



Haverling

L O N D O N B O R O U G H

AUDIT COMMITTEE AGENDA

7.00 pm Please note early start	Wednesday 19 February 2014	Town Hall, Main Road, Romford
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Members 6: Quorum 3

COUNCILLORS:

Conservative
(3)

Residents'
(1)

Labour
(1)

Independent
Residents'
(0)

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

Clarence Barrett

Denis Breading

For information about the meeting please contact:
James Goodwin
01708 432432 james.goodwin@haverling.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 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to declare any pecuniary interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any pecuniary 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 3 December, 2013 and authorise the Chairman to sign them.

5 2012/2013 AUDIT REPORT OF GRANT CLAIMS AND RETURNS (Pages 7 - 40)

To receive the attached report.

6 ACCOUNTING POLICIES 2013/14 (Pages 41 - 58)

To receive the attached report.

7 CLOSURE OF ACCOUNTS TIMETABLE 2013/14 (Pages 59 - 64)

To receive the attached report.

8 INTERNAL AUDIT PROGRESS REPORT (Pages 65 - 78)

To receive the attached report.

9 INTERNAL AUDIT SYSTEMS REPORT SUMMARIES 1 OCTOBER, 2013 TO 28 JANUARY, 2014 (Pages 79 - 104)

To receive the attached report.

10 INTERNAL AUDIT SCHOOL FINAL REPORT SUMMARIES 1 OCTOBER, 2013 TO 28 JANUARY, 2014. (Pages 105 - 118)

To receive the attached report.

11 DRAFT INTERNAL AUDIT PLAN FOR 2014/15 (Pages 119 - 134)

To receive the attached report.

12 FRAUD PROGRESS REPORT 1 OCTOBER, 2013 TO 31 DECEMBER, 2013 (Pages 135 - 146)

To receive the attached report.

13 DRAFT ANTI-FRAUD WORK PLAN 2014/15 (Pages 147 - 156)

To receive the attached report.

14 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.

15 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.

16 SURTEES CONTRACT

To receive an oral report from officers.

17 RISK BASED VERIFICATION

To consider the attached report.

**Andrew Beesley
Committee Administration
Manager**

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 3A - Town Hall
3 December 2013 (7.30 - 8.55 pm)**

Present:

COUNCILLORS:

Conservative Group Georgina Galpin (in the Chair) Frederick Thompson
(Vice-Chair) and Roger Ramsey

Residents' Group Clarence Barrett

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

26 MINUTES OF THE MEETING

The minutes of the meeting held on 26 September, 2013 were agreed as a correct record and signed by the Chairman.

27 ONE ORACLE

The Committee were advised that it was intended that the One Oracle system would go live on 2 December, 2013. This had had to be delayed for two reasons:

- Functional satisfaction; and
- Need external accreditation to access the shared Data Centre.

Two time slots to achieve accreditation had been missed but this would be achieved by the end of play this coming Friday.

Officers were working with our partners to agree a new 'Going Live' date with two options being considered, either 2 February or 7 April. There were pros and cons for both dates and these were being debated.

This delay would have no impact on Romulus.

The report was **noted** and we have asked officers to keep us informed on progress.

28 **CLOSURE OF ACCOUNTS**

Officers advised that everything was in place for the timely closure of accounts. The only uncertainty concerned the timing of the introduction of One Oracle. However, plans were in place to cope with whichever option is chosen.

The report was **noted**.

29 **INTERNAL AUDIT PROGRESS REPORT**

We have received a report detailing the work undertaken by the Internal Audit team during the period 29 June 2013 to 30 September, 2013. During this period the Audit Team completed 8 System Audits and 5 School Audits this means 42% of the audit plan has been delivered against a target for the period of 45%.

A list of outstanding audit recommendations was provided, together with details of the total number of recommendations in the original report. This provided a sense of proportion as to the extent of the potential problem.

Officers advised that the one outstanding recommendation in respect of Cemeteries and Crematorium had been completed since the report was written.

We have asked officers to provide further information on the two recommendations rejected by management. These related to i-Expenses and Tenancy management. An update would be provided to us at the next meeting.

The report was **noted**.

30 **SUMMARIES OF INTERNAL AUDIT REPORTS ISSUED DURING THE PERIOD 29 JUNE, 2013 TO 30 SEPTEMBER, 2013**

Eight system audits were completed in quarter 2 and report summaries were provided for our information. We noted most of the reports but raised the following questions:

- Freedom of Information – we were advised at the moment we were receiving approximately 1300 FOI request per annum. We were responding to 91% to 92% of these within 20 days. However, the requests were tending to get more complex.

Part of the reason that the response rate had fallen was the introduction of a modular CRM system. This had not proved to be user friendly and had been dropped in March. Since then officers had been catching up.

We have suggested that if more information was required the Value Overview and Scrutiny Committee could form a Topic Group to look at how we deal with Freedom for Information requests.

- Public Health Grant 2013/14 – The report advised that whilst there was an expectation that the grant would be spent by the end of the year underspend could be carried forward to the next financial year as part of a public health reserve. The indication was that the Department of Health had already agreed an allocation for 2014/15. However, there was a risk that in future years the allocation could be reduced if the Council regularly reported large underspends.
- Adult Social Care (ASC): Administration of client income – clarification was sort and given that the process and internal controls in place were robust enough to ensure that future forecasts were more accurate.

The report was **noted**.

31 SUMMARIES OF SCHOOL AUDIT REPORTS ISSUED DURING THE PERIOD 29 JUNE, 2013 TO 30 SEPTEMBER, 2013.

During quarter 2 the Internal Audit team had completes audits for 5 schools. Two of the schools had achieved full assurance and the other three substantial assurance.

We have expressed concern that St Mary's Catholic Primary School were not arranging for CRB checks for volunteers helping with swimming. We have asked that the matter be brought to the attention of the Schools HR team and the Children's Safeguarding team.

In considering all the reports we noted that similar issues were raised in respect of more than one school and queried what action was taken in these cases.

Officers advised that they were piloting a school iPad Audit app which would be supplied to schools which would highlight to schools areas which would be audited by the Team. We have asked officers to provide us with a copy of this app.

The report was **noted**.

32 FRAUD PROGRESS REPORT.

We have received a report on the work of the Internal Audit Corporate Fraud Team and the Benefit Investigation Team during the period from 1 July 2013 to 30 September, 2013. Details of the number of cases considered and

received were provided. The Corporate Fraud team had considered 14 cases during the period of these 10 had been successful. Of these 9 had resulted in Management Action Plans and one had seen a member of staff resign.

Details of three successful benefit prosecutions and three successful housing tenancy cases were provided; together with details of a very successful prosecution where the benefit fraudster Sally-Ann Beresford had been ordered to repay the Council £180,000 following a Proceeds of Crime hearing.

We have **noted** the report.

33 GOVERNANCE UPDATE

Each year we are required to produce an Annual Governance Statement. The report set out the timescales for the production of the 2013/14 Statement.

Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires all relevant bodies to prepare an annual governance statement which must accompany the statement of accounts. The 'Delivering Good Governance in Local Government Guidance 2012' urges councils to prepare an Annual governance statement in order to report publicly on the extent to which it complies with its own code of governance on an annual basis.

If any potential issues were highlighted during the process of preparing the Statement they would be brought to our attention in February, with the draft Statement being submitted to us in April.

We have **noted** the report.

34 EXCLUSION OF THE PUBLIC

The Committee resolved to exclude 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.

35 **SURTEES CONTRACT**

Officers advised that negotiations regarding the Terms of the Contract between the Council and Surtees were on-going. Progress was being made but there were two big issues outstanding.

We have **noted** the report.

36 **TREASURY MANAGEMENT**

We have received an update on the position of Treasury management for the quarter ended 30 September, 2013. We have noted that the Council still have ample cash flow available but that this position would change towards the end of the financial year.

We have **noted** the report.

Chairman

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<h2 style="margin: 0;">AUDIT COMMITTEE</h2> <p style="margin: 0;">DATE: 19 February 2014</p>	
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Subject Heading:	2012/2013 AUDIT REPORT OF GRANT CLAIMS AND RETURNS
CMT Lead:	Andrew Blake-Herbert
Report Author and contact details:	Lilian Thomas Corporate Finance - Senior Accountant Tel: 01708 431057 Lillian.thomas@havering.gov.uk
Policy context:	The Audit Committee are required to review the outcome of the Authority's grant claims process for audited grant claims relating to the financial year 2012/2013.
Financial summary:	No direct financial implications to report.

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

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

SUMMARY

The 2012/2013 audit process was completed by the Audit Commission's representative, PricewaterhouseCoopers.

This report updates the Committee of the position regarding the final version of the 2012/2013 audit report of grant claims and returns and subsequent Action Plan for the 2013/2014 process.

The 2013/2014 Action Plan can be found at Appendix 1. The 2012/2013 Action Plan and progress made can be found at Appendix 2 and the certification report from PricewaterhouseCoopers can be found at Appendix 3.

RECOMMENDATIONS

The Committee is recommended to:

1. review the outcomes of the 2012/2013 grant claims process
2. raise any issues of concern with officers on specific grant claims
3. note the year-on-year grant claims performance, and
4. otherwise note the report.

REPORT DETAIL

Overall summary of the 2012/2013 audited grant claims compared to 2011/2012.

1. Performance

- 1.1 Grant Funding Body conditions and guidelines determine whether a grant requires external audit. The Audit Commission publishes an index of grants over £125k that require audit annually. Most Specific Grants are subject to Chief Finance Officer Certification only.

In 2012/13 here were 4 grants over £125k that required audit certification, compared to 6 in 2011/2012.

- 1.2 All 4 claims due for 2012/2013 have now been certified.

- 1.3 There was 1 (25%) amended claim for 2012/2013, compared to 3 (50%) amended in 2011/2012.

- 1.4 2 (50%) claims were qualified for 2012/2013, compared to 1 qualified in 2011/2012 (17%).

The qualified grant claims are:

BEN01 – Housing and Council Tax Benefits Scheme. This grant was not subject to a qualification in 2011/12.

LA01 – National Non Domestic Rates Return. (NNDR). This grant was not subject to a qualification in previous years.

The agreed recommendations regarding the above can be found in the 2013/2014 Action Plan (see Appendix 1).

- 1.5 Of the 4 claims audited only 3 claims (75%) for 2012/2013 achieved their Audit Commission certification deadlines. The LA01 National Non Domestic Rates Return was submitted late to the Audit Commission by PricewaterhouseCoopers. All 6 claims (100%) met their Audit Commission deadlines for 2011/2012.

	2011/2012		2012/2013	
	No.	%	No.	%
Submitted by due date	6	100	4	100
Total claims	6	100	4	100

Amended claims	3	50	1	25
Claims not amended	3	50	3	75
Total claims	6	100	4	100

Qualified claims	1	17	2	50
Unqualified claims	5	83	2	50
Total claims	6	100	4	100

Certified by deadline	6	100	3	75
Uncertified by deadline	0	0	1	25
Total claims	6	100	4	100

2. Recommendations

- 2.1 PricewaterhouseCoopers identified 3 recommendations to address in the 2012/2013 Action Plan. All 3 recommendations were implemented during 2013/2014. (see Appendix 2)

- 2.2 The 2013/2014 Recommendations/Action Plan is attached as Appendix 1 and contains 4 issues identified during the 2012/2013 audit process for implementation during 2013/2014.

3. Audit Fees

3.1 The following table records audit fees paid each year:

Paid in 2010/2011 re 2009/2010 audits	Paid in 2011/2012 re 2010/2011 audits	Paid in 20112/2013 re 2011/2012 audits	Prosed fees to be Paid in 2013/14 re 2012/13
£81,000	£77,000	£67,105	£43,025
No of Claims Audited 10	No of Claims Audited 10	No of Claims Audited 6	No of Claims Audited 4

The audit fee for the 4 grants subject to audit for 2012/13 is £43,025. The audit fee for the same 4 grants audited for 2011/12 was £56,320. This shows a decrease of 24% in costs.

3.2 PricewaterhouseCoopers have been the Council's appointed auditor for grant claims since 2008/2009. The number of grants requiring audit for 2012/2013 decreased by 33% to 4. The total audit fees decreased by 36% however the total cost is within the 2012/13 grants audit fees budget.

The LA01- NNDR grant audit incurred additional audit fees due to additional work required in relation to the testing of empty property relief and debt write offs.

The PEN05 – Teachers Pensions audit was subject to additional audit fees due to the extra testing required since the implementation in 2012/13 of the tiered contribution rates system. This has increased the complexity of the preparation and certification of the return.

The good standard of working papers continues to contribute to the grants audit process.

3.2 The annual Audit Commission index for 2013/2014 has not yet been received although it is anticipated that 4 grants shall require Audit Commission certification for the period.

3.4. In Year Achievements

- During 2012/2013 both service and finance staff are being supported by one to one grants training upon request.

3.5. Future Planned Developments

- A grants workshop is due to take place in March 2014 which will be delivered prior to the start of the 2013/2014 grants and audit process.

IMPLICATIONS AND RISKS

Financial Implications and risks:

For 2012/2013 specific grant claims that require External Audit provided £188m in funding for the Council and poor performance in submitting claims puts income at risk and can affect the Council's reputation with funding bodies. Additional audit fees may also be incurred where working papers or procedures fail to meet the required standards.

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

These outcomes are mitigated by having in place, a robust system of training, support and review. This ensures that all grant claims are robustly examined before submission and that any queries are taken back through a consistent route.

Legal implications and risks

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

Human Resources implications and risks

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

Equalities and Social Inclusion implications

There are no Equalities and Social Inclusion implications arising directly from this report.

BACKGROUND PAPERS

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Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>Housing and Council Tax Benefits Subsidy (BEN01) (30/11/2013)</p> <p>Recommendation: 1</p>	<p>From our initial testing of 80 cases, we found one case where benefit had been overpaid as a result of miscalculating the claimant's income.</p> <p>Testing of an additional sample of 40 cases identified one further case where the claimant's income had been calculated incorrectly.</p> <p>The extrapolated error across the population of similar cases is £9,571.</p>	<p>While the issues noted were relatively minor in the context of the complexity of the BEN01 claim, we recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.</p>	<p>On discovery of these errors during the course of the audit, the Lead Subsidy & Support Officer briefed the benefit processing sections. In addition, further training is planned this financial year to refresh and remind benefit processors of how to deal with these minor but unusual scenarios.</p>	<p>Responsible Officer: Jeff Potter. Head of Exchequer Services/Chris Henry, Council Tax and Benefits Manager</p> <p>Timescale: 31 March 2014</p>

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>Teacher's Pension (PEN05 (29/11/2013) Recommendation: 1</p>	<p>Initially, we identified that the return was compiled incorrectly as it did not reconcile to the payroll system. We also identified a number of errors in the underlying working papers that required us to extend our sample testing.</p> <p>We identified that teachers had initially been paying pension contributions at the incorrect tiered rates, whilst this had been corrected in the March 2012 payroll, the return had been compiled on a monthly basis so the return had been compiled with the contributions reflected within incorrect tiers. The Council performed an exercise to identify these Entries and amend the return accordingly</p>	<p>We recommend that the Council ensures the Teacher's Pension return and supporting working papers reconciles to the payroll system and that procedures are put in place to review the 2013-14 working papers before these are passed to PwC for certification.</p> <p>We recommend that the</p>	<p>The Teachers Pensions new banding calculations regulations were issued only 6 weeks before implementation for April 2012. This led to issues on the understanding of the new tiers and how to record against them and what is required when adjustments were due and the recording of them.</p> <p>In July 2013 a new checking process has been put in place to ensure the banding tiers have been calculated correctly for the monthly payments over.</p> <p>When One Oracle is implemented in April 2014, there will be a report produced to make recording and reporting the monthly bandings over to Teacher's Pensions easier and more accurate.</p>	<p>Responsible Officer: Karen Balam, Transactional Services Manager/Marion Self, Transactional Specialist, Payroll</p> <p>Timescale: Completed</p>

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>National Non-Domestic Rates Return (LA01) (27/09/2013)</p> <p>Recommendation:1</p>	<p>Our initial testing of empty premises entries identified five premises that did not have an inspection or otherwise to confirm that they were indeed empty for the period in question.</p> <p>The authority explained that the cases within the initial sample were identified as not having received an inspection due to an integrity error within the Academy software that omitted them from the inspection routine and that this has subsequently been rectified. In order to understand the extent of the error further testing was performed. This identified a further 22 premises that did not have an inspection or otherwise, to confirm that they were indeed empty for the period in question.</p>	<p>Council ensures that empty property inspections are performed before the issuance of the relief.</p>	<p>It would not always be practical to visit a property prior to the award of the unoccupied relief and is not a routine adopted by many authorities. However I accept that routine visits are desirable and therefore to establish a base position have arranged for an external inspection service to undertake a review of every property currently shown as unoccupied based on a snapshot at the middle of December 2013. Additionally Exchequer Services has significantly enhanced the number of inspectors available across the Revenue service to address such issues and will be introducing a visiting regime that ensures every empty property is visited in a 6 monthly cycle.</p>	<p>Responsible Officer: Ted Smith/Exchequer Services Improvement Manager</p> <p>Timescale: April 14</p>

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>NNDR (LA01) Recommendation: 2</p>	<p>2) Our initial testing of 25 write-offs, identified two that did not have evidence to support that the Council's approval process had been followed correctly. In order to understand the extent of the error further testing was performed. This identified a further 22 write- offs that did not have evidence to support that the Council's approval process had been followed correctly.</p>	<p>We recommend that the Council ensures that evidence is retained to support that the approval process has been followed correctly.</p>	<p>Agreed. Procedures have now been implemented to ensure that write off schedules are controlled and the appropriate reconciliations maintained in line with this recommendation.</p>	<p>Timescale: Implemented</p>

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>Teacher's Pension (PEN05)</p>	<p>From our work, a number of significant issues were found that lead to qualification of the claim.</p> <p>From discussion with Management we understand the issues are primarily due to the new Oracle system upgrade in 2011-12 financial year.</p> <ol style="list-style-type: none"> Contributory salary figures were calculated by 'grossing up' other entries on the TR17 return and fully derived from payroll records. <p>The Authority started using a new payroll system during 11/12 and at the time the TR17 return was compiled, reports to show the contributory salary for each employee could not be extracted. Therefore to calculate the Total Actual Contributory Salary per line 1 of the form, the</p>	<p>Recommend the Authority develop reports to ensure a complete population can be produced from the new system allowing;</p> <ul style="list-style-type: none"> - - - Separation of contributory salary (reckonable pay) from the payroll system 	<p>Agreed</p> <p>Separation of contributory salary (reckonable pay) from the payroll system has been achieved from November 12.</p> <p>Reports are to be produced before year end to extract actual contributory salary April 12 to October 12.</p>	<p>Responsible Officer: Head of Internal Shared Services</p> <p>Timescale: Implemented December 2012</p> <p>Implemented March 13</p>

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
	<p>Teachers Contributions shown in cell 2(b)(iii) had been grossed up.</p> <p>2. A complete population could not be obtained to test contributions in relation to teachers employed in LA maintained establishments, as the payroll reports included contributions in relation to teachers employed in academy schools which should be excluded from the TR17 return.</p> <p>Similarly we could not ensure contributions had been correctly calculated and deducted as we did not have a complete population of contributions from which to pick our sample from.</p> <p>From our testing of refunds (£368.68) , it was established the amount was not a refund but was</p>	<p>Separation of LA maintained schools payroll from academies payroll administered by the Authority</p>	<p>Academies moved on to their own payrolls March 12 and were separated at March 12.</p>	<p>Timescale: Implemented December 2012</p>

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
	<p>owed to a teacher. An admin error led to £368.68 being refunded to the teacher. The Authority chose not to amend the claim based on the low value of the error.</p>			
<p>Housing and Council Tax Benefits Subsidy (BEN01)</p>	<p>From our initial testing of 80 cases, we found one error as detailed below;</p> <p>One case was incorrectly classified as regulated tenancy (i.e. tenancy commenced pre 1989). From our work performed the case was a de-regulated case as the tenancy commenced post 1989. No impact on the claim in terms of subsidy claimed by the Authority. However additional work was required to be performed to check no further cases were found to be incorrectly misclassified. The error was concluded to be isolated.</p>	<p>We recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.</p>	<p>Agreed</p>	<p>Responsible Officer: Head of Customer Services/Benefits Manager</p> <p>Timescale: March 2013</p> <p>Implemented</p>

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*Annual Certification Report
to those charged with governance
2012/13
London Borough of Havering*

Page 2

*Government and
Public Sector –
Annual Certification
Report to those
charged with
governance*

January 2014



The Members of the Audit Committee

London Borough of Havering
Town Hall
Main Road
RM1 3BB

29 January 2014

Our Reference: LBH 2013

Ladies and Gentlemen

Annual Certification Report (2012/13)

We are pleased to present our Annual Certification Report which provides members of the Audit Committee with a high level overview of the results of certification work we have undertaken at London Borough of Havering Council in 2012/13.

We have also summarised our fees for 2012/13 certification work in Appendix A.

Results of Certification work

For the period ended 31 March 2013, we certified four claims and returns worth a final net total of £188,336,621. Of these, three required qualification letters to set out matters arising from the certification of the claim or return. We have set out further details in the attached report.

We identified a number of matters relating to the Council's arrangements for preparation of claims and returns during the course of our work, some of which were of a minor nature. The most important of these matters have been brought to your attention in this report.

We ask the Audit Committee to consider:

- the adequacy of the proposed management action plan for 2012/13 set out in Appendix B, and;
- the adequacy of progress made in implementing the prior year action plan in Appendix C.

Yours faithfully,

PricewaterhouseCoopers LLP

Table of Contents

Introduction	4
<i>Scope of work</i>	<i>4</i>
<i>Statement of Responsibilities of Grant-Paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns</i>	<i>4</i>
<i>Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies</i>	<i>4</i>
Results of Certification Work	1
<i>Claims and returns certified</i>	<i>7</i>
<i>Matters arising</i>	<i>8</i>
<i>Housing and Council Tax Benefits Scheme 2012/13</i>	<i>8</i>
<i>Teachers' Pension return</i>	<i>8</i>
<i>National Non-Domestic Rates Return</i>	<i>8</i>
<i>Prior year recommendations</i>	<i>8</i>
Appendix A	10
<i>Certification Fees</i>	<i>10</i>
Appendix B	11
<i>2012/13 Management Action Plan</i>	<i>11</i>
Appendix C	14
<i>2011/12 Management Action Plan – Progress made</i>	<i>14</i>

Introduction

Scope of work

Grant-paying bodies pay billions of pounds in subsidies and grants each year to local authorities and often require certification, by an appropriately qualified auditor, of the claims and returns submitted to them. Certification work is not an audit but a different kind of assurance engagement which reaches a conclusion but does not express an opinion. This involves applying prescribed tests, as set out within Certification Instructions (“CIs”) issued to us by the Audit Commission, which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions; where this is not the case matters are raised in a ‘qualification letter’.

The Audit Commission is required by law to make certification arrangements for grant-paying bodies when requested to do so and sets thresholds for claim and return certification, as well as the prescribed tests which we, as local government appointed auditors, must undertake. We certify claims and returns as they arise throughout the year to meet the certified claim/return submission deadlines set by grant-paying bodies. Our role is to act as ‘agents’ of the Audit Commission when undertaking certification work; certification work is not an audit but a different form of assurance engagement, the precise nature of which will vary according to the claim or return; we are required to carry out work and complete the auditor certificate in accordance with the arrangements and requirements set by the Commission.

We consider the results of certification work when performing other Code of Audit Practice work at the Authority, including our conclusions on the financial statements and on value for money.

Statement of Responsibilities of Grant-Paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns

In November 2010 the Audit Commission updated the ‘Statement of Responsibilities of Grant-Paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns’. This is available from the Audit Commission’s website. The purpose of this Statement is to summarise the Audit Commission’s framework for making certification arrangements and to assist grant-paying bodies, authorities, and the Audit Commission’s appointed auditors by summarising their respective responsibilities and explaining where their different responsibilities begin and end.

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

In March 2010 the Audit Commission issued a revised version of the ‘Statement of Responsibilities of Auditors and of Audited Bodies’. It is available from the Chief Executive of each audited body and on the Audit Commission’s website. The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Reports and letters prepared

by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

Results of Certification Work

Results of Certification Work

Claims and returns certified

A summary of the claims and returns certified during the year is set out in the table below. In three cases qualification letters were required to set out matters arising from the certification of the claim/return. In one instance the certification deadline was not met. Fee information for the claims and returns is summarised in Appendix A.

Claims and returns certified in 2012/13

CI Reference	Scheme Title	Form	Original Value (£)	Final Value ¹ (£)	Amendment	Qualification
BEN01	Housing and Council Tax Benefits Scheme	MPF720A	108,040,718	108,040,718	No	Yes
CFB06	Pooling of Housing Capital Receipts	2012PO6 (on LOGASnet)	3,565,059.69	3,565,059.69	No	No
LA01	National Non Domestic Rates Return	NNDR3	65,542,221.97	65,542,221.97	No	Yes
PEN05	Teachers' Pension Return	EOYCd	11,188,621.25	11,188,621.25	Yes*	No*

*A qualification letter was submitted to Teachers Pensions to amend entry 2h(v). This is the agreed process between the Audit Commission and Teachers Pensions for setting out and submitting amendments to the certified claim rather than the Authority submitting an amended audited return.

Matters arising

The most important matters we identified through our certification work are summarised below. Further detail can be found in Appendix B

Housing and Council Tax Benefits Scheme 2012/13

Our testing identified one error in relation to overpayment of benefits due to the Council miscalculating claimant income. We reported this matter to the DWP in a qualification letter.

The extended testing following our initial testing of benefit cases was performed this year by the Authority.

Teachers' Pension return

A tiered contribution system was implemented in 2012/13 for the first time in accordance with the pension regulations for teachers. This increased the inherent complexity in the preparation of the return.

We reported two matters to the Teacher's Pension Agency as we were unable to amend the return for these to be made.

National Non-Domestic Rates Return

Our work on this return identified two matters in relation to the evidence to support the award of empty property relief and evidence to demonstrate that the approval process for write off of debt had been followed appropriately. These matters were reported to CLG in our qualification letter.

Prior year recommendations

We have reviewed progress made in implementing the certification action plan for 2012/13 and can report that all of the prior year recommendations have been met. Details can be found in Appendix C.

Appendices

Appendix A

Certification Fees

The fees for certification of each claim/return are set out below:

Claim/Return	2012/13 Indicative Fee *	2012/13 Variation*	2012/13 Forecast outturn Fee (£)	2011/12 (£) Final Fee (£)	Comment
BEN01 Housing and Council Tax Benefits Scheme	22,821	3,320	26,141	38,620	
CFB06 Pooling of Housing Capital Receipts	2,399	0	2,399	4,100	
LA01 National Non Domestic Return (NNDR)	3,618	3,167	6,785	6,400	I Variation sought as a result of additional work, including extension of testing in relation to empty property relief and debt write off.
PEN05 Teacher's Pension Return	1,528	6,172	7,700	7,200	The terms and conditions of this return changed significantly as a "tiered contribution" rates system was implemented in 2012/13 for the first time. This has increased the complexity of the preparation and certification of the return.
Total	30,366	12,659	43,025	56,320	

These fees reflect the Council's current performance and arrangements for certification.

*It should be noted that the Audit Commission updated the fee approach for certification in 2012/13. This applied a 40% discount to the 2010/11 billed fee. Fees above this level have been agreed with the Audit Commission.

The Council could improve its performance by:

- reviewing the final claim / return against supporting working papers to ensure there are no discrepancies;
- reviewing guidance issued by the grant paying body in relation to the claim / return and completion;
- ensuring the adequacy of evidence to support the claim / return entries; and
- providing timely responses and evidence where queries arise.

Appendix B

2013/14 Management Action Plan

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
Housing and council tax benefits subsidy (BEN 01) (30/11/2013)	<p>From our initial testing of 80 cases, we found one case where benefit had been overpaid as a result of miscalculating the claimant's income.</p> <p>Testing of an additional sample of 40 cases identified one further case where the claimant's income had been calculated incorrectly.</p> <p>The extrapolated error across the population of similar cases is £9,571.</p>	While the issues noted were relatively minor in the context of the complexity of the BENO1 claim, we recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.	On discovery of these errors during the course of the audit, the Lead Subsidy & Support Officer briefed the benefit processing sections. In addition, further training is planned this financial year to refresh and remind benefit processors of how to deal with these minor but unusual scenarios.	Jeff Potter, Head of Exchequer Services/Chris Henry, Council Tax and Benefits Manager 31 March 2014
Teachers Pensions (Pen 05) (29/11/2013)	<p>Initially, we identified that the return was compiled incorrectly as it did not reconcile to the payroll system. We also identified a number of errors in the underlying working papers that required us to extend our sample testing.</p> <p>We identified that teachers had initially been paying pension contributions at the incorrect tiered rates, whilst this had been corrected in the March 2012 payroll, the return had been compiled on a monthly basis so the return had been compiled with the contributions reflected within incorrect tiers. The Council performed an exercise to identify these</p>	We recommend that the Council ensures the Teacher's Pension return and supporting working papers reconciles to the payroll system and that procedures are put in place to review the 2013-14 working papers before these are passed to PwC for certification.	<p>The Teachers Pensions new banding calculations regulations were issued only 6 weeks before implementation for April 2012. This led to issues on the understanding of the new tiers and how to record against them and what is required when adjustments were due and the recording of them.</p> <p>In July 2013 a new checking process has been put in place to ensure the banding tiers have been calculated correctly for the monthly payments over.</p> <p>When One Oracle is implemented in April 2014, there will be a report produced to make</p>	<p>Karen Balam, Transactional Services Manager/Marion Self, Transactional Specialist, Payroll</p> <p>Completed</p>

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
	entries and amend the return accordingly.		recording and reporting the monthly bandings over to Teachers Pension easier and more accurate.	April 2014, subject to One Oracle implementation date
National Non-Domestic Rates Return (LA01) (27/9/2013)	<p>Our initial testing of empty premises entries identified five premises that did not have an inspection or otherwise to confirm that they were indeed empty for the period in question.</p> <p>The authority explained that the cases within the initial sample were identified as not having received an inspection due to an integrity error within the Academy software that omitted them from the inspection routine and that this has subsequently been rectified. In order to understand the extent of the error further testing was performed. This identified a further 22 premises that did not have an inspection or otherwise, to confirm that they were indeed empty for the period in question.</p>	We recommend that the Council ensures that empty property inspections are performed before the issuance of the relief.	<p>It would not always be practical to visit a property prior to the award of the unoccupied relief and is not a routine adopted by many authorities. However I accept that routine visits are desirable and therefore to establish a base position have arranged for an external inspection service to undertake a review of every property currently shown as unoccupied based on a snapshot at the middle of December 2013.</p> <p>Additionally Exchequer Services has significantly enhanced the number of inspectors available across the Revenue service to address such issues and will be introducing a visiting regime that ensures every empty property is visited in a 6 monthly cycle.</p>	<p>Ted Smith Exchequer Services Improvement Manager 1st April 2014</p>
National Non-Domestic Rates Return (LA01)	Our initial testing of 25 write-offs, identified two that did not have evidence to support that the Council's approval process had been followed correctly. In	We recommend that the Council ensures that evidence is retained to support that the approval process has been followed correctly.	Agreed. Procedures have now been implemented to ensure that write off schedules are controlled and the appropriate reconciliations maintained in line with this	Ted Smith Exchequer Services Improvement

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
(27/9/2013)	order to understand the extent of the error further testing was performed. This identified a further 22 write- offs that did not have evidence to support that the Council's approval process had been followed correctly.		recommendation	Manager 1 st April 2014

Appendix C

2012/13 Management Action Plan – Progress made

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
Teachers Pensions (Pen 05)	From our work, a number of significant issues were found that lead to qualification of the claim. From discussion with Management we understand the issues are primarily due to the new Oracle system upgrade in 2011-12 financial year.	Recommend the Authority develop reports to ensure a complete population can be produced from the new system allowing;	Separation of contributory salary (reckonable pay) from the payroll system has been achieved from November 12.	Head of Internal Shared Services November 2012	Implemented
	<ol style="list-style-type: none"> Contributory salary figures were calculated by 'grossing up' other entries on the TR17 return and fully derived from payroll records. <p>The Authority started using a new payroll system during 11/12 and at the time the TR17 return was compiled, reports to show the contributory salary for each employee could not be extracted. Therefore to calculate the Total Actual Contributory Salary per line 1 of the form, the Teachers Contributions</p>	- Separation of contributory salary (reckonable pay) from the payroll system	Reports are to be produced before year end to extract actual contributory salary April 12 to October 12.	March 2013	Implemented

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
	shown in cell 2(b)(iii) had been grossed up.				
	<p>2. A complete population could not be obtained to test contributions in relation to teachers employed in LA maintained establishments, as the payroll reports included contributions in relation to teachers employed in academy schools which should be excluded from the TR17 return.</p> <p>Similarly we could not ensure contributions had been correctly calculated and deducted as we did not have a complete population of contributions from which to pick our sample from.</p> <p>From our testing of refunds (£368.68), it was established the amount was not a refund but was owed to a teacher. An admin error led to £368.68 being refunded to the teacher. The Authority chose not to amend the claim based on</p>	<p>- Separation of LA maintained schools payroll from academies payroll administered by the Authority</p>	<p>Academies moved on to own payrolls March 12 separated March 12</p>	<p>March 2012</p>	<p>Implemented</p>

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Recommendation Status
	the low value of the error.				
Housing and council tax benefits subsidy (BEN 01)	<p>From our initial testing of 80 cases, we found one error as detailed below;</p> <p>One case was incorrectly classified as regulated tenancy (i.e. tenancy commenced pre 1989). From our work performed the case was a de-regulated case as the tenancy commenced post 1989. No impact on the claim in terms of subsidy claimed by the Authority.</p> <p>However additional work was required to be performed to check no further cases were found to be incorrectly misclassified.</p> <p>The error was concluded to be isolated.</p>	We recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.	Agreed	<p>Benefits Manager/Head of Exchequer Services</p> <p>Timescale:</p> <p>March 2013</p>	Implemented



Glossary

Audit Commission Definitions for Certification work

Abbreviations used in certification work are:-

‘appointed auditor’ is the auditor appointed by the Audit Commission under section 3 of the Audit Commission Act 1998 to audit an authority’s accounts who, for the purpose of certifying claims and returns under section 28 of the Act, acts as an agent of the Commission. In this capacity, whilst qualified to act as an independent external auditor, the appointed auditor acts as a professional accountant undertaking an assurance engagement governed by the Commission’s certification instruction arrangements;

‘assurance engagement’ is an engagement performed by a professional accountant in which a subject matter that is the responsibility of another party is evaluated or measured against identified suitable criteria, with the objective of expressing a conclusion that provides the intended user with reasonable assurance about that subject matter;

‘auditor’ is a person carrying out the detailed checking of claims and returns on behalf of the appointed auditor, in accordance with the Commission’s and appointed auditor’s scheme of delegation;

‘authorities’ means all bodies whose auditors are appointed under the Audit Commission Act 1998, which have requested the certification of claims and returns under section 28(1) of that Act;

‘certification instructions’ (‘CIs’) are written instructions from the Commission to appointed auditors on the certification of claims and returns;

‘certify’ means the completion of the certificate on a claim or return by the appointed auditor in accordance with arrangements made by the Commission;

‘claims’ includes claims for grant or subsidies and for contractual payments due under agency agreements, co-financing schemes or otherwise;

‘Commission’ refers to either the Audit Commission or the Grants Team of the Audit Policy and Regulation Directorate of the Commission which is responsible for making certification arrangements and for all liaison with grant-paying bodies and auditors on certification issues;

‘grant-paying bodies’ includes government departments, public authorities, directorates and related agencies, requiring authorities to complete claims and returns;

‘returns’ are either:

- returns in respect of grant which do not constitute a claim, for example, statements of expenditure from which the grant-paying body may determine grant entitlement; or
- returns other than those in respect of grant, which must or may be certified by the appointed auditor, or under arrangements made by the Commission;

‘Statement’ is the *Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns*, available from www.audit-commission.gov.uk;

‘underlying records’ are the accounts, data and other working papers supporting entries on a claim or return.



This document has been prepared only for London Borough of Havering and solely for the purpose and on the terms agreed with London Borough of Havering in our agreement dated [date]. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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<p>AUDIT COMMITTEE 19 February 2014</p>	
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Subject Heading:	Accounting Policies 2013/14
	Contact: Mike Board Designation: Corporate Finance & Strategy Manager Telephone: (01708) 432217 E-mail address: mike.board@havering.gov.uk
Policy context:	This report advises the Audit Committee of the Accounting Policies applicable to the Closure of Accounts 2013/14
Financial summary:	There are no direct financial implications to the report. There are no alterations to the accounting policies which might give rise to a material impact upon the financial position of the Council

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

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

SUMMARY

- This report presents the accounting policies applicable to the financial year 2013/14 and reflected in the published statement of accounts.
 - The CIPFA Better Governance Forum has produced a tool-kit for local authority Audit Committees that recommends Members review accounting policies.
 - Appendix A includes the revised accounting policies for 2013/14.
- This report summarises the main contents of the policies and highlights recent changes. Any further changes to accounting regulations may require the policies to be changed during 2013/14 although none are anticipated at this stage. Any

significant changes will be highlighted in the statement of accounts report in September 2014

RECOMMENDATIONS

The Committee is asked to note and comment on the accounting policies applicable to 2013/14.

REPORT DETAIL

1. Introduction

- 1.1 This report tables the revised accounting policies that will be applied during the financial year 2013/14. The full policies are shown in appendix A to this report and will be included in the statement of accounts. The draft policies are prepared under the international Financial Reporting Standards. Members of the Audit Committee are invited to note these policies and make comment. Reviewing of accounting policies by Members ensures that the Council and Audit Committee complies with the CIPFA Better Governance Forum toolkit for local authority Audit Committees
- 1.2 Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.
- 1.3 The draft audited Statement of Accounts for 2013/14 will be presented to the September 2014 Audit Committee for approval. The draft accounting policies statement will be included within the accounts and any changes made during the course of the closedown programme and/or audit will be highlighted and explained.

2. Purpose of Accounting Policies

- 2.1 The Statement of Recommended Practice for Local Authority Accounting defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves".
- 2.2 The application of accounting policies supports the implementation of the main accounting concepts of best practice. These ensure financial reports:
 - Are **relevant** - providing appropriate information on the stewardship of Authority monies.

- Are **reliable** - financial information can be relied upon and is without bias and free from error,
- Within the bounds of materiality and has been prudently prepared.
- Allow **comparability** - the interpretation of financial reports is enhanced by being able to compare information across other accounting periods and other organisations.
- Are **understandable** - though financial reports have to contain certain information, they have to be understandable. For example the Council publishes summary accounts.
- Reflect **material** information - significant transactions must be incorporated in the financial reports.
- Prepared on a **going concern** basis (the assumption that the authority will continue in operational existence for the foreseeable future)
- Prepared on an **accruals** basis (accounts are prepared to reflect the benefit of goods and services received and provided rather than when cash transactions occur when invoices are paid in a later accounting period).

2.3 The accounting policies currently in place are similar in requiring accounts to be prepared on a going concern basis (unless not appropriate), use of accruals, consistent presentation, material items to be shown separate if material and no offsetting of assets and liabilities. There is now a requirement to prepare the accounts on a “true and fair” view rather than a “presents fairly basis”.

3. Contents of Accounting Policies

3.1 The appendix contains all of the Council's accounting policies. The more significant policies cover the treatment of the following:

- **Property Plant and Equipment** - the basis for valuing major long-term assets, such as council dwellings and offices is explained.
- **Impairment** – The carrying value of assets is reviewed annually to determine whether there is a material change in value and the basis on which impairment losses are written off.
- **Depreciation** - depreciation is charged to spread the value of an asset over its useful life.
- **Provisions and reserves** - a **provision** is created because the Council will have to make a future payment to settle a financial obligation and a reasonable estimate can be made of the amount payable. Provisions are charged to the relevant service area. A **reserve** is created for a planned future purpose or maintained as a general contingency. These are recorded separately on the Movement in Reserves Statement.
- **Accruals of Income and Expenditure** - The Council raise these to comply with the accruals concept of accounting to measure when

payments or receipts are due rather than where cash is transferred to settle the amount due.

- **Pensions** - This note describes the two pension schemes Council employees contribute to (teachers and Local Government Pension Scheme). The policy includes detail on the investment valuation basis used and the calculations made of future liability.
- **Value Added Tax** - As the vast majority of VAT paid by the Council is recoverable from H.M. Revenue & Customs, recoverable VAT is excluded from the cost of services within the accounts.

4. Changes in accounting policies for 2013/14

- 4.1 The application of most accounting policies is consistently applied from year to year. Changes are required when new accounting regulations are introduced or updated or if there is a significant change within the financial activities of the Council.
- 4.2. We must follow the requirements of International Accounting Standard 8 when selecting or changing accounting policies, adopting the accounting treatment and disclosing changes in accounting policies, estimation techniques and correcting errors.
- 4.3 There is a requirement to disclose expected impact of new standards. They will only result in a change in accounting policy if they are required by the code and will result in the financial statements providing reliable and more relevant information.
- 4.4 It is for an authority to select the accounting policies that are most appropriate to its particular circumstances. Best practice requires council's to regularly review the accounting policies adopted to ensure that they remain appropriate and give due weight to the impact of a change in accounting policy to ensure comparability between accounting periods.
- 4.5 There are no significant amendments proposed in the draft code of practice on local authority in the United Kingdom 2013/14. The proposed accounting policies for 2013/14 are reflected in **Appendix A**.

5. External Audit Consultation

- 5.1 As accounting policies form part of the Statement of Accounts document, these are subject to annual external audit review as part of the final accounts audit process.
- 5.2 Corporate finance liaises with external auditors with regard to proposed changes in accounting regulations and where these impact on accounting policies.

Financial Implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Councils financial position

Legal Implications and risks:

Section 21 of the Local Government Act 2003 enables the Secretary of State to make regulations requiring accounting practices including the Statement of Accounts to be undertaken in accordance with proper practices. The Local Authority must also have regard to the Code of Practice on Local Authority Accounting for 2013/14 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1st April 2011. There are no apparent legal implications in noting the content of the Report.

Human Resources Implications and risks:

None arising directly.

Equalities and Social Inclusion Implications and risks

None arising directly

Background Papers List

None

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Notes to the Core Financial Statements

Statement of Accounting Policies

1. Accounting Policies

Going Concern

The concept of a going concern assumes that an Authority, its functions and services will continue in operational existence for the foreseeable future. Where this is not the case, particular care will be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an Authority was in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31st March 2014. The Authority is required to prepare an annual Statement of Accounts by 30th June 2014 (the Accounts and Audit Regulations 2011 require the accounts to be prepared in accordance with proper accounting practices). These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the *Service Reporting Code of Practice 2013/14*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Acquisitions and Discontinued Operations

Acquired operations

Under the Health and Social Care Act 2012, the provision of Public Health was transferred from Central Government to Local Government with effect from 1st April 2013. Local authorities took on new responsibilities for Public Health to improve the health of their populations, backed by a ring-fenced grant and a specialist Public Health team led by the director of Public Health.

Income and expenditure is disclosed as a separate line within the Consolidated Income and Expenditure

Statement. Any grant balances carried forward at the year end are included on the balance sheet within usable reserves.

iv. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

v. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

vi. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vii. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance (the Minimum Revenue Provision). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by an adjusting transfer to the General Fund Balance from the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

viii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexitime) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General

Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered by the Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

The liabilities of the London Borough of Havering Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 4.5% based on the indicative rate of return on high quality corporate bonds.

The assets of the London Borough of Havering pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising
 - current service cost – the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the London Borough of Havering pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ix. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

x. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently

measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xii. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify the future economic benefits or service potential embodied in the asset received in the form of grant or contribution acquired using the grant or contribution that are required to be consumed by the recipient as specified, or future economic benefits or service potential that must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

For all S106 contributions, because of their complex nature and numerous legal conditions all S106 contributions are only recognised through the Comprehensive Income and Expenditure Statement once they have been spent. Only then are we certain all conditions have been met and there is no return obligation.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Un-ringfenced Grant

A general grant allocated by central government directly to local authorities as additional revenue funding. It is non-ring fenced and credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts

The Council is the billing Authority for the London Riverside Business Improvement District managed by Ferry Lane Action Group which provides a cleaner, safer more secure business environment and to promote the interest of the business community within the BID. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

xiii. Heritage Assets

The Council's Heritage Assets are split into 2 categories

- Civic Regalia
- Heritage Buildings.

Civic Regalia

The collection of civic regalia includes the Mayor's and the Deputy Mayors chains, which are worn on ceremonial duties and various items with civic insignia. They are valued based on manufacturing costs and do not include any element for rarity or collectable value, retail mark-up or VAT.

Heritage Buildings

The Council owns one building that meets the definition of a heritage asset and this is Upminster windmill. The building has been valued by professional valuers who have stated that the most appropriate means of valuing this building is by its historic cost.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see note xix.

xiv. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. Inventories

The Council has a number of small number of Inventories. These are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned predominantly using the FIFO costing formula.

xvi. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not

permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xvii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Leases for the acquisition of vehicles valued at less than £10,000 (£5,000 for plant and equipment) are treated as operating leases on the basis that the impact of incorrectly classifying the lease would not materially impact upon the accounting disclosures.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xviii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2013/14* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

xix. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Finance costs are excluded in valuations for assets valued at Depreciated Replacement Cost.

Havering has applied the following de minimis criteria for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

- | | |
|-------------------------------------|--------|
| • works to buildings | £5,000 |
| • infrastructure | £5,000 |
| • office and information technology | £5,000 |
| • other furniture and equipment | £5,000 |

There are no de minimis limits for the following categories: land acquisition, vehicles and plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital expenditure below £5,000.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued as a minimum every five years, to ensure that their carrying amount is not materially different from their fair value at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – Straight line allocation over a five year period unless a suitably qualified officer determines a more appropriate period.
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the Code requires that these components are depreciated separately.

Major components which have a materially different asset lives will be identified in respect of:

- new capital expenditure as it arises, and
- existing assets as they become subject to revaluation.

Assets will not be valued on a componentised basis in the following circumstances on the basis that the impact upon asset valuation and depreciation is not material to the accounting disclosures;

- Capital expenditure of less than £300,000 per scheme.
- Assets valued at less than £3,000,000.

As a consequence of the application of this policy the Council has not identified any major components with materially different asset lives. However, the application of this policy will be reviewed on an on-going basis to ensure that the carrying value of assets is not materially affected.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are

recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xx. Public Private Partnership (PPP) and Similar Contracts

PPP and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PPP contractor. As the Council is deemed to control the services that are provided under its PPP scheme, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Council's PPP scheme, the liability was written down by an initial capital contribution of £3.2 million leaving an initial liability of £1.6 million.

The amounts payable to the PPP operator each year are analysed into the following elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge of 4.8% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- the Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write-downs is calculated using the same principles as for a finance lease).

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable

that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover Contingency Reserves created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxiii. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiv. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxv. Carbon Reduction Commitment

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

xxvi. Accounting for Schools

The Council includes the income and expenditure, assets and liabilities of Community schools within its financial statements on the basis that they remain within the Local Authority boundary under common control.

Foundation Schools and Voluntary aided schools are not considered to be under Local Authority control and, as such, are not consolidated within the Council's accounts. Grant allocations to these schools are included as expenditure within the Consolidated Income and Expenditure Statement.

Academies must prepare accounts under the Charities' Statement of Recommended Practice (SORP). This is

a requirement in their Funding Agreements. Academies are therefore excluded from the Council's accounts from the date of conversion with grant allocations included as expenditure within the Consolidated Income and Expenditure Statement.

<p>AUDIT COMMITTEE 19 February 2014</p>	
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Subject Heading:	Closure of Accounts Timetable 2013/14
	Contact: Mike Board Designation: Corporate Finance & Strategy Manager Telephone: (01708) 432217 E-mail address: mike.board@havering.gov.uk
Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2013/14
Financial summary:	There are no direct financial implications to the report. However, the increased disclosure requirements relating to Infrastructure assets will give rise to additional valuation costs which will need to be reflected in the MTFS.

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

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

SUMMARY

This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2013/14.

RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to prepare for the 2013/14 closure of accounts.

REPORT DETAIL

1. Background

The Council successfully closed its accounts and prepared its Financial Statements on an IFRS (International Financial Reporting Standards) basis in 2012/13. Planning for the 2013/14 closedown began in October 2013.

The Statement of Accounts is prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting. Having reviewed the Code for 2013/14 there are no significant changes from last year. Any minor changes will be incorporated into the closedown process if appropriate. The closure timetable and guidance for officers have now been issued and progress will continue to be monitored throughout the process.

Many of the risks associated with closure relate to the increasing call on staff time for other project work during the closedown process. These matters are discussed below.

2. Key Issues

The key issues to be addressed during the 2013/14 closedown are as follows:

2.1. Public Health Transfer

Public Health services in Havering moved to the Council in April 2013. 2013/14 will be the first year of reporting with Public Health. A new Service Expenditure Analysis (SEA) for Public Health has been added to the Service Reporting Code of Practice (SeRCOP) and explains how expenditure on those responsibilities, funded by a grant from the Department of Health, and any additional expenditure on those responsibilities, should be recorded. The proposed mandatory lines are set out in the 2013/14 SeRCOP

2.2. Council Tax Benefit System reform

The Welfare Reform Act 2012 abolished the National Council Tax Benefit scheme from April 2013 and the Local Government Finance Bill enables Local Authorities to design their own local council tax support schemes. The accounting disclosures need to be updated in order to reflect these changed arrangements.

2.3. Localisation of Business Rates

The Local Government Finance Act 2012 introduces a business rates retention scheme that enables local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. At the same time, business rate collection has been brought in house following the termination of the contract with Barking and Dagenham. There are potential risks of managing these new arrangements at closedown and staff involved in the process need to be aware of the revision in reporting requirements.

2.4. One Oracle Project

The likely date for the implementation of One Oracle (OO) is April 2014. Key staff involved in the closedown programme will also be required to carry out key elements of the OO implementation programme. This gives rise to a significant risk of resources being diverted from both the closure and audit of accounts in order to support OO implementation and provide training on Oracle Projects. The Closedown programme has little scope for slippage and is driven by statutory closedown and publication requirements.

2.5. One Source

The One Source project set to be implemented in April 2014 may put an additional drain on staff time involved in the closure process.

2.6. Pension Fund Local Infrastructure Procedures

It is anticipated that the Council will make a one off investment in the Pension Fund which must be made by 31 March 2014 in order to meet the requirements of the external actuary. In order to facilitate this arrangement, the Pension Fund has created a Local Infrastructure portfolio and approved the associated governance arrangements. However, qualifying schemes will need to be identified and formally approved prior to year end.

2.7. Infrastructure Assets

Infrastructure assets include roads, highways, bridges and street furniture. These assets are currently recorded on the Balance Sheet on a Depreciated Historic Cost (DHC) basis. CIPFA's code of practice on Transport Infrastructure Assets includes a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis. In order to comply with the code it will be necessary to identify all such assets, with appropriate measurements and then establish the cost of replacing these assets at current prices. Valuations would need to be updated regularly in order to ensure compliance with The Code.

The implementation of Infrastructure accounting has been delayed by DCLG and it is proposed that it be introduced in 2015/16 with a dry run in 2014/15. However, there will be a need to disclose comparative data in respect of the 2014/15 accounts and a re-stated Balance Sheet as at 31 March 2013 within the 2015/16

published accounts. Officers have begun the process of collecting the necessary valuation data and are working towards the achievement of these deadlines

The Whole of Government Accounts (WGA) return included a requirement to record infrastructure assets on a Depreciated Replacement Cost (DRC) basis in 2012/13 (albeit in a more summarised format). The 2013/14 return is expected to require additional disclosures. However, the collection of data for these purposes will assist in developing the data requirements for the statutory accounts.

2.8 Audit and Publication

Despite the pressure on resources from servicing One Oracle, One Source and other initiatives, The Authority needs to ensure that it meets the statutory deadlines for closedown. Failure to do so will result in additional audit scrutiny, additional cost, and an adverse effect on The Authority's reputation.

In view of these additional pressures it is essential that the timetable is strictly adhered to. Steps will also be taken to encourage staff to complete closedown tasks earlier than timetabled or to carry out preparatory work in advance of year end.

3. Progress to Date

The final year end closure of accounts timetable has been issued and is being monitored. Regular meetings have been scheduled until the end of June 2014.

The guidance notes have been consulted upon and the final documentation issued at the end of January 2014.

Reports will be made to both Corporate Management Team and Audit Committee on both the progress and outcome for 2013/14.

4. Progress against matters raised by the external auditors in the Report to Management (ISA 260)

a) Treatment for construction and transfer of academies

The Auditor's proposed an alternative approach than that adopted by the Authority with regard to the treatment of expenditure incurred in building the Draper's Academy. However, it was agreed that there is a lack of clarity in relation to the correct accounting treatment and it is noted that the treatment of Academy Schools is subject to on-going consideration by CIPFA/LASAAC. As the two approaches were not materially different the Auditor's were not minded to challenge The Authority's approach. No similar transactions are expected to arise in 2013/14.

b) Judgements and Accounting Estimates - Valuation of Property, Plant, Equipment (PPE) and Investment Properties

The Auditor's considered that the assumptions used by the Council's external valuers WH&E, to value PPE to be too simplistic. They recommended that the approach for the 2013/14 accounts be discussed and an approach agreed between their internal valuers, WH&E and the Council's internal property team. These discussions are on-going and will inform the 2013/14 valuation process.

c) Payroll Reconciliation

During the 2012/13 financial year the Authority was unable to complete the payroll reconciliations for the year end in a timely manner. The Auditor's recommended that the payroll reconciliation should be reconciled jointly by the payroll and finance teams. ISS management have discussed with The Auditors the format of the reconciliations and agreed a revised format to be put in place for 2013/14. The automation of the payroll reconciliation report is still in development therefore ISS is still reliant on Business Systems resources to produce adhoc reports.

Financial Implications and risks:

The technical accounting changes arising from the revisions to The Code of Practice do not give rise to any direct financial implications. However, if the Council fails to meet the statutory deadlines for closure resulting in additional audit scrutiny then there would be increased cost pressures.

The valuation of infrastructure assets will generate additional cost pressures which will need to be contained within the MTFS from 2014/15.

Legal Implications and risks:

Section 21 of the Local Government Act 2003 requires that accounting practices including the Statement of Accounts be undertaken in accordance with proper practices set out in relevant regulations. The Local Authority must also have regard to the code of Practice on Local Authority Accounting for 2013/14 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1st April 2013.

There are no apparent legal implications in noting the content of the Report.

Human Resources Implications and risks:

None arising directly.

Equalities and Social Inclusion Implications and risks:

None arising directly

CHERYL COPPELL
Chief Executive

Background Papers List

None



AUDIT COMMITTEE

19 February 2014

Subject Heading:

Internal Audit Progress Report

Report Author and contact details:

Kate Brunning, Internal Audit & Corporate Risk Manager ext 3733

Policy context:

To inform the Committee of progress to deliver the approved audit plan in Quarter Three of 2013/14.

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 October 2013 to 28th January 2014.

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 Background and Resources

Some information about resources is included for information.

Section 2 Audit Work 1st October 2013 to 28th January 2014

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

Section 3 Changes to the Approved Audit Plan

The changes made to the audit plan since the last meeting are detailed and explained in this section of the report.

Section 4 Outstanding Audit Recommendations

The details regarding status of all outstanding recommendations are included within tables for information.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

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: Background and Resources

1.1 Excluding the Internal Audit and Corporate Risk Manager the established structure contains eight comprising:

- Five internal auditors carrying out systems, schools, follow up audits. The systems audit team contains 2 Principal Auditors, 2 Senior Auditors and a Systems Auditor. One member of the team works reduced hours and the total systems audit resource is 4.8 WTE.
- Three auditors undertaking proactive and reactive fraud and special investigations. The systems audit team contains a Corporate Fraud Manager, a Principal Fraud Auditor and a Fraud Auditor. One member of the team works reduced hours and the total resource available is 2.66 WTE.

The structure of the Internal Audit team is reflected in the number of days in the approved plan for 2013/14.

- 1.2 The Fraud Auditor left the team in March. Following a recruitment process the Systems Auditor was seconded to work within the Internal Audit Corporate Fraud team. The Systems Auditor post has remained vacant and is likely to remain vacant for 2013/14 as the permanent Audit Fraud post will be filled in early 2014/15. A member of the Systems audit team has been on a period of extended leave during Quarter 3, also impacting on the available audit resource.
- 1.3 This report relates to the work of the five audit posts, the outputs from the fraud resources are reported in the fraud progress report along with the results of the investigations team.
- 1.4 The table below shows the budgetary information for the Internal Audit and Corporate Risk team. This budget includes both the Internal Audit and Insurance Teams.
- 1.5 Income is generated by audit by selling services to Schools, other income relates to Insurance.

REVENUE BUDGET FOR 2013/14		
Expenditure	Income	Non-controllable
£573,560	-£102,700	£470,840

1.6 The forecast outturn for 2013/14 is currently within the allocated budget.

Section 2: Audit Work 1st October 2014 to 28th January 2014.

2.1 The status of each audit included in the 2013/14 Internal Audit Plan as at the 28 January 2014 is shown in the updated Internal Audit Plan shown in Appendix A.

2.3 Fifteen final reports were issued during the period 1ST October 2013 to 28th January 2014. The reports and level of assurance provided comprise:

SYSTEMS AUDIT	ASSURANCE
Emergency Assistance Scheme	Limited
Temporary Agency Worker Contract	Substantial
Compliance With Corporate Policy: Sickness Absence	Limited
Traffic & Parking Control: Cancellation Of Penalty	Substantial
Charge Notices Follow Up Audit	
School Admissions Forensic Review	N/A
JCAD LACHS Application System Review	Substantial
Network Permissions Follow-Up Audit	Substantial
Axise Pension System Hosting Review	No Assurance

SCHOOL	ASSURANCE
Broadford Primary School	Substantial
Brookside Infant School	Substantial
Crownfield Infant School	Substantial
Dycorts School	Substantial
Engayne Primary School	Substantial
Harold Court Primary School	Full
Whybridge Junior School	Substantial

2.4 Summaries of the 8 systems reports and 7 school audit reports are provided in the separate Agenda Items Systems Audit Summaries and School Audit Summaries.

Section 3: Changes to the Approved 2013/14 Audit Plan

- 3.1 In April 2013 the Audit Committee approved an Annual Audit Plan for the 2013/14 financial year totalling 980 days.
- 3.2 As the Systems team post will be held vacant for 2013/14 until the Audit Fraud post is filled with a new permanent post holder the number of days in the plan has reduced by 210 days to 770. Additionally a member of staff was absent for the period October 2013 to January 2014, reducing the number of available audit days by a further 60 days to 690.
- 3.3 The table below provides a summary of the audits removed from, and added to, the 2013/14 approved audit plan and the reason for the change. It also reflects where there has been a change in budget.

Audit Title	Original Days	Revised Days	Directorate	Reason
Main Accounting (Q3)	10 reduced to 5	0	Resources – Finance and Procurement	Delay in the implementation of One Oracle system

Audit Title	Original Days	Revised Days	Directorate	Reason
Accounts Receivable / Debtors (Q3)	15 reduced to 5	0		removed the need to audit key financial systems pre and post go live.
Accounts Payable / Creditors (Q3)	15 reduced to 5	0		
Payroll (Q3)	15 reduced to 5	0		
Pensions (Q3)	10 reduced to 5	0		
Project Management	15	0	Corporate	Removed at the request of CMT
Risk Management	20	0	Corporate	Removed at the request of CMT
Security Over Spreadsheets (Replaces Backups)	15	0	ITC	Removed to facilitate Data Handling audit
Data Handling	0	15	Corporate	Perceived risk requiring assurance

Section 4: Outstanding Recommendations Update

- 4.1 Internal audit follows up all recommendations with management as and when the deadlines for implementation pass. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations in systems where limited assurance was given is verified through a follow up audit review.
- 4.2 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any High priority recommendations.
- 4.3 The current level of implementation is shown in table in paragraph 5.4 on the following page.
- 4.4 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:
High: Fundamental control requirement needing implementation as soon as possible

Medium: Important Control that should be implemented
Low: Pertaining to Best Practice

4.5 Outstanding Audit Recommendations

4.5 Outstanding Audit Recommendations			No. of Recommendations in the Original Report				Position as at 28/01/14		
			Assurance Level	H	M	L	Complete	In Progress	Not Due
11/12	Oracle Financials	Internal Shared Services / Business Systems	Limited	0	24	0	22	2◆	0
11/12	Crematorium – Grave Allocations & Record Keeping	Regulatory Services	Substantial	0	6	0	4	2	0
11/12	Education Computer Centre	Business Systems	Limited	3	6	0	5	4◇	0
11/12	Pensions	Internal Shared Services	Limited	0	1	0	0	1◆	0
11/12	i-Expenses & P Cards	Internal Shared Services	Limited	5	3	1	6	3◆	0
11/12	Main Accounting	Internal Shared Services	Substantial	0	1	0	0	1◇	0
11/12	Contracts & Procurement	Finance & Procurement	Substantial	0	3	0	2	1 M	0
2011/12 Totals				8	44	1	39	14	0
12/13	Information Governance - Compliance with IG Toolkit	Legal & Democratic Services	Substantial	1	2	0	2	1	0
12/13	Oracle Financials	Business Systems / Internal Shared Services	Limited	0	11	3	12	2◆	0
12/13	Electronic Document Management System	Business Systems	Substantial	0	7	0	6	1	0
12/13	i-Expenses	Internal Shared Services	Limited	2	1	0	2	1◆	0
12/13	i-Procurement	Internal Shared Services	Limited	0	2	1	0	3◆	0
12/13	Budgetary Control includng CP	Group Director – Resources & Governance Group	Substantial	0	1	0	0	0	1
12/13	Pensions	Group Director – Resources & Governance Group	Substantial	0	2	0	0	1	1

4.5 Outstanding Audit Recommendations

Audit Year	Area Reviewed	HoS Responsible	No. of Recommendations in the Original Report			Position as at 28/01/14			
			Assurance Level	H	M	L	Complete	In Progress	Not Due
12/13	Payroll	Group Director – Resources & Governance Group	Limited	0	5	0	3	1	1
12/13	i-Recruitment	Internal Shared Services	Limited	3	2	0	0	5♦	0
12/13	Transport	Asset Management	Substantial	1	4	2	5	0	2
12/13	Modern Governance	Business Systems	Substantial	3	7	2	10	2	0
12/13	Council Tax	Exchequer Services	Substantial	0	3	2	4	0	1 L
12/13	Debt Management	Exchequer Services	Substantial	0	1	0	0	0	1
12/13	Debtors	Group Director – Resources & Governance Group	Substantial	0	2	1	0	3	0
12/13	Contracts & Procurement	Finance & Procurement	Substantial	0	1	0	0	0	1
12/13	Creditors	Group Director – Resources & Governance Group	Substantial	0	1	0	0	0	1
12/13	Traffic & Parking Control – Cancellation of Penalty Charge Notices	Streetcare	Substantial	1	5	1	5	2	0
12/13	Information Governance - Service & Provider Compliance	Legal & Democratic Services	Limited	0	1	0	0	1	0
2012/13 Totals				11	58	12	49	23	9
13/14	Mayrise	Streetcare	Limited	5	9	0	11	3	0
13/14	Tenancy Management	Housing & Public Protection	Limited	0	14	0	5	8	1

4.5 Outstanding Audit Recommendations

Audit Year	Area Reviewed	HoS Responsible	No. of Recommendations in the Original Report			Position as at 28/01/14			
			Assurance Level	H	M	L	Complete	In Progress	Not Due
13/14	Freedom of Information Act	Legal & Democratic Services	Limited	4	1	0	0	0	5
13/14	Fees and Charges	Various	Limited	1	1	1	1	0	1 H & 1 L
13/14	Agency Worker Contract	Resources	Substantial	1	6	2	3	0	6
13/14	Compliance with Corporate Policy - Sickness Absence	Corporate	Limited	1	3	0	0	0	4
13/14	School Placement Forensic Review	Learning & Achievement	N/A	0	4	0	0	0	4
13/14	Emergency Assistance Scheme	Revenues & Benefits	Limited	0	3	1	0	0	4
2013/14 Totals				12	41	4	20	11	26
Totals				31	143	17	108	48	35

Page 74

◆ Implementation of recommendations is dependent on the implementation of the One Oracle system. These are scheduled to be picked up in Quarter 1 of 2014/15.

◇ Implementation of recommendations is dependent on the outcome of Project Romulus.

APPENDIX A: Updated Internal Audit Plan as at 28th January 2014.

	Audit Title	Budget		Plan Quarter	Status End Qtr3	Report Assurance	Report to Audit Comm
		Original	Revised				
Corporate	IG - Service Area Control & Compliance	0	11	Q1	Consolidated FINAL Report Issued	Limited	Dec-13
	IG - Provider Compliance	0	5	Q1			
	Grants	15	15	Q1	Draft Report Issued		
	Compliance with Corporate Fees & Charges Policy	20	10	Q1 / 2	Draft Report Issued		
	Fees & Charges	15	5	Q1 / 2	FINAL	Limited	Dec-13
	Information Governance - FOI	20	20	Q2	FINAL	Limited	Dec-13
	PDR Assurance	0	8	Q2	FINAL	n/a	Dec-13
	Project Management	15	15	Q3	Removed		
	Use of Volunteers	15	15	Q3	Planning		
	Corporate Governance	0	15	Q3	Planning		
	Risk Management	20	20	Q3 / 4	Removed		
	Petty Cash/Pre Paid Cards	15	15	Q4	Planning		
	Use of Consultants	20	15	Q4			
	Safeguarding	10	10	Q4	Brief Issued		
Compliance with Corporate Sickness Absence Policy	0	10	Q4	FINAL		Feb-14	
Culture, Community & Economic Development	Housing Capital	20	15	Q1	Fieldwork Commenced		
	Tenancy Management	0	27	Q1	FINAL	Limited	Dec-13
	Housing Rents	0	20	Q2	Fieldwork Commenced		
	Carbon Reduction Commitment Scheme	0	3	Q3	FINAL		Sep-13
	Council Tax Support Administration	15	15	Q3	Planning		
	Housing Allocations	20	15	Q3	Fieldwork Commenced		
	Housing Benefits	15	15	Q3	Planning		
	Youth Service	15	15	Q3	Brief Issued		
	Council Tax	10	10	Q3 / 4	Planning		
	Business Rates Administration	15	15	Q4	Planning		

	Audit Title	Budget		Plan Quarter	Status End Qtr3	Report Assurance	Report to Audit Comm
		Original	Revised				
Resources (Finance & Commerce)	Agency Worker Contract	20	20	Q2	FINAL	Substantial	Feb-14
	Main Accounting (Pre One Oracle Implementation)	10	5	Q3	Brief Issued		
	Creditors (Pre One Oracle Implementation)	15	5	Q3	Brief Issued		
	Debtors (Pre One Oracle Implementation)	15	5	Q3	Brief Issued		
	Payroll (Pre One Oracle Implementation)	15	5	Q3	Brief Issued		
	Pensions (Pre One Oracle Implementation)	10	5	Q3	Brief Issued		
	Bankers Automated Clearing System	10	10	Q3	Brief Drafted		
	Budgetary Control incl Collaborative Planning	10	10	Q4	Fieldwork Commenced		
	Main Accounting (Post One Oracle Implementation)	0	5	Q4	Planning		
	Creditors (Post One Oracle Implementation)	0	10	Q4	Planning		
	Debtors (Post One Oracle Implementation)	0	10	Q4	Planning		
	Payroll (Post One Oracle Implementation)	0	10	Q4	Planning		
Pensions (Post One Oracle Implementation)	0	10	Q4	Planning			
Children, Adults & Housing	Looked After Children Placements	0	15	Q1	Drafting report		
	Troubled Families Programme	15	10	Q1	FINAL	n/a	Dec-13
	Local Welfare Assistance	20	15	Q1 / 2	FINAL	Limited	Feb-14
	ASC Income Work	0	10	Q1 / 2	FINAL	n/a	Dec-13
	Public Health Grants	0	5	Q2 / 3	FINAL	n/a	Dec-13
	TMO's	0	10	Q3	Brief Issued		
	Self-Directed Support	20	15	Q4			
	Contracts and Procurement	15	15	Q4	Drafting Brief		
	School Allocations (forensic)	0	15	Q3	FINAL		Feb-14
Schools	Branfil Primary	4	4	Q1	FINAL	Substantial	Sep-13
	Gidea Park Primary	4	4	Q1	FINAL	Full	Dec-13
	Squirrels Heath Junior	4	4	Q1	FINAL	Substantial	Sep-13
	St.Albans Catholic Primary	4	4	Q1	FINAL	Substantial	Sep-13

	Audit Title	Budget		Plan Quarter	Status End Qtr3	Report Assurance	Report to Audit Comm
		Original	Revised				
Schools	Wykeham Primary	4	4	Q1	FINAL	Substantial	Dec-13
	Crownfield Junior	4	4	Q2	FINAL	Substantial	Dec-13
	Mead Primary	4	4	Q2	FINAL	Full	Dec-13
	St.Marys Catholic Primary	4	4	Q2	FINAL	Substantial	Dec-13
	Benhurst Primary	4	4	Q3			
	Brookside Infant	4	4	Q3	FINAL	Substantial	Feb-14
	Engayne Primary	4	4	Q3	FINAL	Substantial	Feb-14
	Harold Court Primary	4	4	Q3	FINAL	Full	Feb-14
	Towers Junior	4	4	Q3			
	Whybridge Junior	4	4	Q3	FINAL	Substantial	Feb-14
	Broadford Primary	4	4	Q4	FINAL	Substantial	Feb-14
	Crownfield Infant	4	4	Q4	FINAL	Substantial	Feb-14
	Scargill Infant	4	4	Q4			
	Squirrels Heath Infant	4	4	Q4			
	St.Edwards CE Primary	4	4	Q4			
Dycorts School	4	4	Q4	FINAL	Substantial	Feb-14	
Computer Audit	Mayrise	0	15	Q1	FINAL	Limited	Sep-13
	AXISe Pension System	110	15	Q1	FINAL	None	
	JCAD LACHS		15	Q1	FINAL	Substantial	
	Follow Ups - Network Permissions Follow-Up		5	Q1 / 4	FINAL	Substantial	Feb-14
	Service / Support Desk		15	Q2	Draft		
	Security Over Spreadsheets (Replaces Backups)		15	Q2 / 3	Deleted		
	ICT Inventory Controls		8	Q3 / 4	Brief Issued		
	Tranman		15	Q4	Brief Issued		
	Data Handling		15	Q4	Planning		

	Audit Title	Budget		Plan Quarter	Status End Qtr3	Report Assurance	Report to Audit Comm
		Original	Revised				
Follow Ups	Traded Services	0	1.5	Q1	FINAL	Substantial	Sep-13
	Education Computer Centre	0	1.5	Q1	FINAL	Limited	Sep-13
	Audit Recommendations	0	15	Q1-4	On-going		
	Traffic & Parking Control - Cancellation of PCN's	0	3	Q2 / 3	FINAL	Substantial	Feb-14
	One Oracle Contingency	0	16	Q2 / 4			
	i-Expenses	3	3	Q3	Complete		
	CRC Scheme Follow Up & Sign Off	0	1		FINAL		Dec-13
Other Work	Contingency	25	0	-	On-going		
	Advice to Directorates	10	10	Q1 / Q4	On-going		
	Sign off of Grant Claims	10	10	Q1 / Q4	On-going		
	Governance	25	24	Q1 / Q4	On-going		
	Risk Management	50	28	Q1 / Q4	On-going		
	Schools Management /Administration	20	20	Q1 / 4	On-going		



AUDIT COMMITTEE

19 February 2014

Subject Heading:	Internal Audit Systems Report Summaries 01.10.2013 to 28.01.2014
Report Author and contact details:	Kate Brunning, Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of the findings and recommendations made in systems audit reports issued during Quarter Three of the 2013/14 Internal Audit Plan.
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 provides the Audit Committee with summaries of internal audit reports issued during the period 1st October 2013 to 28th January 2014. Information on recommendations made by audit and managements' response to the recommendations is provided for reports where limited assurance was given. This will provide the Committee with assurance that appropriate plans to mitigate risk have been put in place.

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

1. INTRODUCTION

- 1.1 Audit work focused on the reliability of the financial and operational information, management accounting controls, safeguarding of assets, economy and efficiency of operations and review of compliance with relevant statutes and Council regulations.
- 1.2 For each risk based audit where controls have been analysed, an assurance statement is issued. This simple grading mechanism provides an indication of the level of confidence in the controls in operation and the extent to which they are being applied. Each category is defined below:
 - Full:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
 - Substantial:** While there is a basically sound system, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
 - Limited:** Limitations in the systems of control are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
 - No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/or significant noncompliance with basic controls leaves the system open to error or abuse.
- 1.3 Recommendations are made to mitigate weaknesses identified in the system of control. Recommendations are categorised into three levels of priority to ensure that those addressing areas of significant risk are implemented as a priority. The three categories comprise:
 - High:** Fundamental control requiring implementation as soon as possible.
 - Medium:** Important control that should be implemented.
 - Low:** Pertaining to best practice.

1.4 Eight systems audits, including a forensic review of the schools admissions system, were finalised during the period 1st October 2013 to 28th January 2014.

1.5 The eight systems and the level of assurance provided where applicable are shown below:

SYSTEM	ASSURANCE
Emergency Assistance Scheme	Limited
Temporary Agency Worker Contract	Substantial
Compliance With Corporate Policy: Sickness Absence	Limited
Traffic & Parking Control: Cancellation Of Penalty Charge Notices Follow Up Audit	Substantial
School Admissions Forensic Review	N/A
JCAD LACHS Application System Review	Substantial
Network Permissions Follow-Up Audit	Substantial
Axise Pension System Hosting Review	No Assurance

1.5 Summaries of the eight systems audit reports are included in Sections 2.1 to 2.8 below.

2. REPORT SUMMARIES

2.1 EMERGENCY ASSISTANCE SCHEME

Summary of Audit Findings

- 2.1.1 The nature of the Emergency Assistance Scheme, which exists to support vulnerable individuals who find themselves in need of immediate financial support, potentially compromises the level of control that can be actioned within the system.
- 2.1.2 Current arrangements are sufficient to provide assurance that money and goods are adequately administered in line with expectations. Internal audit found that whilst the assurance is largely based on the integrity and experience of the individuals involved in the process, reliable and accurate information on money and goods provided is maintained by Disablement Association Of Barking And Dagenham (DABD). Additionally adequate levels of management information, coupled with regular monitoring meetings and a good working relationship with the provider ensures that any deterioration in performance would be detected early.
- 2.1.3 Given that this is the first year that the Council has been responsible for delivering the service, it was inevitable that there would be challenges and that lessons would need to be learned. The sub-contracting of loan recovery and debt recovery to Liberty Credit Union (LCU) presents a potential risk to LB Havering due to the fixed fee nature of the service contract between DABD and LCU.
- 2.1.4 The significant weaknesses identified comprise:
- DABD's costs for the loan repayment and debt recovery element of the contract were not included in the original contract sum. An additional £25k payment was agreed by LB Havering to fund this element of the contract. There is therefore the risk that the contract provides LB Havering with poor value for money.
 - The volume of anticipated transactions was significantly overestimated. 57 loans were made during the period April to December 2013 however the expected number was 1800 for the period April 2013 to July 2014. This may have led to LB Havering agreeing to pay the additional £25k.
 - A process for dealing with irrecoverable debt has not been established.
 - Reconciliations of non-cash assets are not formally documented by the provider.

Audit Opinion

- 2.1.5 Limited Assurance has been given as the audit found that limitations in the systems of control were such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
- 2.1.6 The Internal Audit found that the system of control for the administration of goods and money is effective and would if separately audited receive a

substantial assurance. The weaknesses in the overall system arising from the subcontracting of the loan repayment and debt recovery function are however, sufficient to influence the overall audit opinion.

Recommendations

2.1.7 The audit has made three medium and one low priority recommendations addressed to the Revenues & Benefits section. The recommendations were designed to address weaknesses in the control environment and the implementation of the recommendations will enable the resulting risks to be mitigated. The recommendations and managements' responses are shown in the table below.

1. Recommendation		Priority
When the contract period ends in July 2014, Havering must ensure that the successful provider; <ul style="list-style-type: none"> • can accommodate the administration of the loan element of the service internally; or • that appropriate cost provision has been made to fund the externalisation of this service. 		Medium
Management Response	Client Management of the contract with DABD transferred to Exchequer Services from Adults in April 2013. The contractual arrangements for the administration of the loan element between Adults and DABD were an addendum to the original contract made by Adults. Any extension of the current contract or new contract will incorporate Recommendation 1.	
Responsible Officer	Council Tax & Benefits Manager	
Implementation Date	June 2014	
2. Recommendation		Priority
Advice to be sought from Legal Services to ascertain whether DABD are legally entitled to apply to the Council for reimbursement of any funds not received as part of the £25k recovered EAS loan monies at the end of the contract duration.		Medium
Management Response	Whilst the agreements and codicils with DABD were inherited from Adult Services, Exchequer will ensure that any reimbursements are made in accordance with the Council's legal and financial policies and framework.	
Responsible Officer	Council Tax & Benefits Manager	
Implementation Date	March 2014	
3. Recommendation		Priority
Suitable arrangements should be established for dealing with irrecoverable debt, including approvals. These should be incorporated into the contract upon renewal or the current contract amended to include.		Medium
Management Response	DABD and LCU have been given no authority to discharge or waive debt. A policy will be developed and documented which enables DABD to recommend	

	and seek authorisation from Havering Council to write-off unpaid loans.
Responsible Officer	Council Tax & Benefits Manager
Implementation Date	March 2014 – Arrangements to be established. June 2014 – For inclusion to the contract.
4. Recommendation	Priority
LBH to discuss with DABD formalising the reconciliation process to provide documentary evidence that this check is being completed.	Low
Management Response	Agreed
Responsible Officer	Council Tax & Benefits Manager
Implementation Date	March 2014

2.2 TEMPORARY AGENCY WORKER (TAW) CONTRACT

Summary of Audit Findings

2.2.1 The audit found:

- £300k of non-Adecco TAW costs were coded to the 'Agency Staff' subjective during the period April to July 2013. Our analysis found that the majority of this spend did not relate to Temporary Agency Worker payments.
The justification for the employment of a TAW is not included on reports from BeeLine that can be generated by Havering staff.
- Managers were unaware of the need for TAWs to keep timesheets. As a consequence managers are not reconciling TAW timesheet data to Adecco invoices.
- TAWs are employed for lengthy periods of time.
Not all rates paid accord with the current rate card.
- System access of TAWs no longer employed by the Council is not being removed.

Audit Opinion

- 2.2.2 Substantial Assurance has been given as while there is a basically sound system, there are limitations that may put some of the systems objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

- 2.2.3 As a result of this audit one high, six medium and two low priority recommendations were made. The recommendations were designed to address weaknesses in the control environment and the implementation of the recommendations will enable the resulting risks to be mitigated. The recommendations and managements' responses are shown in the table below.

1. Recommendation		Priority
Copy of TAW contract to be held by those with a day to day responsibility of ensuring compliance.		High
Management Response	Operational HR will retain a copy of the contract for their own records, as well as the copy held by Legal.	
Responsible Officer	Senior HR Advisor	
Implementation Date	December 2013 - implemented	
2. Recommendation		Priority
Copies of contracts to be held electronically and made available to the relevant Contract Manager.		Medium
Management Response	Agreed	
Responsible Officer	Head of Legal and Democratic Services	
Implementation Date	31/3/14	

3. Recommendation		Priority
Managers are reminded of the need to ensure that temporary agency workers are sourced through the Adecco contract.		Medium
Management Response	This will be re-iterated at CMT for dissemination. Will also include in further Global Email.	
Responsible Officer	Procurement Business Partner	
Implementation Date	February 2014	
4. Recommendation		Priority
Managers are challenged during the monthly budget reporting cycle regarding temporary agency worker spend with suppliers other than Adecco, including miscoding expenditure against the Agency Worker subjective.		Medium
Management Response	The role of ensuring correct coding and compliance with corporate contracts lies with the cost centre manager; this would not be addressed as part of routine budget monitoring with Operational Finance. In the longer term iProcurement will have better controls of expenditure channels, highlighting areas of off contract spend.	
Implementation Date	Post One Oracle implementation	
Responsible Officer	Operational Manager	
5. Recommendation		Priority
The inclusion of justification on BeeLine reports to be investigated to enable monitoring of relevance of justification used.		Medium
Management Response	This report can now be extract from Beeline to enable justification monitoring.	
Responsible Officer	Senior HR Advisor	
Implementation Date	Implemented	
6. Recommendation		Priority
Operational HR to remind managers employing TAWs of the need to keep records of hours worked as a secondary check to what is being claimed.		Medium
Management Response	An email will be sent to all timesheet approving managers to remind them to keep records of hours. We will also ask Adecco to communicate to second tier suppliers and to all TAWs.	
Responsible Officer	Senior HR Advisor	
Implementation Date	January 2014	
7. Recommendation		Priority
Group Directors/Heads of Service to review justifications used when engaging TAWs in order to ensure compliance with the CMT agreed options when agency workers may be engaged		Low
Management Response	Operational HR now provide Group Directors with the information necessary to monitor	

	<p>justification.</p> <p>Works is to be undertaken reviewing the current justifications used within the system.</p> <p>'Other' is to be removed, with discussions being held as to potential additions to the current list of justifications.</p>
Responsible Officer	Strategic HR/ Operational HR
Implementation Date	February 2014
8. Recommendation	
	Priority
Rates included on the rate card to be reviewed and brought in line with current market expectations.	Low
Management Response	Plans are being made to review the current rate card with Adecco as it's been in place for a year. Currently any changes to the rate card have to be agreed after completion of a business case. Adecco would let HR know what current markets rates are based on other boroughs spend.
Responsible Officer	Procurement Business Partner / Senior HR Advisor
Implementation Date	28/2/14
9. Recommendation	
	Priority
List of TAWs whose contract has ended to be supplied to Business Systems in order for system access to be removed/user profiles to be deactivated.	Medium
Management Response	Weekly TAW leavers report sent to Business Systems each week.
Responsible Officer	Adecco Contract Manager
Implementation Date	October 2013 - implemented

2.3 COMPLIANCE WITH CORPORATE POLICY: SICKNESS ABSENCE

Summary of Audit Findings

- 2.3.1 The 'No Sickness Absences' report run from the Oracle HR system has proven to be accurate in all of the cases selected and tested as part of our sample.
- 2.3.2 The 'No Sickness Absence' report included four members of staff who had terminated their employment during the previous 12 months.
- 2.3.3 Managers are complying with formal sickness monitoring in ensuring Return to Work forms are completed and including notes as to first reviews or further acknowledgement of triggers. These monitors however, are not always recorded in the correct field on Self Service despite being correctly managed.
- 2.3.4 The lack of fitness notes copied to the Self Service system demonstrates a lack of understanding of the requirements of the procedure. Fourteen Return to Work (RTW) forms make mention of fitness notes although only 3 were recorded / uploaded accurately.
- 2.3.5 Two managers declared that they had not received formal sickness procedure training despite it being mandatory.

Audit Opinion

- 2.3.6 Limited Assurance has been given as the audit found that limitations in the systems of control were such as to put the system objectives at risk, and / or the level of non-compliance puts the system objectives at risk.

Recommendations

- 2.3.7 As a result of this audit one high and two medium priority recommendations were addressed to the Strategic HR and Operational Development 1 sections. The recommendations were designed to address weaknesses in the control environment and the implementation of the recommendations will enable the resulting risks to be mitigated. The recommendations and managements' responses are shown in the table below.

5. Recommendation		Priority
HR to review attendance of sickness training and any non-attendance addressed.		High
Management Response	Agreed	
Responsible Officer	Mark Porter, Operational Team Manager	
Implementation Date	February 2014	
2. Recommendation		Priority
Delegation arrangements of tasks regarding sickness absence reporting and document retention by managers in off-site offices should be reviewed.		Medium
Management Response	Agreed	

Responsible Officer	Andrew Blake-Herbert, Group Director	
Implementation Date	April 2014	
3. Recommendation		Priority
Management should consider developing a checklist to complement the current policy and procedure to further assist managers in ensuring that correct documents are uploaded to the relevant area of the system in a timely manner.		Medium
Management Response	Agreed	
Responsible Officer	Caroline Nugent, Head of HR and OD	
Implementation Date	June 2014	

2.4 TRAFFIC & PARKING CONTROL: CANCELLATION OF PENALTY CHARGE NOTICES FOLLOW UP AUDIT

Background

- 2.4.1 An audit of the Cancellation of Penalty Charge Notices (PCNs) was undertaken in October 2012. The aim of the audit was to provide assurance that robust arrangements were in place to manage the cancellation of PCNs by the Challenge Team, monitor performance and produce management information.
- 2.4.2 The final audit report provided 'Substantial Assurance' and made one high, five medium and one low priority recommendations. All of the recommendations were agreed at the time of issuing the final report and deadlines for all were prior to the 30th September 2013.

Progress on Implementation

- 2.4.3 A formal follow up was undertaken and progress made in implementing recommendations was reviewed. Where actions had been completed by management, evidence to support this was gathered. The results are summarised below:
- Three recommendations have been completed at the time of the follow up;
 - Four recommendations have been partially implemented and further work is required to fully mitigate the risks.
- 2.4.4 Extended implementation dates have been identified for the four recommendations that are in progress or outstanding.

Conclusion

- 2.4.5 The follow up indicates that good progress has been made in implementing recommendations and therefore addressing the risks identified by the original audit.
- 2.4.6 Due to the progress in implementing recommendations the assurance provided from the audit work remains at a 'Substantial Assurance'.

2.5 SCHOOL ADMISSIONS FORENSIC REVIEW

Summary of Audit Findings

2.5.1 Detailed analysis of 231 suspect applications found 6 cases where an offence was detected. This equates to approximately 2.6 % of the original sample. It is therefore highly probable that the marked increase in school applications as detailed in the ‘An analysis of School Applications in Havering July-October 2013’ Report, is not attributable to fraud.

2.5.2 Whilst it is beyond the scope of the Investigations Team and of this report to confirm the causes behind this increase, it is suspected that such a sudden and dramatic change may be caused by the recent change in policy surrounding welfare reform i.e. the Benefit Cap and Council Tax Reduction Schemes, causing the migration of families to the LB Havering area.

2.5.3 With regards to the actual cases where fraud and potential fraud was identified; investigations into the cases involving Housing Benefit and/or Council Tax Support are still on-going as the investigations take a significantly longer period of time to complete than has been allotted for this fraud review. These claimants will likely face an overpayment of their HB and/or CTS of anything up to several hundred pounds in each case and may be considered suitable for a formal sanction.

2.5.4 The two detected cases where the school application was found to be false are unlikely to face any action as it is the Authority’s policy not to withdraw the children from school. This is to avoid causing the child an unnecessary level of disruption as a result of an action by their parent / guardian. Additionally, the parent / guardian in these cases will not face any action or prosecution as proceedings are likely to be unsuccessful and there are no alternative sanctions that can be considered. However should the recommendations made in this report be implemented, the option to take prosecution proceedings would be available in the future.

Recommendations

2.5.5 The report made 4 recommendations designed to significantly increase the likelihood of a successful prosecution for an offence under S.2 of the Fraud Act 2006; improve the detection rate of potentially false applications and deter potential fraudsters. The recommendations and managements’ responses are shown in the table below.

1. Recommendation	Priority
Amending the existing declaration on the school application form, highlighting to the applicant that making a false application may be an offence as it could cause a loss to the Authority and that the Authority would seek to recover any losses caused.	Medium

Management Response	Agreed, we would also like to implement this across the East London Solutions partnership area given the travel to study patterns etc.
Responsible Officer	Janet James, Admissions Manager
Implementation Date	31 st March 2014

2. Recommendation	Priority
Including a warning on the LBH website that providing false information to secure a place may be an offence as it could cause a loss to the Authority. It is not possible to make any such amendments directly to the on-line application regarding the declaration as the on-line application is made via an external e-application portal. It is therefore recommended that this issue be raised at a future London Inter Authority Admissions Group (LIAAG) meeting.	Medium
Management Response	Agreed.
Responsible Officer	Janet James, Admissions Manager
Implementation Date	31 st March 2014

3. Recommendation	Priority
The Authority's staff responsible for assessing school applications are provided with additional tools, i.e. LoCTA and CallCredit. Whilst LoCTA will not entirely rule out the need to make enquiries directly with other Authorities, it should expedite a proportion of those in certain cases. CallCredit could also be used to obtain confirmation of residence at the given or alternative addresses for those applicants who have claimed to have resided at a property for in excess of several months. As the Authority currently holds a licence with these organisations, the access could be provided at a minimum cost.	Medium
Management Response	Agreed.
Responsible Officer	Janet James, Admissions Manager
Implementation Date	31 st March 2014

4. Recommendation	Priority
Information regarding the two detected cases of admissions fraud to be forwarded to the School Admission team.	Medium
Management Response	The School Admissions Team will follow up these two cases and challenge the parents, especially as the parents may be making future applications for the same school and using a sibling link to gain higher preference.
Responsible Officer	Janet James, Admissions Manager
Implementation Date	31 st March 2014

2.6 JCAD LACHS (LOCAL AUTHORITY CLAIMS HANDLING SYSTEM) APPLICATION SYSTEM REVIEW

Summary of Audit Findings

2.6.1 The JCAD LACHS system is used by the Council's insurance team to manage claims. The system is also used to analyse claims data and monitor and control exposure effectively.

2.6.2 The audit identified the following strengths in the JCAD LACHS application system:

- Officers are trained by the application owner with a one to one training approach. If required, further training can be provided by JCAD.
- The distribution and tailoring of permissions across the active user base complies with the principle of least privilege.
- LACHS has a highly developed performance reporting functionality, which satisfies the needs of the Insurance department.
- There is adequate capacity allocated to the LACHS virtual server and warning triggers are in place if the available space is less than 10%.
- The LACHS virtual server sits on a physical server which exists in a 'high availability' cluster (group of physical servers), consisting of four nodes (physical servers). If one node fails the service will failover to a functioning node, thus minimising down time to an absolute minimum and allowing the failed hardware to be safely replaced.
- Mitigating controls are in place to guard against the risk of server room disaster.
- Backups are held in both Newport and Telford, which are geographically separated.

2.6.2 Weaknesses have been identified in relation to:

- Access controls for users (this risk is partially mitigated by the limited accessibility to the application)
- Access controls for the administrator (this risk is partially mitigated by the limited accessibility to the application)
- The absence of audit trail functionality within the application
- Weaknesses in relation to the service continuity measures in place
- Contract management surrounding the application

Audit Opinion

2.6.3 A **substantial** assurance opinion has been issued for the following reasons:

- On a fundamental level, there is a sound system of control in place, however, some weaknesses have been identified in the system and there is evidence of noncompliance.).
- Basic processes are established and repeatable, however, they have not been fully documented and standardised and are not being actively managed and measured.

Recommendations

2.6.4 The audit made 22 recommendations to address issues identified in the 13 control areas reviewed. The recommendations and managements' responses are shown in the table below.

1. Recommendation		Priority
<p>The System Owner should perform a risk assessment to establish which access module is most appropriate for the needs of the Insurance department and the sensitivity of the data. Additional control would be introduced by having different user credentials at the operating system layer and the application layer. This decision should be driven by the risk appetite of the System Owner.</p> <p>2. The access control method must be standardised for all officers, using either a single sign-on approach or an additional application layer of security. If application layer access is adopted, strong passwords should be adopted in line with ICT's Password Policy and they should be confidential.</p> <p>3. If application layer controls are adopted, the application password requirements must align with the council's criteria for 'strong' passwords, for example:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Alphanumeric passwords should be enforced <input type="checkbox"/> A minimum password length should be enforced (e.g. 8 characters) <input type="checkbox"/> Users should be required to change their password periodically (e.g. every 90 days). 		<p>Medium</p> <p>High</p> <p>High</p>
Management Response	Integrated login will be removed for each user. This will be actioned when JCAD are on site for training planned for near future.	
Responsible Officer	Paula McLoughlin	
Implementation Date	End Feb 2014	

2. Recommendation	
<p>1. A 'strong' password should be introduced for administrator functionality within the application system. A strong password should have the following characteristics:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Contain both upper and lower case characters (e.g., a-z, A-Z) <input type="checkbox"/> Have digits and punctuation characters as well as letters e.g., 0-9, !@#\$%^&*()_+ ~-=\`{}[]:"';'<>?.,/ <input type="checkbox"/> Are at least eight alphanumeric characters long. <input type="checkbox"/> Are not a word that can be found in any dictionary (regardless of language). <input type="checkbox"/> Are not based on personal information, names of family, etc. <input type="checkbox"/> Passwords should never be written down except in the password safe. <p>2. A secondary officer should be trained to use the administrative functionality of the application system, in the event that the System Owner cannot fulfil her duties.</p>	
Management	JCAD have advised that this can be done. Changes to

Response	passwords will be timed to coincide with JCAD's on-site training in order to mitigate possible problems. Secondary officer will be shown how to access admin functions as part of LACHS functionality training provided to Insurance Officers.
Responsible Officer	Paula McLoughlin
Implementation Date	End Feb 2014

3. Recommendation	
The System Owner should liaise with JCAD to establish whether the application system has audit trail functionality. Due to the lack of viable application alternatives within the marketplace, the service may have to be resigned to accepting this risk and adopting a system that has no audit trail functionality.	
Management Response	The Status History tab on a claim provides a limited audit trail. A new line is written into the Status History every time the status of the claim is altered, or there is an addition, amendment or deletion of a payment or estimate. JCAD advise that they are in the process of developing a new major version release of LACHS which will incorporate a comprehensive audit history. We will consider upgrading at that time subject to the requirements of the service and financial constraints.
Responsible Officer	Paula McLoughlin
Implementation Date	When available

4. Recommendation	
Insurance should liaise with ICT to identify solutions for successfully virtualising LACHS. A solution here would enable feasible service continuity plans to be developed and also allow remote working with the application. If virtualisation cannot be achieved alternative contingencies should be explored.	
Management Response	Do not agree as LACHS is available via Remote Access Portal.
Responsible Officer	
Implementation Date	

5. Recommendation	
Insurance should assess the potential benefits of defining an expected support service performance in a Service Level Agreement. While the current support is adequate, it would be beneficial if there was a common understanding, as defined by timescales, between Insurance and JCAD of what constitutes an acceptable support service.	
2. Insurance should review the 5% annual payment increase arrangements,	

<p>assessing whether the nature of the service provided by JCAD has changed significantly since initiation and the extent to which JCAD have increased the annual cost. Insurance should assess the value for money achieved from the contract to establish whether any cost increase is justified. If the nature of the service changes significantly the contract should be rewritten to reflect this.</p> <p>3. Insurance should review the provision for consequential loss and establish whether this aligns with their needs. If the software provider is negligent, and this causes service outage and consequential loss, the department should have a route for legal recourse.</p> <p>4. In line with current plans, either the service or ICT should request JCAD to complete a Code of Connection agreement, confirming compliance with the behavioural requirements of the council.</p>	
<p>Management Response</p>	<p>The current contract with JCAD states, 'a call identifying a possible error or raising a query will normally be acknowledged by the Licensor immediately. If not acknowledged immediately then it will be acknowledged normally during that working day but failing that, within twenty four hours of the time of receipt. At the time of acknowledgement the query/problem will be resolved or a schedule planned for resolution. The aim would be to resolve the query/problem as soon as possible'.</p> <p>This is adequate for the needs of the service and no issues have been encountered.</p> <p>2. The 2014 application for payment received from JCAD does not include a 5% inflationary increase. We will negotiate revised terms when a new service is retendered.</p> <p>3. The scope for consequential loss due to service outage is minimal and an acceptable risk to the service.</p> <p>4. JCAD do not currently carry out any work requiring this but are happy to enter into a Code of Connection if required. ICT to obtain the Code.</p>
<p>Responsible Officer</p>	<p>Paula McLoughlin/Gary Griffin</p>
<p>Implementation Date</p>	<p>Various</p>

<p>6. Recommendation</p> <p>The following active accounts with generic access credentials were identified:</p> <p><input type="checkbox"/> JCAD</p> <p>The 'JCAD' account has high level permissions (consistent with those of the current System Owner). This generic account is employed at other councils for developer access, consequently, it represents a widely known access route into the application that may be exploited. This account is accessed via application layer access controls.</p>	
<p>Management Response</p>	<p>Generic accounts have been removed.</p>
<p>Responsible Officer</p>	<p>Paula McLoughlin</p>
<p>Implementation Date</p>	<p>Implemented, 8/10/2013</p>

7. Recommendation	
<p>1. The System Owner should liaise with JCAD, to identify the benefits of upgrading the application system, with specific focus on any security benefits that may be achieved. If the benefits are significant the System Owner should implement the update, working with ICT and the developer to safely implement the update (e.g. using a test system to test changes before live environment implementation).</p> <p>2. Procedures should be developed supporting the core usage of the application system, reflecting the tailored approaches of Havering council. Staff should be required to comply with the approved approach, to optimise efficiency when using the application.</p>	
Management Response	<p>JCAD advise that they are in the process of developing a new major version release of LACHS. We will consider upgrading at that time subject to the requirements of the service and financial constraints.</p> <p>2. Insurance has a JCAD guidance manual, online guidance and support from JCAD.</p> <p>Customisation of the system is limited i.e. the identification of the relevant Insurance Officer and ward area for e.g. All insurance officers are required to comply with standardised and agreed working methods and their work is regularly monitored and reviewed by the Insurance Manager.</p> <p>Consideration will be given to the development of procedure notes if the upgrade to a significantly revised version of LACHS is made.</p>
Responsible Officer	Paula McLoughlin
Implementation Date	To be determined on issue of upgraded version of LACHS

8. Recommendation	
<p>1. Written procedures should be established, covering key administrative processes for creating, managing and deleting/suspending users.</p> <p>2. It would be beneficial for Insurance to clarify with JCAD the impact of deleting users. A solution may be identified, which enables Insurance to delete obsolete user accounts.</p>	
Management Response	<p>The guidance manual and support from JCAD is considered adequate in light of the very infrequent need to undertake these tasks.</p> <p>2. The implications have been clarified with JCAD. The process used by Insurance is to uncheck a previous user's ability to connect to the system, thereby deactivating their account. Obsolete users' accounts are not deleted in order to maintain an audit trail and user profile that can be applied to new users' accounts. , they are ineffectual if they cannot connect but consideration can be given to deleting old users.</p>
Responsible Officer	Paula McLoughlin
Implementation Date	November 2013

9. Recommendation	
Insurance should identify their backup needs and potential risks to data, ensuring ICT's back-up solution is adequate. For example, maintaining a monthly backup alongside the short term incremental solution may provide a greater degree of contingency.	
Management Response	LACHS programme will be moved to a new server and back up will be scheduled
Responsible Officer	Paula McLoughlin
Implementation Date	31 December 2013

10. Recommendation		
The application owner should consider the potential benefits of implementing a formal Escrow and assess whether the current contractual provisions are adequate in light of the department's reliance on the application.		
Management Response	<p>Insurance Manager has sought advice from ICT who advised that they do not undertake ESCROW agreements with any supplier. In the event of JCAD failing, we would retender for a replacement. We would not want to develop the solution ourselves, which is what ESCROW allows you to do.</p> <p>The estimated cost of entering into an Escrow agreement is in the region of £1,500 with an on-going annual cost of approximately £750. This option does not provide the council with value for money.</p> <p>The system administrator/contract managing officer has considered the risk and concludes that the potential cost of the Escrow agreement and absence of ICT support makes this option unfeasible.</p>	
Responsible Officer	Paula McLoughlin	Implementation Date 10 October 2013

11. Recommendation	
<ol style="list-style-type: none"> 1. The System Owner should ensure that Insurance Officers are always automatically prompted to assess newly submitted claims for duplication and potential fraud. 2. The management of claim financial information (EDI financial downloads and error handling and manual entry) should be supported by a procedural document. 3. Insurance should detail claim data/information input requirements when drafting supporting procedures (see <i>Recommendation 8 (2)</i>). 	
Management Response	<p>System administrator will check all system prompts are enabled for each user when carrying out password strengthening procedures as outlined in response to EX01 & EX02 above.</p> <p>2. & 3. Insurance Officers have developed their own procedural notes. These will be amalgamated and made available on a shared drive.</p>

Responsible Officer	Paula McLoughlin	Implementation Date	End February 2014
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12. Recommendation			
A concise document outlining key contacts, and ownership over the application support elements, should be drawn up. Key stakeholders must be made aware of this document.			
Management Response	The users of the LACHS application are aware of the roles and responsibilities of JCAD and LB Havering's ICT. ICT contact is via the ICT helpdesk as all system users are aware. Current users receive newsletters which provide current information and up to date contact details for JCAD. There is also a www. resource integral to the system providing online help and links to the JCAD website where current contact details can be obtained as well as a link to an online forum and all the system details required for contact with JCAD. Due to the limited number of users the system administrator considers such a document to be not necessary as the most up to date information is available via the system.		
Responsible Officer	Paula McLoughlin	Implementation Date	N/A

2.7 NETWORK PERMISSIONS FOLLOW-UP AUDIT

Background

- 2.7.1 The follow-up audit was undertaken to assess the actions taken to implement recommendations arising from a previous audit, which examined the controls in place in relation to Network Permissions. The audit opinion for the original review, issued in November 2012, was Limited Assurance.
- 2.7.2 The focus of the follow-up review was on the progress made in managing key risks due to time limitations. The findings are based on the feedback provided by the responsible officers and evidence, when it could be promptly provided.

Summary of Audit Findings

- 2.7.3 ICT have made improvements to several areas of the internal control environment, however, certain key controls have not yet been implemented.

Audit Opinion

- 2.7.4 In the original report, it was Audit's opinion that there was Limited Assurance. Progress has been made by ICT to address the most critical risks flagged in the original audit report; consequently we have revised the assurance opinion to **Substantial Assurance**.
- 2.7.5 ICT are strongly advised to revisit any agreed management actions which have not yet been performed.

2.8 AXISe PENSION SYSTEM HOSTING REVIEW

Summary of Audit Findings

2.8.1 From discussion with the responsible officers, we were able to establish that the hosting agreement was agreed at committee level, as part of a joint working initiative with Redbridge. This ultimately collapsed, although the hosting arrangement remains. It appears that although this was agreed at a high level, no contract was ratified to formally agree the nature of the services provided. The findings are especially concerning as service delivery issues, such as service outages, have been encountered throughout the lifetime of the arrangement. It is only in recent times that the service delivery has improved. As a consequence of these issues, approximately half of the audit test areas could not be assessed.

Audit Opinion

- 2.8.2 A **No Assurance** opinion has been issued. This means that controls to manage risks regarding the hosting of the pension system are largely absent:
- No contract is present for the hosting service provided by Redbridge, setting out the terms of the agreement.
 - No service level agreement is present, clarifying the expected service to be provided by Redbridge.
 - No assurances have been sought from Redbridge in relation to the business continuity and disaster recovery measures which safeguard the pension data.

Recommendations

2.8.3 The audit made thirteen recommendations. A management action plan has been agreed to address the areas for improvement identified by the audit. Subject to the implementation of the recommendations therein and compliance with the stated controls, it is the Chief Internal Auditor’s judgement that there will be sufficient controls in place regarding the area being audited.

Recommendations
1. We recommend that any future options appraisal thoroughly critiques the hosting solutions being considered.
2. We recommend that as part of any future options appraisal a risk assessment is performed so that all the implications of an external hosting solution are fully understood.
3. We recommend that risks and mitigating controls associated with external hosting arrangements are periodically reviewed to ensure that the risks continue to be appropriately managed.
4. We recommend that in the future a hosting agreement is drawn up and signed, formalising the arrangement between the council and the host.
5. We recommend the responsibilities of both contractual parties are formalised before engaging in a hosting arrangement.
6. We recommend that the council seeks assurances of the host’s control environment before engaging their services. The control environment should align with best practice standards.

7.	We recommend that the hosting agreement clarifies liability in the event of a data breach.
8.	We recommend that an indemnity clause is written into the contract with the host.
9.	We recommend that the hosting agreement sets out the physical and environmental standards that the external provider is expected to meet.
10.	We recommend that the service seeks assurances from the provider to ensure service continuity provisions are in place in the event of a disaster.
11.	We recommend that back-up expectations are clarified and the council approaches the developer and host to identify why the application fails when back-ups are unsuccessful.
12.	We recommend that a Service Level Agreement is developed to communicate service level expectations to the host.
13.	We recommend that financial penalties are tied to host performance. Serious performance failures should invoke financial penalties.
Management Response	All management actions are agreed. They will be taken account of when the new hosting contract is being procured.
Responsible Officer	Sarah Bryant, Head of Internal Shared Services Karen Balam, Transactional Manager Kevin Mulcahy, ICT Services Delivery Manager
Implementation Date	2 December 2014.

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.

Legal implications and risks:

There are no apparent legal implications or risks from noting the contents of the report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None

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AUDIT COMMITTEE

19 February 2014

Subject Heading:

Internal Audit School Final Report Summaries, 01.10.2013 to 28.01.2014

Report Author and contact details:

Kate Brunning, Internal Audit & Corporate Risk Manager ext 3733

Policy context:

To inform the Committee of the findings and recommendations made in school audit reports issued during Quarter Three of the 2013/14 Internal Audit Plan

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 provides the Audit Committee with summaries of school internal audit reports issued during the period 1st October 2013 to 28th January 2014. Information on recommendations made by audit and managements' response to the recommendations is provided for reports where limited assurance was given. This will provide the Committee with assurance that appropriate plans to mitigate risk have been put in place.

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

1.1 School Audit Programme

- 1.1 Local Authority maintained schools are subject to triennial audit. The purpose of the audit is to provide the Governing Body and Head Teacher with audit assurance on the appropriateness and effectiveness of the systems of internal control in operation within the school.
- 1.2 In order to assess the systems of internal control, the audit team has developed a risk based audit programme covering the following key risk areas:
 - Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management; and
 - Procurement & Capital Projects.
- 1.3 The audit programme includes a follow up of recommendations raised at the schools most recent Audit Health Check, which is available to schools as a tradable service from the LMS Team.
- 1.4 Seven school audits were finalised during the period 1st October 2013 to 28th January 2014. The seven schools and the level of assurance provided for each school comprise:

SCHOOL	ASSURANCE
• Broadford Primary School	Substantial
• Brookside Infant School	Substantial
• Crownfield Infant School	Substantial
• Dycourts School	Substantial
• Engayne Primary School	Substantial
• Harold Court Primary School	Full
• Whybridge Junior School	Substantial

- 1.5 Summaries of the seven school audit reports are provided in Sections 2 to 8 below.
- 1.6 There are four possible assurance levels which comprise:
- Full:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
 - Substantial:** While there is a basically sound system, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
 - Limited:** Limitations in the systems of control are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
 - No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/or significant non compliance with basic controls leaves the system open to error or abuse.

2. BROADFORD PRIMARY SCHOOL

Summary of Audit Findings

2.1 The internal audit review found:

- There is an absence of documentary evidence to confirm that staff have been informed that they are not to use their car for work purposes without appropriate insurance cover.
- The recent building works undertaken at the School has rendered the previous Asset Management Plan redundant. The development of a new plan will provide a basis for planning and funding future premises related works.
- The most recent check of the School's inventory was incomplete. Discrepancies between the inventory and the actual items on site were identified.
- CRB/DBS checks have not been completed for three Governors. The DBS/CRB checks for five Governors have exceeded the three yearly renewal date set by the LB Havering.
- School meals income is normally collected by the Borough cook. Occasionally the School collects this income on behalf of the borough; however a formal process for documenting and recording collection and transfer of the money has not been produced.
- Expenditure has been coded to cost centres that do not accurately reflect the items being purchased.
- VAT Invoices may not always be received when goods are purchased on-line. The School has not set a minimum threshold determining the value at which the time spent obtaining a VAT invoice becomes cost effective.
- Personnel related responsibilities are not documented within the Finance Policy & Procedure document.

Audit Opinion

2.2 **Substantial Assurance** on the system of internal control operating at the time of audit is given.

Recommendations

2.3 The audit made four medium priority recommendations which comprise:

- Driving checklists to be completed for all staff;
- A full check of the inventory to be completed;
- CRB checks to be completed or renewed for all Governors;
- Expenditure to be coded to appropriate cost centres;

and four low priority recommendations which comprise:

- Asset Management planning to begin in light of the recent building works;
- A process for recording and verifying the collection of school meals income to be established;
- A minimum threshold for pursuing VAT invoices to be agreed; and
- Roles and responsibilities around Personnel activities to be defined.

2.4 All eight recommendations were agreed by the Head Teacher and have been scheduled for implementation by March 2014.

Audit Health Check Progress

2.5 There were six Priority One and six Priority Two recommendations made at the Annual Audit Health Check undertaken in June 2013.

2.6 A review of progress made to implement recommendations found:

- Eight recommendations have been implemented.
- One recommendation, priority two, relating to retrospective orders is still being taken forward. The audit sample included cases of retrospective orders that were picked up by the Audit Healthcheck highlighting the need for the school to continue to improve this control.
- A priority one recommendation regarding the use of the main school account for paying for refreshments was also noted during the audit. We were informed that issues regarding access to the school fund account had impacted on the implementation of the recommendation. Action has now been taken to rectify the issues with the school fund account.
- Progress is being made to implement a priority one recommendation relating to the process surrounding the collection and recording of income. The recommendation comprises four elements one of which relates to school trip income. We were unable to verify that the recommendation has been implemented because the School has not organised a school trip since the recommendation was made.
- The remaining priority one recommendation related to the need for the School to complete an inventory check. This recommendation was implemented however our audit identified further issues with the accuracy and completeness of the check. As a result an additional recommendation is raised within this report.

3. BROOKSIDE INFANT SCHOOL

Summary of Audit Findings

3.1 The Internal Audit review found:

- (i) Checks not completed to ensure that staff are suitably insured to use their car for work purposes;
- (ii) A lack of clarity regarding the meaning of financial authorisation levels recorded in the School's Finance Policy;
- (iii) HMRC checks on individuals providing a service have not been completed;
- (iv) A small number of personnel responsibilities such as recruitment and promotions are not included within the School's Finance Policy and Procedures document; and
- (v) Minor miscalculations on two timesheets.

Audit Opinion

3.2 The audit provided **Substantial Assurance** on the basis that whilst there is a basically sound system, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

3.3 The audit makes two medium recommendations which comprise:

- Driving checklists to be completed to ensure staff are appropriately insured to use their car for business purposes;
- Verification of individuals' self-employment status to be completed in advance of any services being provided;

and three low priority recommendations which comprise:

- Financial thresholds for cheque signatories to be clarified with the Governing Body;
- The Finance Policy and Procedures document to be updated with responsibilities surrounding recruitment and promotion of staff; and
- Action to be taken to resolve the errors identified on the timesheets.

3.4 All recommendations were agreed by the Head Teacher and are scheduled for completion by the end of April 2014.

Annual Audit Health Check Follow up

3.5 The Annual Audit Health Check undertaken by the LMS team in March 2013 made two priority one and seven priority two recommendations. A review of progress made in implementing the recommendations found that eight of the recommendations, comprising two priority one and six priority two recommendations, had been implemented at the time of the internal audit review.

3.6 In the remaining case, the recommendation related to the raising of orders on the system retrospectively. Internal audit also found instances of retrospective orders. Whilst this report does not raise a recommendation to duplicate that raised by the LMS team there is a need for the school to ensure that orders are raised in the finance system at the time the orders are placed with

suppliers. This will ensure that financial records accurately reflect expenditure committed.

4. CROWNFIELD INFANT SCHOOL

Summary of Audit Findings

4.1 The internal audit review found:

- A copy of the Governors skills audit documentation is not held on file at the school;
- Absence of documents to evidence that staff were informed that they are not to use their car for work purposes without appropriate insurance cover;
- The equipment on loan register does not include reference to the terms and conditions for the loan and does not facilitate a clear audit trail including certification by an independent witness that the item was returned;
- Regular checks are not undertaken to ensure that expiring CRBs/DBS checks are renewed in a timely manner;
- Staff with expired CRB/DBS checks were found;
- CRB/DBS checks on Governors is inconsistent;
- Due to recent staffing changes the bank mandate and Finance Policy and Procedures document is in need of updating. Additional staff changes due shortly after the audit review will require additional action to be taken;
- Orders are not being raised on the system in a manner which ensures funds are committed at the earliest opportunity;
- The petty cash account has not been reconciled and documentation to evidence the paid claims not available; and
- Payroll reports are not being passed to the Head Teacher for review / approval.

Audit Opinion

4.2 **Substantial Assurance** on the system of internal control operating at the time of audit is given. The definition of the 4 potential assurance levels is given in section 5 below.

4.3 The audit made one high priority recommendation which comprises:

- Driving checklists to be completed for all staff;
- five medium priority recommendations which comprise:
- Checks on the school's Single Central Record should be diarised to ensure CRBs/DBS checks that are about to expire are identified at the earliest opportunity;
 - CRB/DBS checks on those with existing, but expired checks should be completed as a matter of urgency.
 - The delegated authority and cheque signatories sections of the Finance Policy & Procedures document should be amended to reflect changes made to the bank mandate;
 - Orders should be raised on the system at the time the order is placed and in advance of the invoice being received in order to ensure funds are committed against the budget at the earliest opportunity;

- The petty cash account should be accurately reconciled including the retention of documentary evidence to support the payments already reimbursed from the petty cash fund;

and five low priority recommendations which comprise:

- A copy of the Governors skills audit should be retained on file by the school to assist in the identification of Governors' training needs and the recruitment of future Governors;
- The equipment on loan register should be amended to enable the recipient and the approver of the loan to evidence the loan at the time of issue and upon return. Reference to the terms and conditions upon which the item is being loaned, such as the Acceptable Use policy, should also be recorded;
- All Governors are subject to CRB/DBS checks as a matter of good practice. Whilst it is appreciated that not all Governors visit the school premises whilst pupils are present, it is possible that circumstances may change and visits during the school day may be necessary;
- Consideration should be given to reducing the value of the petty cash account or closing the account;
- Payroll reports should be passed to the Head Teacher for review and approval.

4.4 All eleven recommendations were agreed by the Head Teacher and have been scheduled for implementation by March 2014.

Annual Audit Health Check Follow up

4.5 The Annual Audit Health Check undertaken in February 2013 made five priority one, eight priority two and one priority three recommendations.

4.6 A review of progress made to implement the recommendations found:

- Eleven recommendations have been implemented, consisting of four priority one, six priority two and one priority three;
- One recommendation, priority two, regarding declarations of interest was in the progress at the time of the audit. The school were awaiting the return of completed declarations for three Governors;
- One recommendation, priority two, related to the need for the school to complete HMRC checks on individuals being paid for the provision of goods / services. During the audit it was noted that a payment to an individual made after the Audit Health Check was not completed. Whilst the school did not feel that the check was necessary in this instance, it is imperative that the school completes this check in all instances where payment is being made to an individual;
- In the remaining case, the school received a priority one recommendation that related to the payment of goods and services in advance of provision. The management response to the recommendation stated that this was a one off occurrence and would not be repeated. There is no way to evidence the implementation of this recommendation, although it is noted that this has not happened since.

5. DYCORTS SCHOOL

Summary of Audit Findings

5.1 The internal audit review found:

- The schools Emergency Plan had not reviewed or approved within the last year;
- Driving checks were being carried out by the Head Teacher, however no records were being maintained;
- The Schools Asset Management Plan had not been approved by the Governing Body;
- SIMS access within the Finance Policy did not match access noted on the system;
- The equipment on loan form is not designed to record the date on which items are returned;
- Orders were being raised retrospectively;
- A small number of personnel responsibilities, such as recruitment and promotions are not included within the schools Finance Policy and Procedures document; and

Audit Opinion

- 5.2 **Substantial Assurance** on the system of internal control operating at the time of audit is given. This reflects the fact that the system was basically sound, limitations were identified that may put some of the systems objectives at risk, and/or there was evidence that areas of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

5.3 The audit made three medium priority recommendations which comprise:

- The Emergency Plan should be reviewed and approved by the Governing Body annually;
- The Asset Management Plan should be reviewed and presented to the Governing Body for approval;
- The need for the Finance Policy and Procedures document to be updated with responsibilities surrounding recruitment and promotion of staff;

and four low recommendations which comprise:

- The standardised driving checklist to be used to keep a record of checks of relevant car documents;
- The Finance Policy should be amended to accurately reflect access to the SIMS system;
- The equipment on loan forms should be amended to include a return date;
- Orders should be raised on SIMS before invoices are received.

- 5.4 All eleven recommendations were agreed by the Head Teacher and have been scheduled for implementation by March 2014.

Annual Audit Health Check Follow up

- 5.5 The Annual Audit Health Check undertaken in February 2013 made two priority one, twelve priority two and one priority three recommendations. A

review of progress made to implement the recommendations found that thirteen recommendations, comprising two priority one and eleven priority two recommendations, had been implemented at the time of the audit.

- 5.6 We were informed that the school had experienced difficulties registering the school oyster card on the TfL website and the priority three recommendations remained outstanding as a result.
- 5.7 At the time of the audit review plans were under way to implement the priority two recommendations that required the school transfer its existing Excel inventory to the SIMS system. We were informed that the task is resource intensive and may take some time to complete. All elements of the inventory were reviewed and tested as part of this internal audit review. We found that the school's existing inventory was accurate and recorded sufficient detail.

Internal Audit Recommendation Follow up

- 5.8 One recommendation made in the 2011 internal audit report remained outstanding in 2013. The recommendation that the school applied for a corporate purchase card had not been progressed by the school, this has now been replaced by the charge card. The recommendation was made to reduce the number of orders raised in the SIMS system following receipt of an invoice. The recommendation is reiterated in this audit report.

6. ENGAYNE PRIMARY SCHOOL

Summary of Audit Findings

6.1 The internal audit review found:

- The School Improvement Plan did not contain a review date;
- The inventory records contained no serial numbers or locations;
- Lettings are not authorised by the Head Teacher;
- Valid insurance certificates and CRBs weren't available for lettings;
- A profit and loss was not completed for the most recent school trip; and
- A small number of personnel responsibilities, such as recruitment and promotions are not included within the schools Finance Policy and Procedures document.

Audit Opinion

6.2 **Substantial Assurance** on the system of internal control operating at the time of audit was given. This reflects the fact that the system was basically sound system, limitations were identified that may put some of the systems objectives at risk, and/or there was evidence that areas of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

6.3 The audit makes five medium recommendations which comprise: and

- The inventory records to contain serial numbers and locations of equipment;
- The hire of accommodation form to be authorised by the Head Teacher;
- Valid insurance and CRB documentation to be retained relating to lettings;
- A profit and loss to be completed relating to residential trips;
- The need for the Finance Policy and Procedures document to be updated with responsibilities surrounding recruitment and promotion of staff;

And one low priority recommendation which comprises:

- The School Improvement Plan updated to include date or month of update to ensure adequate version control;

6.4 All recommendations were agreed by the Head Teacher and are scheduled for completion by the end of December 2014.

Annual Audit Health Check Follow up

6.5 There was one priority one and eight priority two recommendations made at the Annual Audit Health Check undertaken in March 2013.

6.6 A review of progress made to implement recommendations found that eight of the recommendations, the priority one and seven priority two recommendations, had been implemented at the time of the audit.

6.7 In the remaining case, the recommendation related to the school applying for a Tesco clubcard to gain loyalty points. The school have inquired with Tesco

the possibility of a credit agreement, however this was not possible to pursue and therefore no further action will be taken regarding this recommendation.

7. HAROLD COURT PRIMARY SCHOOL

Summary of Audit Findings

7.1 The internal audit review found:

- The inventory policy was last reviewed by the Governing Body in 2011;
- The schools lettings policy was last reviewed in 2010; and
- A summary profit and loss account was not produced for the school residential trip.

Audit Opinion

7.2 **Full Assurance** on the system of internal control operating at the time of audit was given. This reflects the fact that there is a sound control environment in place to achieve the system objectives and that controls are being consistently applied.

Recommendations

7.3 The audit made two low priority recommendations which comprise:

- The need for the Governing Body to review and approve both the Inventory and the Lettings Policy; and
- The need for a profit and loss account to be completed for each residential school trip.

7.4 All recommendations were agreed by the Head Teacher and are scheduled for completion by the end of July 2014.

Annual Audit Health Check Follow up

7.5 There were seven priority two and recommendations made at the Annual Audit Health Check undertaken in January 2013.

7.6 A review of progress made to implement recommendations found that six of the recommendations had been implemented at the time of the audit.

7.7 In the remaining case, implementation of the recommendation could not be evidenced as the recommendation related to the need for the school to complete a waiver form when the relevant number of quotes cannot be obtained. An opportunity to demonstrate this recommendation has been implemented has not arisen since the Audit Health Check.

8. WHYBRIDGE JUNIOR SCHOOL

Summary of Audit Findings

8.1 The internal audit review found:

- The school's Finance Policy does not accurately reflect the current users with access to the SIMs Finance Module;
- Applications for lettings are not authorised by a representative on behalf of the school;
- Whilst segregation of duties in the approval of orders and invoices is in place, this is currently masked by the signature of two cheque signatories on all critical documents.; and
- The Finance Policy does not set out delegated responsibility to recruit full time employees.

Audit Opinion

8.2 Substantial Assurance on the system of internal control operating at the time of audit was given. This reflects the fact that the system was sound, however limitations were identified that may put some of the system's objectives at risk, and/or there was evidence that areas of non-compliance with some of the controls may put some of the system objectives at risk.

Recommendations

8.3 The audit made four low priority recommendations which comprise:

- Finance Policy to be updated with latest SIMS access;
- Application for Hire forms to include an authorising signature;
- Segregation of duties to be clearly evidenced; and
- Responsibility for employing permanent employees to be detailed within the Finance Policy.

8.4 All recommendations were agreed by the Head Teacher and are scheduled for completion by the end of January 2014.

Annual Audit Health Check Follow up

8.5 The Annual Audit Health Check undertaken in April 2013 made three priority one and twelve priority two recommendations.

8.6 A review of progress made to implement recommendations found:

- Thirteen recommendations had been implemented;
- One recommendation related to the need to raise orders on the system in advance of the invoice. At the time of the audit, instances of retrospective orders were identified. Internal audit has not raised this recommendation as the school has informed us that it requires to resolve this issue; and
- In the remaining case, the school received a recommendation made up of components relating to the inventory control process. The school has invested in an inventory monitoring system which is due to be implemented after the audit visit, at which point the outstanding elements of this recommendation will be implemented.

IMPLICATIONS AND RISKS

Financial implications and risks:

By maintaining an adequate audit service to serve the Council, management, Head Teachers and Governing Bodies 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 Head Teachers and Governing Bodies have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, Head Teachers and Governing Bodies are obligated to consider financial risks and costs associated with the implications of the recommendations. Head Teachers and Governing Bodies 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.

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

AUDIT COMMITTEE

19 February 2014

Subject Heading:	DRAFT INTERNAL AUDIT PLAN FOR 2014/15
Report Author and contact details:	Kate Brunning Internal Audit & Corporate Risk Manager Tel: 01708 - 433733 E-mail: kathleen.brunning@havering.gov.uk
Policy context:	To propose the 2014/15 Internal Audit Plan
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

The Internal Audit Service reports annually to the Audit Committee on its proposed Audit Plan in accordance with the Internal Audit Charter and the Audit Committee's Terms of Reference.

The purpose of the Internal Audit Plan is to:

- Provide independent and objective overall assurance to Members and senior management on the effectiveness of the London Borough of Havering's control environment.
- Identify the key risks facing the London Borough of Havering in the achievement of its objectives and determine the corresponding level of audit resources.

- Add value and support senior management in providing effective control and identifying opportunities for improving value for money.
- Support the Director of Resources in fulfilling obligations as the London Borough of Havering's nominated Section 151 Officer.
- Deliver an internal audit service that meets the requirements of the Accounts and Audit Regulations.

Appendix A details the draft risk based audit plan for the next financial year, which shows what audit work will be undertaken for the period together with the estimated number of audit days required.

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

RECOMMENDATIONS

- 1 To review the draft plan and provide comments in order that these may be considered as part of the compilation of the final plan.
- 2 To approve the plan on the basis of any agreed amendments arising during the meeting.

REPORT DETAIL

1. The Role and Objectives of Internal Audit

1.1 The Internal Audit Charter and Terms of Reference defines Internal Audit as,

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

1.2 The objectives for the Audit Service are:

- To understand the whole organisation, its needs and objectives.
- To add value and assist the organisation in achieving its objectives.
- To be forward looking, innovative and challenging.
- To help to shape the ethics and standards of the organisation.
- To ensure value for money is achieved in the use of public funds.

- To ensure the right resources are available to deliver the audit plan, recognising changes in capacity, experience, qualifications and specialisms.
- To share opportunities for joint working and seek to share best practice with auditors and examiners from other authorities and organisations, in particular the Council's External Auditor.
- To maintain strong and effective relationships with management.
- To report significant issues to the Audit Committee, in a timely fashion, to enable and support the effective completion of their responsibilities.

2. Developing the Internal Audit Plan 2014/15

- 2.1 The methodology used for developing the Annual Internal Audit Plan will be focused on the quantification of the risks associated with the London Borough of Havering's objectives in consultation with key officers. The draft plan has been circulated to Senior Management for comment.
- 2.2 Audit work covering governance will contribute towards our advice and assistance on the preparation of the Annual Governance Statement.
- 2.3 The Annual Internal Audit Plan is indicative and it may be that changes will be made during the year as the risk profile of the London Borough of Havering changes. This will be achieved through on-going review and amendment, in consultation with relevant officers.
- 2.4 The Audit Committee will be kept informed of progress against the Annual Audit Plan and give final approval to any significant changes during the year.

3. Summary Internal Audit Plan 2014/15

- 3.1 Appendix A shows the Annual Internal Audit Plan and provides a brief summary of each review.
- 3.2 The 2014/15 plan contains the types of audit which have been delivered in previous years, these comprise:
- **System and Compliance:** System audits are reviews of key financial, business and ICT systems and involve a full evaluation of the adequacy of controls and testing how they are operating in practice. Compliance audits focus on the testing element only and are designed to provide assurance that systems are working as intended. The work also includes review of grants, contracts and procurement and audits of casework management in adult and children's social care.
 - **Strategy:** To provide an assurance opinion on the Council's strategic approach to the management of core business processes.
 - **Business Unit:** To provide an assurance opinion on the adequacy and effectiveness of arrangements to ensure the achievement of business

plan objectives, specifically through the management of finance, people, performance and risk.

- Risk Based: To provide assurance on the arrangements in place to manage key business risks. These are the audits that focus on risks in service plans and the corporate risk register and are designed to provide management and members with assurance that appropriate steps are being taken.
- System and Compliance: To provide assurance to statutory officers and key stakeholders that key systems and processes are operating as intended. This remains critically important during a period of change and will include work on the core financial systems.

3.3. The 2014/15 plan also includes other assurance work as follows:

- Anti-Fraud and Compliance Programme: There will be on-going proactive testing of systems and processes to identify potential fraud and misappropriation, as well as potential non-compliance with policies and procedures.
- Schools: The audit provides assurance over governance and financial management in schools, to support Governing Bodies, the Local Authority and allow the Director of Resources to discharge his statutory obligations.
- Developing Systems: To provide early engagement on the development of new systems or processes and make recommendations to mitigate risks where appropriate. This applies not just to ICT systems but to new ways of working and the implementation of new structures and processes as part of budget delivery plans.
- Follow up Audits: The follow-up and reporting of recommendations issued in prior years.
- Advice and Guidance: Internal Audit provides on-going advice across the Council. Whether through attendance at working groups or responding to telephone enquiries this remains an area where early advice and support can help maintain a robust control environment.

3.4. This approach of using different types of audits and other work is considered the most effective way to deliver the vision for Internal Audit. The approximate split of total available auditor time across the plan will be as follows:

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs of both directly employed and externally provided services to carry out the agreed plan will be met from within the 2014/15 budget for the Audit Service. The 915 days of resource available are sufficient to review all the high risk areas

identified in the planning process as well as allowing the team to undertake a small percentage of probity type audits.

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

Risk	Mitigation factors
That the plan will not address the key risk areas within the council	<p>The plan has been prepared taking into account the council's risk registers. The auditable areas have been identified and subjected to a risk evaluation to determine if and when they should be reviewed.</p> <p>The plan has been formulated and assessed by the Internal Audit & Corporate Risk Manager using prescribed methodologies, including discussion with Heads of Service.</p> <p>The plan has been circulated to Senior Management for comment and will be reviewed periodically throughout the year with any required changes being reported to Audit Committee. Any changes necessitated by new legislation or changing financial circumstances will be reflected in the plan and advised to the Committee.</p>
That the plan does not provide assurance for the external auditor	<p>The plan ensures that key areas of the financial procedures which feed the financial statements are reviewed annually.</p> <p>There is regular liaison between the internal and external auditors during the year to ensure adequate assurance is provided.</p>
That the plan is not flexible enough to meet the needs of the council during the year	<p>There is a contingency within the year to allow for unforeseen systems based audit work and if necessary decisions may need to be made to replace one audit with another.</p> <p>As the level of fraud investigation work cannot be determined with any certainty the same practice will operate as in previous years in that should there be more fraud investigation work than was planned then the pro-active audits would be reduced and if there is not as much as anticipated then further pro-active audits would be undertaken.</p> <p>Should additional work be required above these two factors then resources may be seconded from the systems team or additional funding may need to be identified before work could commence.</p> <p>As indicated, there is a higher risk than normal of changing circumstances for the coming year, and this will therefore need to be managed accordingly.</p>
That there are not sufficient staffing	The structure of the team is appropriate to deliver the draft audit plan. Training needs are assessed at least

resources both in number and to the required skill level to carry out the work identified	<p>annually via the PDR process.</p> <p>If additional or specialised resources were required to deliver the plan these could be engaged within the allocated budget.</p> <p>Continuous training is provided to ensure that staff have sufficient skills to carry out their duties and deliver the audit plan and strategy.</p>
That there is insufficient understanding and coverage of other risks (not purely operational and strategic)	<p>Involvement with projects systems development and change.</p> <p>Reliability and integrity of management databases and information.</p> <p>Stewardship of financial and non financial assets.</p> <p>Reviews to ensure that the authority complies with new legislation.</p>
Not addressing risks in areas where there control deficiencies and weaknesses have been identified	<p>The audit planning process will review the significant issues on the Annual Governance Statement and ensure that relevant audits are included within the plan.</p> <p>Recommendations to address significant control weaknesses are reviewed in the following financial year to ensure that they have been fully implemented by agreed dates.</p>

Legal implications and risks:

The requirement for the Council to have an internal audit function is outlined in Section 151 of the Local Government Act 1972. More specific requirements are detailed in the Accounts and Audit (Amendment) (England) Regulations 2011 which state that a local authority shall undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practice

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None

APPENDIX A: DRAFT INTERNAL AUDIT PLAN 2014/15

DIRECTORATE	AUDIT TITLE	SCOPE	INDICATIVE BUDGET
CORPORATE			
CORPORATE	CAR POOL SCHEME AND STAFF CAR PARKING	REVIEW CONTROLS OVER PLANNED CAR POOLING SCHEME	20
		SUB-TOTAL	20
CULTURE, COMMUNITY & ECONOMIC DEVELOPMENT			
REGULATORY SERVICES	STREET TRADING LICENCING	STATUTORY AND LOCAL BYELAW COMPLIANCE, LICENCING AND INCOME	10
CULTURE AND LEISURE	MUSIC SCHOOL	INCOME GENERATION AND COLLECTION	15
REGENERATION	TOWN CENTRE DEVELOPMENT/REGENERATION	LOCAL TRANSPORT PLAN	20
CORPORATE POLICY AND COMMUNITY	CARBON REDUCTION SCHEME: VERIFICATION OF COSTS INCURRED	REVIEW REGISTRATION DETAILS, DOCUMENTED PROCEDURES, DATA IS SECURE AND ACCURATELY RECORDED. VERIFY INFORMATION CONTAINED IN THE FOOTPRINT REPORT AND ANNUAL REPORT IS ACCURATE AND EVIDENCE PACK IS COMPILED IN LINE WITH CRC SCHEME REQUIREMENTS.	15
REGULATORY SERVICES	PUBLIC PROTECTION	2 AREAS FROM: FOOD SAFETY, TRADING STANDARDS, HEALTH AND SAFETY AT WORK, ANIMAL HEALTH, POLLUTION CONTROL AND GENERAL ENVIRONMENTAL HEALTH SERVICES TO RESIDENTS AND VISITORS	20
STREET CARE	WASTE CONTRACT MANAGEMENT	REVIEW OF NEW WASTE CONTRACT, TO PROVIDE ASSURANCE ON THE MECHANISMS IN PLACE TO MONITOR CONTRACT COMPLIANCE/DELIVERY AND SIGN OFF OF PAYMENTS	20
		SUB-TOTAL	100
RESOURCES			

DIRECTORATE	AUDIT TITLE	SCOPE	INDICATIVE BUDGET
HR	IMMIGRATION, ASYLUM AND NATIONALITY ACT	PRE-EMPLOYMENT IDENTIFY VERIFICATION AND MAINTENANCE OF INFO SUFFICIENT TO MET REQUIEMENTS OF ACT	15
HR	WORKFORCE PLANNING	CORPORATE WORK	20
HR	EMPLOYMENT STATUS REVIEW	HMRC REGULATION COMPLIANCE	15
HR	LONG TERM SICKNESS	COMPLIANCE WITH LONG TERM SICKNESS POLICY INCLUDING TESTING PRIME SOURCES	10
PROPERTY	ASSET MANAGEMENT STRATEGY	A REVIEW OF ASSET PLANNING, INCLUDING STOCK CONDITION SUREVYS AND PROPERTY INSPECTIONS AND THE IMPLEMENTATION OF THE OFFICE ACCOMMODATION STRATEGY.	15
EXCHEQUER	BUSINESS RATES / NDR	COMPREHENSIVE SYSTEMS REVIEW TO BE DRIVEN BY FINDINGS OF 2013/14 AUDIT	15
EXCHEQUER	COUNCIL TAX	ACCOUNT MANAGEMENT, BILLING, DEBT RECOVERY AND BAILIFFS	10
EXCHEQUER	HOUSING BENEFIT AND COUNCIL TAX SUPPORT	BENEFITS PROCESSING, PAYMENT OF BENEFITS, QUALITY CHECKING, PROCESSES FOR IMPLEMENTING LEGISLATIVE CHANGES REGARDING UNDER-OCCUPANCY	10
FINANCE/ PROCUREMENT	APPROVED SUPPLIER LIST AND AMENDMENTS TO SUPPLIERS' FINANCIAL INFORMATION	VERIFICATION OF SUPPLIERS' INFORMATION BEFORE INCLUSION IN THE APPROVED LIST AND CHANGES TO DATA	10
FINANCE	VAT AND CONSTRUCTION INDUSTRY SCHEME (CIS)	HMRC COMPLIANCE	15
FINANCE	ACCOUNTS PAYABLE (POST ONE ORACLE IMPLEMENTATION) Q1	ORDER AND INVOICE PROCESS PAYMENTS PROCESS, CREDITOR SYSTEM OUTPUT, IT BASED TESTING (CAATS) AND	5

DIRECTORATE	AUDIT TITLE	SCOPE	INDICATIVE BUDGET
		REPORTING OF TRANSACTIONS AGAINST CONTROLS	
FINANCE	ACCOUNTS RECEIVABLE (POST ONE ORACLE IMPLEMENTATION) Q1	RAISING SALES ORDERS, BILLING PROCESSES, DEBT COLLECTION AND RECOVERY, ACCOUNTING FOR DEBTORS, IT BASED TESTING (CAATS) AND REPORTING OF TRANSACTIONS AGAINST CONTROLS	5
FINANCE	PAYROLL (POST ONE ORACLE IMPLEMENTATION) Q1	STARTERS AND LEAVERS, AMENDMENTS TO PAYROLL, PROCESSING PAYROLL, COUNCIL'S APPROACH TO GROSSING UP; TO SEVERANCE PAYMENTS AND OTHER ASSUMPTIONS REGARDING TAXABLE BENEFITS	5
FINANCE	PENSIONS (POST ONE ORACLE IMPLEMENTATION) Q1	CORRECT AND VALID ENTRIES ARE PROCESSED TO THE PENSION FUNDS ADMINISTERED BY THE COUNCIL	5
FINANCE	BUDGETARY CONTROL (POST ONE ORACLE IMPLEMENTATION) Q1	BUDGET SETTING, BUDGET MONITORING, MANAGEMENT AND MONITORING OF EFFICIENCY SAVINGS	5
FINANCE	MAIN ACCOUNTING SYSTEM (POST ONE ORACLE IMPLEMENTATION) Q1	Q4 KEY FINANCIAL SYSTEMS REVIEW TO PROVIDE ASSURANCE TO EXTERNAL AUDIT	5
FINANCE	ACCOUNTS PAYABLE (POST 1ORACLE IMPLEMENTATION)	Q4 KEY FINANCIAL SYSTEMS REVIEW TO PROVIDE ASSURANCE TO EXTERNAL AUDIT	10
FINANCE	ACCOUNTS RECEIVABLE (POST 1ORACLE IMPLEMENTATION)	Q4 KEY FINANCIAL SYSTEMS REVIEW TO PROVIDE ASSURANCE TO EXTERNAL AUDIT	10
FINANCE	PAYROLL (POST 1ORACLE IMPLEMENTATION)	Q4 KEY FINANCIAL SYSTEMS REVIEW TO PROVIDE ASSURANCE TO EXTERNAL AUDIT	10

DIRECTORATE	AUDIT TITLE	SCOPE	INDICATIVE BUDGET
FINANCE	PENSIONS (POST ONE ORACLE IMPLEMENTATION) Q1	TEACHERS' PENSION SCHEME ADMINISTERED BY EDUCATION HR	10
FINANCE	BUDGETARY CONTROL (POST 1ORACLE IMPLEMENTATION)	Q4 KEY FINANCIAL SYSTEMS REVIEW TO PROVIDE ASSURANCE TO EXTERNAL AUDIT	10
FINANCE	MAIN ACCOUNTING SYSTEM (POST 1ORACLE IMPLEMENTATION)	KEY CONTROL ACCOUNT RECONCILIATIONS, INPUT AND OUTPUT CONTROLS, RECONCILIATION OF BANK ACCOUNTS, INTRO AND SET UP OF NEW FINANCIAL CODES, FEEDER SYSTEMS., JOURNAL ENTRIES, VIREMENTS, OPENING BALANCES B/F CORRECTLY AND TIMELY	10
FINANCE	TREASURY MANAGEMENT	CASH FLOW FORECASTING, INVESTMENT MANAGEMENT AND REPORTING	8
LEGAL	TITLE DEED REGISTER	MATCH PROPERTY REGISTER TO TITLE DEED REGISTER AND IDENTIFY WHERE TITLE DEEDS ARE HELD	10
		SUB-TOTAL	243
CHILDREN, ADULTS AND HOUSING			
HOUSING	GAS SAFETY REGULATIONS (TENANTS AND LEASEHOLDERS)	PROCEDURES TO ENSURE ALL TENANTED AND LEASEHOLD PROPERTIES RECEIVE AN ANNUAL GAS SAFETY CHECK	15
HOUSING	SERVICE CHARGES AND SERVICE CHARGE CONTRIBUTIONS TO MAJOR WORK	PROCEDURES FOR IDENTIFYING SERVICE CHARGES, BILLING FOR TENANTS AND LEASEHOLDERS. PROCEDURES FOR BILLING LEASEHOLDERS	15
HOUSING	DEVELOPMENT - SPECIAL PURPOSE COMPANY TO DELIVER HOUSING	DEVELOPMENT OF NEW BUILD PROPERTIES	30

DIRECTORATE	AUDIT TITLE	SCOPE	INDICATIVE BUDGET
HOUSING	RESPONSIVE MAINTENANCE	PROVIDE ASSURANCE ON THE MECHANISMS IN PLACE TO MONITOR CONTRACT COMPLIANCE/DELIVERY AND SIGN OFF OF PAYMENTS	15
CHILDREN	CHILDREN & FAMILIES BILL	REVIEW OF ARRANGEMENTS TO ENSURE COMPLIANCE WITH CHILDREN & FAMILIES BILL	15
CHILDREN	OUT OF AREA PLACEMENTS	COMMISSIONING OF OUT OF BOROUGH RESIDENTIAL CARE AND KINSHIP PLACEMENTS	15
ADULTS	ADULT SAFEGUARDING	SAFEGUARDING INCLUDING MENTAL CAPACITY AND DEPRIVATION OF LIBERTIES	20
ADULTS	ADULT COMMISSIONING	PAYMENTS TO 3RD PARTIES	20
ADULTS	CONTINUING CARE	CARE ASSESSMENTS LEAD TO THE IDENTIFICATION OF CARE NEEDS TO BE FUNDED BY DOH	20
LEARNING AND ACHIEVEMENT	SEN	PLANNING FOR IMPLEMENTATION OF CHILDREN & FAMILIES BILL	15
LEARNING AND ACHIEVEMENT	PUPIL PLACE PLANNING	ARRANGEMENTS TO PLAN FOR INCREASED PUPIL NUMBERS. TO INCLUDE A REVIEW OF: THE ROBUSTNESS OF PUPIL NUMBER PROJECTIONS; PLANS TO CREATE ADDITIONAL PLACES; MANAGEMENT OF SCHOOL CONSTRUCTION AND EXPANSION PROGRAMME ; MAINTENANCE OF SCHOOLS TO PREVENT SCHOOL CLOSURES.	15
LEARNING AND ACHIEVEMENT	PLANNING FOR FREE SCHOOL MEALS FOR ALL RECEPTION, YR1 AND YR2 PUPILS	NEW GOVERNMENT INITIATIVE PLANNED FOR IMPLEMENTATION SEPTEMBER 2014	15
LEARNING AND ACHIEVEMENT	PARKLANDS INFANT	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4

DIRECTORATE	AUDIT TITLE	SCOPE	INDICATIVE BUDGET
LEARNING AND ACHIEVEMENT	ARDLEIGH GREEN INFANT	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	ARDLEIGH GREEN JUNIOR	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	BRADY PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	BROOKSIDE JUNIOR	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	CORBETS TEY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	CROWLANDS PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	ELM PARK PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	HILLDENE PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	HYLANDS PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	LA SALETTE RC PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	NELMES PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	PARKLANDS JUNIOR	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	RAINHAM VILLAGE PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A	4

DIRECTORATE	AUDIT TITLE	SCOPE	INDICATIVE BUDGET
		TRIENNIAL REVIEW	
LEARNING AND ACHIEVEMENT	SCARGILL JUNIOR	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	SCOTTS PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	ST JOSEPHS RC PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	ST PATRICKS RC PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	ST PETERS RC PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	ST URSULAS RC INFANT	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	SUTTONS PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	THE JAMES OGLETHORPE PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	THE RJ MITCHELL PRIMARY	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	WHYBRIDGE INFANT	REVIEW FINANCE AND GOVERNANCE ARRANGEMENTS IN SCHOOLS VIA A TRIENNIAL REVIEW	4
LEARNING AND ACHIEVEMENT	SCHOOL SUMMARY FINDINGS	ANALYSIS AND REPORTING SCHOOL MANAGEMENT	8
		SUB-TOTAL	316
PUBLIC HEALTH	TO BE DETERMINED	GRANT ASSURANCE AND CONTRACT MANAGEMENT	20

DIRECTORATE	AUDIT TITLE	SCOPE	INDICATIVE BUDGET
		SUB-TOTAL	
ITC AUDITS	BACS		15
	HOUSING NORTHGATE OHMS SYSTEM	REVIEW INFRASTRUCTURE, INTERFACES WITH COUNCIL SYSTEMS AND THE ADEQUACY OF ASSOCIATED DOCUMENTATION.	15
	ON LINE PAYMENTS (PARIS) AND PAYMENT CARD INDUSTRY (PCI) SCHEME COMPLIANCE	ENSURE CURRENT PROCESSES FOR OBTAINING ELECTRONIC PAYMENTS (NON REVS, BENS/PARKING) ARE COMPLIANT WITH PCI REQUIREMENTS	15
	DATA HANDLING		20
	PLANNING APPLICATION MANAGEMENT SYSTEM	INPUT, PROCESSING AND OUTPUT CONTROLS ETC	20
	FOLLOW UPS		25
		SUB-TOTAL	110
COUNCIL WIDE	GRANT SIGN OFF/CERTIFICATION	PROVISION OF ASSURANCE TO GRANT MAKING ORGANISATONS	20
COUNCIL WIDE	FOLLOW UP OF PREVIOUS AUDITS WITH LIMITED ASSURANCE	BUDGET FOR 10 @ 3 DAYS EACH	30
COUNCIL WIDE	FOLLOW UP OF PREVIOUS AUDIT RECOMMENDATIONS		15
		SUB-TOTAL	65
AUDIT MANAGEMENT AND CONTINGENCIES			
	ANNUAL GOVERNANCE STATEMENT		15
	CONTINGENCY - SPECIAL REVIEWS	CORPORATE BRAIN - DATA INTEGRITY, RELEVANCE, ACCURACY	50
	ADVICE TO DEPARTMENTS		40
	AUDIT COMMITTEE		20
	EXTERNAL AUDIT LIAISON		4

DIRECTORATE	AUDIT TITLE	SCOPE	INDICATIVE BUDGET
	AUDIT MANAGEMENT	PUBLIC SECTOR INTERNAL AUDIT STANDARD	22
		SUB-TOTAL	151
	PLANNED ACTIVITY:	TOTAL NUMBER OF AUDIT DAYS	1025

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AUDIT COMMITTEE

19 February 2014

Subject Heading:

Fraud Progress Report
1st October to 31st December 2013

Report Author and contact details:

Kate Brunning: Internal Audit & Corporate
Risk Manager
ext: 3733
email: kathleen.brunning@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:

This report details information relating to fraud and special investigations.

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 of the Internal Audit Corporate Fraud Team and the Benefit Investigations Team from 1st October to 31st December 2013.

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 to the cases highlighted or the performance of the respective teams.

REPORT DETAILS

1. CORPORATE FRAUD TEAM: UPDATE OCTOBER TO DECEMBER 2013

1.1 Delivery of the Anti-Fraud and Corruption Strategy

- 1.1.1 Work has been delivered to further develop a fraud aware workforce through an on-going programme of training. During Quarter 3, training was provided to Adult Services Commissioning Team staff. The training delivered related to direct payments and the importance of internal checks and controls.
- 1.1.2 The Corporate Fraud team have also put in place a fraud and corruption e.learning programme that is provided by Meritec. 16 employees from the Children, Adults and Housing, Public Health and Resources departments completed the fraud and corruption e.learning training programme during Quarter 3.
- 1.1.3 The corporate fraud team also works to raise the Authority's awareness of the risk of fraud and appropriate responses to fraud through the on-going provision of advice and assistance to Directors and Heads of Service.
- 1.1.4 The corporate fraud team also participates in the learning and sharing of best practice through the National Anti-Fraud Network and actively works with neighbouring boroughs to share learning and appropriate data.

1.2 Proactive Fraud Investigations

- 1.2.1 The Corporate Fraud Team's proactive fraud work comprises three elements:
- A programme of proactive fraud audit investigations;
 - Co-ordinating the Authority's investigation of the National Fraud Initiative (NFI) data; and
 - Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.
- 1.2.2 The proactive work plan for 2013/14 is shown in the table in Appendix A. During Quarter 3 progress was made in three proactive investigations: staff expenses, the reemployment of staff previously made redundant or dismissed, and grants made by the Authority.
- 1.2.3 The team's data matching work for the National Fraud Initiative (NFI) is on-going and it is anticipated that the results will be presented to the April 2014 Audit Committee.

1.3 Reactive Fraud Cases: October to December 2013

1.3.1 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed.

Caseload Quarter 3 2013/14						
Team	Cases at start of period	Referrals received	Referrals rejected/ overloaded	Fraud not Proven Cases	Successful Cases	Cases at end of period
Corporate	18	14	0	9	7	16

1.3.2 The table below provides information on the sources of fraud referrals to the Corporate Fraud team.

Source of Referrals & Fraud Reports Quarter 3 2013/14	
Number of Referrals/ Type	IA Fraud Reports Qtr 3
Anonymous Whistleblower	3
External Organisations / Members of the Public	1
Internal Departments	10
Total	14

1.3.3 The table below shows the number and categories of potential Corporate Fraud cases reported in the Quarter 3 period and the number of cases open at the end of the period.

Reports by Category		
Potential Fraud	New Cases Qtr 3	Current Cases end of Qtr 3
PC – Misuse and Abuse	4	1
Breach of Code of Conduct	1	1
Breach of Council Procedures	8	6
Misuse of Council Time	1	1
Direct Payments	3	5
Safeguarding	1	0
Overpayment of Pension	0	0
Security	0	1
Theft	0	1
Total	17	16

1.3.4 The table below shows the case outcomes for the Internal Audit Corporate Fraud Team from October to December.

Case Outcomes	
Outcome	Qtr 3
Management Action Plan	6
Resigned	0
Disciplinary	1
Dismissed	1
No case to answer	8
Total	16

1.3.5 The forecast outturn for the team in 2013/14 is within the allocated budget.

1.4 Savings and Losses

1.4.1 The investigations carried out by the Corporate Fraud team provide the Council with value for money through:

- The identification of monies lost through fraud and the recovery of all or part of these sums; and
- The identification of potential losses through fraud in cases where the loss was prevented.

1.4.2 The table in Appendix B shows the savings and losses identified during 2013/14 up until the end of Quarter 3; 1 April to 31 December 2013.

1.5 Key Performance Indicators

1.5.1 Recipients of audit reports are requested to complete a post-audit satisfaction survey on completion of an audit and the issue of a final report. The survey enables report recipients to score the following elements of the audit process using a score of 1, very poor, to 5, very good:

- Audit Planning
- Quality of draft report
- Quality of final report
- Communication
- The auditor.

1.5.2 Eight completed surveys for investigations carried out by the corporate fraud team were returned during the period October to December 2013. The results received (shown in the table below) indicate a high degree of satisfaction with the audit process.

Score Received (max 25)	No. of Audits
25	2
24	1
23	1
22	1
21	2
20	1

1.5.3 Officers completing satisfaction surveys are also able to record comments and we are pleased to report that during the period we received a number of positive responses including, 'the auditors was extremely helpful, efficient and thorough' and, 'helpful and very supportive at all times.'

2. BENEFITS AND HOUSING TENANCY INVESTIGATIONS UPDATE OCTOBER TO DECEMBER 2013

2.1.1 The Investigation Team were shortlisted for a national Fighting Fraud Award in December which recognises the efforts of those in the public sector who have done most to combat and prevent fraud. The team was among the final three in the Collaboration category for working with the police Safer Neighbourhoods Teams and uncovering benefit fraud in excess of £2million.

2.1.2 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed.

Caseload Quarter 3 2013/14						
Team	Cases At start of period	Referrals received	Referrals rejected/ overloaded	Cases of Fraud not Proven	Successful Cases	Cases at end of period
HB & CTS	442	181	50	71	31	471
HT	79	22	2	18	8	73
TOTAL	521	203	52	89	39	544

2.1.3 The table below provides information on the sources of fraud referrals made to the Housing Benefit, Council Tax and Housing Tenancy fraud sections during the period.

Source of Referrals & Fraud Reports Quarter 3 2013/14			
Type and Number of Referrals	HB/CTS Referrals	HT Referrals	Total
Anonymous	33	-	33
External Organisations / Members of the Public	5	6	11
Internal Departments / Whistleblowers	62	4	66
Social Landlords (inc HiH)	23	10	33
Data Matching / Proactive initiative	58	2	60
Total	181	22	203

2.1.4 The table below shows the categories of the potential Housing Benefit and Council Tax Benefit fraud referrals in the period.

Referrals by Category	
Potential Fraud	Quarter 3 13/14
Capital	63
Income from Other Sources	10
Living Together	32
Non-Dependant	2
Non-Resident/vacated	19
Working	22
Non Commercial Tenancy	1
Contrived	5
Tenancy Fraud	9
Other	18
Total	181

2.1.5 The table below shows the categories of the potential Housing Fraud referrals in the period.

Referrals by Category	
Potential Fraud	Qtr 3 13/14
Subletting	7
Not main/principal home	12
Fraudulent RTB	-
Fraudulent Housing Register Application	-
Other	3
Total	22

2.1.6 The table below shows the current benefit caseload by category.

Current Cases by Category	
Potential Fraud	As at end of December 2013
Capital	73
Contrived Tenancy	13
Income from Other Sources	60
Living Together	134
Non-Dependant	17
Non-Resident/vacated	62
Other welfare benefits	1
Working	53
Non Commercial Tenancy	6
Other	3
Single Person Discount	8
Tenancy Fraud	41
Total	471

2.1.7 The table below summarises the number and types of successful outcomes for cases completed by the benefits fraud team during the period.

Successful Outcomes			
Sanction/ Offence Type	Administrative Penalties	Cautions	Prosecutions
Capital	1	-	-
Working & Claiming	-	-	1
Living Together	-	2	1
Non Residence	1	1	1
Contrived Tenancy	2	-	-
Other Income	4	12	-
Total	8	15	3

2.1.8 The case outcomes for the Housing investigations from October to December 2013 are detailed in table below.

Successful Outcomes	
(Note: Cases may have multiple outcomes)	
Outcome Type	Qtr3 13-14
Tenancy Relinquished voluntarily (keys handed in)	6
Property recovered via court action	2
RTB stopped	-
Housing Register application withdrawn	-
Prosecution	-
Total	8

2.2 Successful Benefit and Housing Cases

Details of three successful benefit prosecution cases are provided below.

2.2.1 A referral was received stating that Mr J was no longer resident at the property where he was claiming Housing and Council Tax Benefit. Enquiries established that Mr J had vacated the property and continued to claim benefit in excess of £7,000. Letters were sent to Mr J's current address but he failed to respond to requests to attend interview. A prosecution file was prepared and Mr J was duly summoned to Court. He then made contact with the Investigating Officer and an interview took place. Mr J stated that he had been in the property the whole time and claimed that the Letting Agents were dishonest.

At court Mr J pleaded not guilty but we were able to use evidence from a Council Planning Officer who had visited the property on occasions during Mr J's residency who could confirm that the property had been undergoing renovation and was empty. Mr J was found guilty and was ordered to carry out 60 hours of unpaid work and pay £300 costs.

2.2.2 An investigation established that Miss B, claiming benefit as a lone parent, was living with her partner, the father of her children. The partner had provided his former employers with Miss B's claim address and named her as his next of kin. However, his current employer held his mother's address. A warrant was obtained to search Miss B's property and Investigation Officers attended this with the Police. It was apparent at the search that the partner had now left the property and the couple had split. Both parties were interviewed and denied the allegation. However the strength of the evidence verified that the couple had been living together for a lengthy retrospective period and the matter was prosecuted. Miss B pleaded guilty to the offence at Court and received a suspended 25 week custodial sentence and ordered to carry out 150 hours unpaid work.

2.2.3 Mrs H was in receipt of disability benefit and Housing Benefits. An anonymous referral stated that she was working and also had a lodger. An investigation established that she was working in a solicitor's office.

Mrs H was interviewed and stated that she thought that she was allowed to carry out the work. She also denied having the lodger. Although the DWP allowed the work as far as her disability benefit was concerned, Mrs H had failed to declare her true situation to the Local Authority, which resulted in a substantial overpayment of Housing and Council Tax benefit of £19,700. The offence was prosecuted and Mrs H pleaded guilty. She received a suspended 12 weeks custodial sentence and a 3 month curfew. She was also ordered to pay £840 costs with an £80 surcharge.

Details of three successful housing tenancy cases are detailed below.

- 2.2.4 Following an anonymous allegation of non-residence, an investigation established that tenant Mrs K was not living in her Council flat but had resided in Ireland since 2007. During this time Mrs K has continued to claim Housing and Council Tax benefit and Income Support. A Notice To Quit and invitations to attend interview were sent to her address in Ireland. Key fobs to her Council flat were checked and shown to be in use occasionally and photographs of the users obtained. The identity of one of the users was obtained from a relative of the tenant. This person was interviewed and admitted collecting mail on the tenant's behalf. In the meantime, the property had to be forcibly opened because of a water leak into the flat below. The property was evidently empty and the locks changed. A prosecution file is being prepared for the benefit fraud which will date back to 2007.
- 2.2.5 Information was received that Mr H did not reside at his Council property. Preliminary checks indicated that other family members were residing at the address. Mr H advised that he was still resident and that his son did move in temporarily. Enquiries continued and credit checks linked Mr H to other properties and a possible partner, Mrs M. Relatives of Mrs M also appeared to be linked to the Council property. Further investigations established that Mr H had purchased another property with his partner using a different name. Mr H was invited to attend an interview under caution and eventually attended. He denied that he lived with his partner and after the interview officers went back to the Council property with Mr H to inspect it. The property was decorated in a very feminine style and there were very little items belonging to Mr H although he still maintained that he lived there. Investigators left and waited outside. They saw Mr H leave the property shortly afterwards. Mr H was served with a Notice To Quit and he handed back the keys voluntarily.
- 2.2.6 On 26 November two Council properties, one in Atherton House and the other in Petersfield Close, were repossessed following possession orders obtained from the Court. These investigations were two of the original cases opened when the team began investigating tenancy fraud two years previously. The properties were historically problematic. Neighbours had complained that the properties were not occupied by the legal residents whilst the tenants insisted at preliminary hearings that they did live in the properties. Protracted enquiries took place that included visits to both properties and neighbours, taking photographs and liaison with police and tenancy officers. Both tenants failed to contest the repossession orders and both properties were repossessed.

2.3 HB/CTB/CTS Fraud Overpayments

2.3.1 The value of fraudulent housing benefit overpayments generated by the team for the third quarter of 2013/14 and the year to date are contained in table below.

Fraudulent Overpayment		
Type	Qtr 3	Year to date
Rent Rebate	£55,843	£347,067
Rent Allowance	£73,649	£364,694
Council Tax Support	£16,273	£106,743
Total	£145,765	£818,504

2.4 Financial Investigations

On the 26 November 2013, Mrs B was ordered to pay Havering Council £180,359 following a Proceeds of Crime hearing at Chelmsford Crown Court. Mrs B had been found guilty of two counts of benefit fraud in July 2011 arising from failing to declare her income, capital and relationship to her landlord. She defrauded the Council of £37,307.42. The case was passed over for a Proceeds of Crime investigation after the officer identified cash in excess of £400,000 going through Mrs B's numerous accounts. The amount that Mrs B has been ordered to pay is the estimated value of a property that she owns. She has six months to pay the Council or faces two years in prison.

On 18 December the Financial Investigator gave a presentation on Proceeds of Crime to the PASC frontline service to provide awareness of this relatively new area of investigation. The presentation was well received by the staff who attended and feedback provided demonstrates that attendees found the training interesting and informative.

Members of the Investigation team will be attending a Financial Intelligence Officer course in January 2014, having passed the initial exam. This accreditation will allow them to make further in-depth financial enquiries in their everyday role.

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 benefits to

which claimants are not entitled to, 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 implications from noting the contents of this Report.

Human Resources implications and risks:

There are no HR implications from noting the contents of this Report.

Equalities implications and risks:

There are no Equalities implications from noting the contents of this Report.

BACKGROUND PAPERS

None.

Appendix A: Corporate Fraud Proactive Audit Plan 2013/14

Description	Risks	Plan days	Qtr 3 Status
Expenses	This includes, but is not limited to: false declarations of mileage; false documentation to support allowances; breaches of authorisation and payment procedures	30	Draft Report Issued
Redundancy - Agency - reemployment	Dual analysis will be undertaken to ensure that the Council has complied with its current redundancy policy and to ensure that the Council's reputation is not at risk via re-employment with Beeline of officers previously dismissed.	0	In progress
Grants	Identification of grants provided to charity organisations to inspect and confirm that supporting documentation for expenditure is valid and used for the purpose intended in the original application or as stipulated by the Council on approval of the grant. Review formal acceptance documentation and payment and bank records to ensure payments are accounted for.	20	In progress
Home Ownership	Review entitlement to Right To Buy and records completed as per procedures	10	Began Oct 2013
Direct payments	Personalised budgets for the purchase of care; failing to declare capital and assets; care provision by contractors or a non-governmental organisation which are not for the benefit of the person being cared for.	10	Draft Report issued
Payment of Election expenses	Review appointment of staff, entitlement, and payment of fees/arrangements including postal votes and counting. Completion of claims and receipt.	10	Scheduled for January 2014
Learning & Physical Disability Residents	Review bank accounts, building society accounts, income and expenditure records and receipts.	20	Scheduled for Jan/Feb 2014
Internet Abuse - Review of blocked sites	Bluecoat reporting to ascertain if employees are attempting to access blocked internet sites.	10	Scheduled for March 2014
	TOTAL	120	

Appendix B: Savings, Losses and Potential Recoveries 2013/14

Case details	Qtr reported	Savings Identified	Losses Identified	Management to recover	Details
Theft from Council premises	Qtr 2		£1,272		Reported to Police. Risk assessment completed and procedures revised.
Mismanagement of contracts	Qtr 1		£2,250		Failure to recover works from Leaseholders by applying the maximum recharge threshold.
Mismanagement of contracts	Qtr 1			£59,173	Final invoice overcharge.
Mismanagement of contracts	Qtr 1		£13,800		HIH asbestos removal contracts. Unable to verify asbestos removal. Company now in administration.
NFI 2010/11	Qtr 1			£11,801	SPD to over 18s recovery
NFI 2010/11	Qtr 1			£94,461	SPD to Electoral Roll recovery
TOTAL		£0	£3,522	£179,235	

Key:

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

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

Management to recover: These are the actual sums of money potentially lost through fraud which management can take action to recover.

NFI: National Fraud Initiative

SPD: Single Person Discount

AUDIT COMMITTEE

19 February 2014

Subject Heading:

Draft Anti-Fraud Work Plan
2014/15

Report Author and contact details:

Kate Brunning: Internal Audit & Corporate
Risk Manager
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Policy context:

To advise the Committee of the planned
work of the Council's Corporate Fraud team

Financial summary:

This report details information on the
Council's draft Anti-Fraud plan designed to
minimise loss through fraud

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 planned work of the Internal Audit
Corporate Fraud Team for 2014/15.

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 with regards to the planned work of the Corporate Fraud team.

REPORT DETAILS

DRAFT ANTI-FRAUD WORK PLAN 2014/15

1. INTRODUCTION

- 1.1 The National Fraud Authority (NFA) produces the Annual Fraud Indicator (AFI) which provides an overview of the cost of fraud broken down by sector. The AFI for 2013 identified more than £207 million of losses from fraud across local government. The NFA has also published Fighting Fraud Locally: The Local Government Fraud Strategy, which is intended to help councils tackle and prevent these fraud losses and provides a blueprint to better equip local authorities to fight a range of frauds.
- 1.2 The strategy places a greater emphasis on preventing fraud from occurring in the first place, as well as the employment of resources and mechanisms for detecting occurrences of fraud. This is a shift from the traditional approach of tackling fraud that typically focused on reactive methods such as conducting investigations. The strategy emphasises the cost effectiveness and positive outcomes from preventing losses through fraud from occurring in the first place. It also recognises that an effective investigative resource is also an essential part of the strategy.
- 1.3 The draft 2014/15 Anti-Fraud work (Appendix A) plan reflects the range of best practice principles for effectively tackling fraud within London Borough of Havering. The range of activities are categorised as:
- Creating an Anti-Fraud Culture
 - Deterring Fraud
 - Preventing Fraud
 - Detecting Fraud
 - Investigations
 - Sanctions
 - Redress
- 1.4 This plan is a corporate fraud plan and therefore does not include coverage for Housing Benefit Fraud, Council Tax Support Fraud or Housing Tenancy Fraud investigation. The introduction of the Single Fraud Initiative makes the future remit of these areas uncertain.

- 1.5 This plan focuses on the type of work to be conducted during financial year 2014-15 and informs a proactive detection work programme across the Council.
- 1.6 Outlined below are some areas which will form part of this programme over the coming three year cycle. These areas will be subject to on-going review, with changes made as required on the identification of emerging fraud risks or areas identified through proactive work undertaken, or reactive investigations root cause analysis work:
- Fraud within Procurement
 - Fraud within the Payroll System
 - Grant Fraud / Funding of Voluntary Organisations
 - Blue Badge Fraud
 - Education & Schools (including admissions)
 - Public Health Services.
- 1.7 This plan has been constructed with consideration of objectives and incorporating best practice devised from:
- National Fraud Authority, 'Fighting Fraud Locally: The Local Government Fraud Strategy' (2012)
 - Havering's Anti-fraud Strategy
 - National Fraud Authority, 'Tackling fraud and error across the public sector 2011' document
 - Audit Commission, 'Protecting the Public Purse 2013' document
 - CIPFA Red Book 2, "Managing the Risk of Fraud" best practice document
 - Intelligence gained from previous and current work of the Corporate Fraud team that includes social care direct payments)
 - Liaison with Internal Audit relating to their work.

Appendix A: DRAFT ANTI-FRAUD WORK PLAN 2014/15

1.	Scope: Creating a Counter-fraud Culture
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	OUTCOME	PLANNED ACTIVITY
1.1	The Council has a clear programme of work designed to create an anti-fraud and corruption and zero tolerance culture.	Take part in the Induction programme for new staff and deliver presentations on anti-fraud work to relevant staff groups.
1.2	Arrangements are in place to ensure that individuals benefit from successful anti-fraud work.	Email an introduction or reminder to all staff with the details of anti-fraud staff, their role and contact details. Use resulting communications to enhance rapport with staff groups.
1.3		Review information distributed to staff during induction process, including slides and handout.
1.4		A programme of Fraud Awareness training to be delivered to staff at all levels with the Council (eg. Councillors/Committees, managerial and operational staff). The Corporate Fraud team should aims to provide at least 15 presentations to staff groups. The aim of this is to ensure the Council is proactive in raising fraud awareness and develops an anti-fraud culture. The awareness presentations will be provided to: <ul style="list-style-type: none"> • The Audit Committee • Staff Groups/ Forums • Corporate and Service Management Teams • Operational managers.
1.5		There are clear goals for counter-fraud work e.g. the number/ percentage of staff and the public who recognise their responsibilities to protect the Council and its resources.
1.6	The counter-fraud programme is implemented effectively.	Review localised fraud leaflets and posters to promote the anti-fraud work undertaken by the Council. Distribute to appropriate locations.
1.7		Place at least two counter fraud articles per year in the in-house publication/newsletter.
1.8		Place at least one anti-fraud article per year in an external publication.
1.9		Develop and maintain anti-fraud information on the Council's intranet. Items on the intranet to include: <ul style="list-style-type: none"> • An overview of the Council's anti-fraud work and work done nationally • The role of the Council's anti-fraud staff • Fraud, Corruption, Bribery, Money laundering policies • Information on proven cases and sanctions applied

		<ul style="list-style-type: none"> • Presentation slides • Link to appropriate HR policies and whistleblowing policy • Link to appropriate external websites including Audit Commission. <p>A record of the numbers of visitors to the information should be maintained.</p>
1.10		<p>Develop and maintain anti-fraud information on the Council's website.</p> <p>A record of the numbers of visitors to the information should be maintained.</p>
1.11	There are arrangements to evaluate the extent to which anti-fraud and corruption and zero tolerance culture exists or is developing throughout the Council.	Identify and analyse the level of fraud awareness by conducting a staff survey (possibly by using a survey/link on the intranet)
1.12	There are arrangements to evaluate the extent to which anti-fraud and corruption and zero tolerance culture exists or is developing throughout the Council.	The Corporate Fraud Manager to meet with a different operational manager each month to highlight the role of the corporate fraud team and offer to deliver a fraud awareness presentation.
1.13		Corporate Fraud Manager to meet members of CMT and SMT to discuss fraud matters.

2.	Scope: Deterring Fraud
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	OUTCOMES	PLANNED ACTIVITY
2.1	The Council has a clear programme of work designed to have a deterrent effect.	<p>Meet with the Press Officer / Communications Manager to discuss:</p> <ul style="list-style-type: none"> • utilisation of publicity on actual frauds at the Council and local, regional and national cases of fraud that are appropriate to the work of the Council.
2.2	<p>The Council has a programme of work that publicises the:</p> <ul style="list-style-type: none"> • The hostility of the honest majority to fraud and corruption • Effectiveness of preventative arrangements • Sophistication of arrangements to detect fraud and corruption • Professionalism of those investigating fraud and corruption and their ability to uncover evidence • Likelihood of proportionate sanctions being applied and losses 	<p>Review the communication strategy to ensure that the most effective ways of communicating with staff are utilised.</p> <p>Strategy will provide a formal record of the anti-fraud work done to create an anti-fraud culture on which deterrence is built and maintained.</p> <p>The strategy contains a structured and cohesive framework of tasks which the Corporate Fraud manager can use to measure the progress of raising fraud awareness.</p>

	OUTCOMES	PLANNED ACTIVITY
	being recovered.	
2.3	The Council successfully publicises counter fraud work.	Prepare paper(s) of recent local government fraud cases for the Organisational Risk Management Group to assess potential risk.
2.4	Publicity is targeted at areas of greatest fraud loss.	Design an annual/biannual anti-fraud newsletter to publish proven cases of fraud in local authorities and other beware notices.
2.5	Publicity is targeted at areas of greatest fraud loss.	Publicise successful investigations.

3.	Scope: Preventing Fraud
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	OUTCOMES	PLANNED ACTIVITY
3.1	The Council seeks to minimise the risk of fraud and corruption through the design of new and the revision of existing policies and systems. There is a system for considering and prioritising action to resolve the identified policy and systems weaknesses.	Review the existing corporate fraud policy and amend and update as necessary.
3.2		Ensure that the whistleblowing policy, disciplinary policy, Code of Conduct, Declarations of Interests, Gifts and Hospitality policies and procedures and other relevant workforce policies are sufficiently robust to deter fraud.
3.3		Distribute annual Conflicts of Interest statements. The statements contain information on fraud and fraud sanctions and the statements are signed by staff. Ascertain if this is sufficient to deter potential fraud in this area.
3.4		Fraud-proof a selection of general policies, procedures and claim forms that are used throughout the Council to <ul style="list-style-type: none"> • Recruitment including the controls covering qualification, employment history and DBS checks • Timesheets and associated procedures/policies including on-call arrangements and remote working controls • The payment of other ad hoc allowances • Travel and associated expenses • Security of confidential data • Recovery of overpayments/advances of pay • Asset verification checks • Acceptance of gifts and hospitality Mobile phone policy and private phone calls.
3.5	The work of the Corporate Fraud team is targeted at those areas of highest risk of fraud.	Consider whether the risk of fraud and corruption should be included in the corporate risk register.
3.6		Liaise with the Operational Risk Management Group to ensure intelligence regarding fraud risks is used to inform risk assessments.
3.7		Conduct a risk assessment on the overall anti-fraud arrangements and use the outcomes to target areas identified as being weak.

	OUTCOMES	PLANNED ACTIVITY	
3.7		Meet with managers of areas with a high risk of fraud to develop local fraud risk assessments and plans.	
3.8		Check vulnerable areas of income and expenditure to identify anomalies for e.g.: <ul style="list-style-type: none"> • Overtime payments • On-call payments • Travel expenditure • Bank and agency usage Use of selected external contractors, suppliers, taxi companies.	
3.9		Ensure that potential vulnerabilities within the Council are identified from frauds perpetrated against other similar organisations.	
3.10		Investigation reports include a specific section on identified policy and systems weakness that enabled the fraud/corruption to place.	Establish a protocol with Internal Audit for the dissemination of information for areas where control weaknesses may allow a potential fraud to remain undetected or where identified system weaknesses may require future Internal Audit review.
3.11		Ensure that a system of follow up reviews regarding previous fraud investigation reports exists to identify the auctioning of recommended changes to the control environment.	
3.12		Review reporting arrangements for informing the Audit Committee and the Director/Head of Finance of fraud alerts and notices.	
3.13		Consideration given to preventative work on receipt of all referrals.	
3.14	Respond to weaknesses identified from investigations or received from intelligence sources.		

4.	Scope: Detecting Fraud
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	OUTCOME	PLANNED ACTIVITY
4.1	Analytical intelligence techniques are used to identify potential fraud and corruption.	Undertake the mandatory national Fraud Initiative exercises as instructed by the Audit Commission.
4.2	The Council has effective arrangements for collating, sharing and analysing data and intelligence.	Undertake pro-active fraud work as agreed by the Head of Finance and Procurement.
4.3		Pro-active fraud work guided by fraud risk assessments, information on national trends contained in the annual Protecting the Public Purse report and local intelligence.
4.4	The Council has appropriate arrangements for ensuring that suspected cases of fraud and corruption are reported promptly and appropriately investigated.	Review the Council's whistleblowing and fraud reporting arrangements.

5.	Scope: Investigations
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	OUTCOME	PLANNED ACTIVITY
5.1	The Council's investigation work is effective and carried out in accordance with clear guidelines. The officers carrying out investigations have the necessary authority and powers within the organisational and legal powers where necessary.	Reactive investigations are conducted in accordance with best practice. Investigations are carried out in accordance with the Police and Criminal Evidence Act 1984 Codes of Practice and Regulation of Investigatory Powers Act 2000 (RIPA). Records are maintained and stored appropriately.
5.2		Ensure that the Corporate Fraud Managers requirements are adequately recorded in the Council's Data Protection Register and that the Council's Data Protection Manager is aware of the work undertaken by the Corporate Fraud team.
5.3		Regular checks are undertaken to ensure that the storage and retention of information by the fraud team accords with the requirements of the Data Protection Act.
5.4		Review the Council's Constitution including the Scheme of Delegation to ensure that the documents empower those officers and members responsible for the Council's anti-fraud activity and accurately reflect the legal powers and responsibility.
5.5	Referrals are handled and investigations undertaken in a timely manner.	Access to the fraud team's case management system is restricted. The case management system is used to record details of all referrals received.
5.6	The Council has arrangements for assessing the effectiveness of investigations.	Summary information on the outcomes of fraud investigations collated and analysed. Comparison made with fraud trend information.

6.	Scope: Sanctions
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	OUTCOME	PLANNED ACTIVITY
6.1	The Council has a clear consistent policy on the application of sanctions where fraud and corruption are proven.	Ensure that the Council's policies and procedures enable parallel sanctions (i.e. civil, disciplinary and/or criminal). Assist with embedding parallel sanctions within the organisational culture.
6.2	All possible sanctions are considered. Appropriate sanctions take place at the end of an investigation when all evidence is available.	Undertake effective liaison with members of staff to ensure that sanctions such as disciplinary action are not applied in isolation where there are indications of potential wider fraudulent / criminal activity.
6.3	The Council monitors the extent to which the applications of sanctions are successful.	Fraud trends are identified and monitored to determine whether disciplinary, civil and or criminal sanctions are successful.

7.	Scope: Redress
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	OUTCOME	PLANNED ACTIVITY
7.1	The Council has a clear policy on the recovery of losses through fraud or corruption.	Ensure that the Council has an appropriate procedure in place to recover money.
7.2	The Council is effective in recovering any loss resulting from fraud and corruption.	Maintain comprehensive records of time spent on each investigation to enable this to be included in any compensation claim made by the Council following a successful outcome.
7.3	The Council uses both criminal and civil proceeding where appropriate.	Identify and maintain a record of the actual proven amount of loss to the Council so that appropriate recovery procedures can be actioned.
7.4	The Council has a successful recovery rate.	Accurate records of costs incurred in pursuing criminal and civil proceedings.

IMPLICATIONS AND RISKS

Financial implications and risks:

Fraud and corruption will often lead to financial loss to the authority. By maintaining robust anti fraud and corruption arrangements and a clear strategy in this area, the risk of such losses will be reduced. Arrangements must be sufficient to ensure that controls are implemented, based on risk, to prevent, deter and detect fraud. The work of the fraud team often identifies losses which may be recouped by the Council. There are however, no direct financial implications or risks arising directly from this report.

Legal implications and risks:

There are no apparent legal implications or risks from noting the content of this report.

Human Resources implications and risks:

There are no HR implications from noting the contents of this report.

Equalities implications and risks:

There are no Equalities implications from noting the contents of this Report.

BACKGROUND PAPERS

None.