fraud	Quarter 3	Quarter 4	Total QTR 3 & 4	Quarter 1	Overall Total
	10/11	10/11	10/11	11/12	
PC – misuse and Abuse	0	4	4	5	9
Misuse of Council Time	1	1	2	2	4
Miscellaneous	2	3	5	2	7
Pro Active	1	0	1	2	3
Breach of Council Procedures	1	1	2	0	2
Falsification of Records	0	1	1	0	1
General	0	1	1	0	1
Total	5	11	16	11	27

B) Outcomes

2.10 The number of successful outcomes for the benefits investigations team from October 2010 to June 2011 is detailed in Table 2.11 below.

2.11

Successful Outcomes						
Sanction/ Offence Type	Administrative Penalties		Cautions		Prosecutions	
Period	Qtr 3 & 4 10/11	Qtr 1 11/12	Qtr 3 & 4 10/11	Qtr 1 11/12	Qtr 3 & 4 10/11	Qtr 1 11/12
Capital	8	1	6	1	1	1
Working and Claiming	0	2	8	2	3	1
Contrived Tenancies	1	0	1	1	1	1
Living Together	6	1	1	0	8	7
Income from other sources	2	0	3	4	0	1
Vacated	2	0	0	2	2	0
Other Benefits	0	0	0	1	0	0
Total	19	4	19	11	15	11

2.12 Press releases are issued to publicise the successful outcomes of cases, extracts from two of the most successful cases, during the period to which this report relates have been included below. Names have been removed from the press releases, although the information is already in the public domain, due to the time since the sentencing.

2.13 A 61 year old benefit fraudster was sentenced to seven months imprisonment for dishonestly making a false statement when she claimed Housing Benefit in 2005. Mrs X claimed Housing Benefit for herself and her daughter after moving into a four bedroom property in Southdown Road Hornchurch in October

2005. Her son, X and his wife had previously moved into this property. In her application for benefit, Mrs X had declared to the Council that the landlord of the property was X who also lived at the address. However, an investigation by the London Borough of Havering established that Mrs X's son X jointly owned the property with Mr X.

Enquiries into Mrs X's bank statements revealed that benefit payments had been credited to her account but there were no debits for the rental amount. Closer examination of these statements revealed that Mrs X was actually paying utility bills for the whole property including electricity, water, broadband, and insurance along with the T.V license.

The investigation resulted in Mrs X being overpaid £25,385.72 Housing Benefit.

An initial charge of conspiracy against X, X and X was later withdrawn after Mrs X pleaded guilty to her indictment of dishonesty on 3rd May 2011.

Mrs X appeared before His Honour Judge Saggerson at Basildon Crown Court for sentencing on Thursday, 9th June. The Judge indicated that only immediate custody would be appropriate as this case had been fraudulent from the outset and that Mrs X had effectively been freeloading off the state. In spite of mitigation the Judge felt that he had no other alternative as Mrs X had claimed this benefit fraudulently in order that the remainder of the family could live rent or mortgage free.

The London Borough of Havering will also be seeking civil recovery of the overpaid benefit.

- 2.14 Mr X of, Jutsums Lane was sentenced yesterday (24/2/11) to 6 months imprisonment for benefit fraud. At an earlier hearing he had pleaded guilty to defrauding Havering Council of £38,974.66 in Housing Benefit over a period of almost 7 years (7/7/03 to 19/4/10).

Whilst in receipt of housing benefit for his rent Mr X had sub-let the property for £550.00 per month and was living with his girlfriend and their baby.

Investigations uncovered several undeclared bank accounts one of which had over £37,000.00 in it.

They also revealed that Mr X, who has been in receipt of benefit since 1996 had purchased several high value cars including a £17,000.00 Land Rover a £21,000.00 Renault Megane Sport and a £24,000.00 BMW convertible.

At sentencing Mr Recorder Knott said that due to the size of the overpayment this case had obviously crossed the custody threshold and sent Mr X to prison.

- 2.15 The case outcomes for the Internal Audit investigations from October 2010 to June 2011 are detailed in table below.

Case Outcomes				
Period	2010/11		2011/12	
Outcome	Qtr 3 10/11	Qtr 4 10/11	Qtr 1 11/12	Total
Management Action Plan	10	2	3	15
Dismissed	1	1	0	2
Resigned	3	1	2	6
Contract ended	1	0	2	3
Insufficient Evidence	5	0	3	8
Refund received	1	0	0	1
No further action	5	0	1	6
Case cancelled	2	1	0	3
Total	28	5	11	44

- 2.16 One of the cases involving a cheque fraud was referred to the police for investigation. The Crime Prosecution Service decided not to prosecute.

C) HB/CTB Fraud Overpayments

- 2.17 The value of fraudulent housing benefit overpayments generated for the second half of the 2010/11 year totalled £546,225.76. This figure is made up of £100,285.56 Rent rebate, £337,603.54 Rent Allowance and £108,336.56 Council Tax Benefit.

- 2.18 The value of fraudulent housing benefit overpayments generated for the first quarter of the 2011/12 year totalled £177,546.88. This figure is made up of £46,393.23 Rent Rebate, £97,612.70 Rent Allowance & £33,540.95 Council Tax Benefit.

D) Savings and Losses

- 2.19 There have been no losses identified since the start of the financial year; results from prior periods have previously been reported to Committee. Following a report of concerns concerning a clients ability to manage their own finances the investigation identified that the full range of benefits to which the client was entitled were not being claimed. As a result additional benefits are now in payment and these have been back dated accordingly. The overall total was £3543, approximately £1000 of which was owed to the Council and has been recovered.

Section 3 Direction of Travel

- 2.20 Over the next three months plans are in place to bring the fraud resources together, by locating staff in the same office and increasing awareness of the roles and working practices across the fraud activity. There is still uncertainty regarding the impact of the removal of Housing Benefit powers but it is understood that investigation of Council Tax benefit fraud will remain the responsibility of Local Authorities.
- 2.21 Service plan that covers all activity will be drawn up and key performance indicators defined that are relevant to all fraud activity.
- 2.22 Work on a risk assessment regarding the current fraud risks and those perceived to be emerging has commenced and this will form the basis for the Council's corporate fraud resource requirements. A restructure will be completed and implemented prior to April 2013 when the Benefits powers will be removed.
- 2.23 Homelessness grant money received for 2011/12 is being used to boost resources available and arrangements in place to prevent, detect and investigate Housing Tenancy Fraud. The team are working closely with Homes in Havering to implement efficient procedures across both organisations.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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