



Haverling

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.00 pm	Wednesday 2 March 2016	Committee Room 3B - Town Hall
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Members 6: Quorum 3

COUNCILLORS:

**Conservative
(2)**

Viddy Persaud
(Chairman)
Frederick Thompson

**Residents'
(1)**

Julie Wilkes
(Vice-Chair)

**East Haverling
Residents'(1)**

Clarence Barrett

**UKIP
(1)**

David Johnson

**Independent
Residents'
(1)**

Graham Williamson

**For information about the meeting please contact:
James Goodwin 01708 432432
james.goodwin@OneSource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

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 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 1 December 2015 and authorise the Chairman to sign them.

5 CLOSURE OF ACCOUNTS TIMETABLE 2015/16 (Pages 7 - 12)

6 ACCOUNTING POLICIES 2015/16 (Pages 13 - 32)

7 2014/15 AUDIT REPORT OF GRANT CLAIMS AND RETURNS (Pages 33 - 50)

8 INTERNAL AUDIT DRAFT PLAN AND STRATEGY (Pages 51 - 74)

9 COMBINED INTERNAL AUDIT AND ASSURANCE UPDATE QUARTER 3 (Pages 75 - 120)

10 UPDATE CORPORATE RISK REGUISTER (Pages 121 - 128)

11 REVIEW OF RISK MANAGEMENT POLICY AND STRATEGY (Pages 129 - 150)

12 URGENT BUSINESS

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

13 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.

14 TREASURY MANAGEMENT UPDATE QUARTER 3 (Pages 151 - 160)

**Andrew Beesley
Committee Administration
Manager**

Public Document Pack Agenda Item 4

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 3A - Town Hall
1 December 2015 (7.00 - 8.20 pm)**

Present:

COUNCILLORS:

Conservative Group Viddy Persaud (in the Chair) Frederick Thompson

Residents' Group Julie Wilkes (Vice-Chair)

East Havering Clarence Barrett

Residents' Group

UKIP Group David Johnson

Independent Residents Group Graham Williamson

Unless otherwise indicated all decisions were agreed with no vote against.

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

22 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 24 September 2015 were agreed as a correct record and signed by the Chairman.

23 ANNUAL AUDIT LETTER 2014-15

The Committee had received a report which advised that the Council's external auditors PricewaterhouseCoopers (PWC) had issued their annual audit letter to the committee summarising the results of their 2014/15 audit.

The letter included the following:

- PWC issued an unqualified audit opinion for the 2014/15 accounts on 30 September 2015. Their Report to Those Charged with Governance (ISA (UK&I) 260) was presented to the Audit Committee on 24 September 2015.
- PWC would issue their Annual Certification Report for 2014/15 on the Certification of Claims and Returns in December 2015. The Committee had been informed that PWC had signed off the Housing Benefit Claim last week.
- Other Matters Reported to Those Charged with Governance (pages 5 and 6 of the report) included recommendations relating to
 - Bank Reconciliations

- Pension Fund - following up on National Fraud Initiative results on a timely basis
- Financial Resilience

The first two matters had been addressed and Financial Resilience was being addressed as part of the Budget Strategy for reporting to Cabinet in February 2016.

PWC had confirmed that the cost of the non-audit work included in their fees should be £37,750 not £37,500. The fee over and above the scale element was in the process of being agreed with management and Public Sector Audit Appointments Limited and would be reported in due course. The additional fees were £6,123 for the statement of accounts in relation to trial balance reconciliation and £3,000 for the pension fund in relation to audit work on more complex investments held by the fund.

The Committee had noted the report.

The Committee had placed on record their appreciation of the sterling work PWC had undertaken with the Council since being appointed external auditors. Officers stated that they had developed a very good working relationship with PWC which had helped ensure the Council received an unqualified opinion.

24 INTERNAL AUDIT PROGRESS REPORT - QUARTER 2

The Interim Head of Internal Audit presented her report outlining the work undertaken by the Internal Audit Team during the period 6 July 2015 to 4 October 2015. The committee were informed that the oneSource service transformation restructure was due to be formally launched, consulted on and implemented by April 2016. This would deliver the savings and efficiencies required in line with the Joint Committee Business Case. The future Audit Terms of Reference, Charter and Strategy would be brought to the Committee in 2016. Until then the current ones would remain in place.

Previously the Head of Internal Audit had given her opinion that based upon the work undertaken in quarter 1 she had concluded that reasonable assurance could be given that the internal control environment had been operating adequately. Based on the work undertaken since that report, no material issues had arisen which would impact on that opinion. There had been no Nil or Limited Assurance reports issued in quarter 2.

The Committee were advised that delivery of the Audit Plan was progressing as anticipated. In quarter one there had been one Nil Assurance (Manor Green Pupil Referral Unit (MGPRU) and one Limited Assurance report (Members' Allowance Payments). Since the report had been written Internal Audit had undertaken a follow up on the Members' Allowance payments and a substantial assurance had been given.

The follow up audit on the MGPRU showed that progress had been made with 15 of the 27 recommendations having been implemented. One recommendation had been superseded. However, the audit assurance that could be placed on the control environment remained at Nil as six of the eleven outstanding recommendations were high priority recommendations.

The Committee had expressed their disappointment that no one from learning and Achievement was in attendance to brief them on progress as they felt that given the importance of this area, they had not had a sufficient opportunity to seek assurance in line with their role. The Committee had asked that the appropriate officer be instructed to attend the next meeting in March and provide a full update.

A further six system/computer audits had been completed and 12 school audits had been completed in quarter 2. The Committee had sought clarification on two of the reports and were satisfied with the responses from officers.

The Committee had noted the report subject to the areas highlighted above.

25 **CORPORATE GOVERNANCE UPDATE**

The Committee were informed that in accordance with Regulation 6(1) of the Accounts and Audit Regulations 2015 all relevant bodies were required to prepare an Annual Governance Statement (AGS). The purpose of the AGS was to communicate to stakeholders the standards of corporate governance the organisation demonstrates and identify any significant issues that have arisen in year, and what was planned to address these issues.

Currently the Council had an Officer Governance Group which was chaired by the Deputy Chief Executive, Communities and Resources who reported to Corporate Management Team on outcomes from the group's work. This group considers a range of governance related matters, e.g. risk, decision-making, audit, etc., and escalates significant issues into the Corporate Leadership Team (CLT) for corporate action. The Group also oversaw the AGS and monitored progress on behalf of CLT.

There was a perpetual need for activities to become more outcome focused and ensure that they were efficient in terms of resource utilisation. This raised challenges around balancing empowerment, compliance and governance. In 2014/15, the Officer Governance Group had been created to form a network of Governance Champions.

During 2015/16, the role and approach of the officer Governance Group had been reviewed and refreshed. Two meetings had been held to date: the September meeting had considered emerging governance issues and the updated 2015/16 Corporate Risk Register. Additionally they had considered whether there were any new emerging areas for possible recommendation to CLT for inclusion or status changes and concluded that there were none. The Group had also reviewed the 2014/15 Annual Governance Statement and the progress made on addressing the highlighted significant governance issues.

At the September meeting, the group had also received the CIPFA/SOLACE consultation paper on *'Delivering Good Governance in Local Government'*.

The Public Sector Internal Audit Standards defined the Assurance Service as *"an objective examination of evidence for the purpose of proving an independent assessment on governance, risk management and control processes for the organisation"*. Going forward, the oneSource internal audit service would adopt an

assurance focus/approach and the reporting flowing from this would be the primary tool used by this Committee to ensure that it was properly informed on governance, risks and the internal control environment.

With the oneSource shared service and the establishment of innovative delivery models and an increased self-service culture, the revised *CIPFA/SOLACE Delivering Good Governance in Local Government* framework, when available, would be used to inform and strengthen the Council's governance arrangements.

The Governance Group would also review and consider the future Risk Management Strategy and arrangements that would be undertaken post implementation of the new assurance service; until then the existing agreed Risk Management Strategy would remain in force. The Strategy would be reported to the Audit Committee in 2016/17.

The significant issues raised in the 2014/15 Annual Governance Statement were identified as:

- **The Scheme of Delegation** - Issues with the scheme of delegation were identified following the amendments to include oneSource
- **Declarations of Interest** - There have been instances identified of failings by officers to comply with expectations regarding declarations.
- **Assurance** - as a result of reduced capacity the organisation's approach to ensuring compliance with policy and procedure had to shift. Compliance issues had identified gaps in this assurance framework that needed to be addressed.

Officers informed the Committee that an update would be provided to the next meeting of the Committee covering the revised Framework for Delivering Good Governance in Local Government by CIPFA/SOLACE when this became available.

The Committee noted the report and the steps already taken to address these issues.

26 **RISK MANAGEMENT UPDATE**

The Committee were informed that the Corporate Risk Register was owned by the Corporate Leadership Team to ensure that links to risks within services and directorates as well as projects were robust.

Previously the Committee had been advised the annual review of risk management had been delayed due to review of the Audit and Risk Service. As part of the implementation phase of the restructure, the Strategy and Procedures for Risk Management would be updated for approval by this Committee and then re-launched across both organisations. Staff consultation on the restructure was currently scheduled to be formally launched in December 2015. Risk Management would also be considered as part of the current CIPFA/SOLACE consultation on 'Delivering Good Governance in Local Government'. An audit of Risk Management could assist in the review. This would inform the future pragmatic risk management approach that would be adopted as part of an Assurance approach.

The Committee noted that the current Risk Management Strategy would remain in place and be reviewed following the restructure.

27 **EXCLUSION OF THE PUBLIC**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 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.

28 **SEMI-ANNUAL TREASURY REPORT 2015-16**

Prior to the commencement of the meeting the Committee had received training from Arlingclose Ltd, the Council's Treasury Management advisors. The report before the Committee provided details of both the Council's borrowing and investments.

The Committee noted that all the performance indicators were as expected and noted the report.

Chairman

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AUDIT COMMITTEE

2 March 2016

REPORT

Subject Heading:	Closure of Accounts Timetable 2015/16
	Contact: Mike Board Designation: Corporate Finance & Strategy Manager Telephone: (01708) 432217 E-mail address: mike.board@oneSource.co.uk
Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2015/16
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 costs in terms of software enhancements and the valuation of assets. These are expected to be contained within existing budgetary provision.

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 the 2015/16 Accounts.

RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to prepare for the 2015/16 closure of accounts.

REPORT DETAIL

1. Background

The Council successfully closed its accounts and prepared its Financial Statements for 2014/15.

There are relatively few technical changes required in 2015/16 under The Code of Practice but, locally, the timetable for the closure of the accounts has been brought forward in preparing for earlier statutory deadlines from 2017/18. We also have new auditors (Ernst and Young, replacing PricewaterhouseCoopers); the audit coverage will be similar, but the new auditors will need to form their own opinion over our procedures and there may be detail changes in the audit work undertaken.

The priority for the closure programme is to ensure that all key activities have been captured in the timetable, and that roles and responsibilities have been identified and understood.

2. Key Issues

The following is an update on the key issues to be addressed during the 2015/16 closedown.

2.1 Change of Auditors

Ernst and Young (EY) have replaced PricewaterhouseCoopers (PWC) as the authority's external auditors with effect from April 2015.

EY will need to form their own opinion on Havering's systems and processes, and will not be able to rely on work carried out in previous years.

EY will also be auditing Newham's accounts; this could give scope for harmonising processes across the two authorities (particularly once Newham on-board to One Oracle), but potential for this is mitigated in the short term by EY having a separate team at Newham.

2.2 Preparing for Earlier Closure

The statutory deadline for having the draft accounts available for audit is being brought forward from 30th June to 31st May from 2017/18, and the deadline for completion of the audit and publication of the accounts is being brought forward from 30th September to 31st July.

In order to speed up the year-end closedown process, it will be necessary to estimate the end position. This may apply to a number of activities but will certainly include requesting data earlier from external parties relating to:

- The valuation of Assets including Property Plant and Equipment and Infrastructure assets, to determine for example impairment charges
- The valuation of year end pension liabilities from Pension Fund actuaries

Use of such techniques will enable major year-end processes to be started prior to year end; but could also bring a heightened risk of material misstatement needing to be addressed during the audit.

2.3 Highways Infrastructure

From 2016/17, local authorities are required to include Highways Infrastructure on their balance sheets at net replacement cost, as opposed to the depreciated balance of past expenditure as at present. This will have a very major impact on the value of net assets for all authorities, but will have no impact on usable resources or the council tax requirement.

Infrastructure assets have now been valued on the required basis and the related data has been used to provide the Government with information required in Whole of Government Accounts. However, there is still a significant amount of work to be done to establish the correct accounting entries in restating the 2015/16 balance sheet to give the 2016/17 opening balances.

2.4 Transformation and oneSource

• Service Reviews

The implementation of Service Reviews will impact on responsibilities for specific parts of the accounts, with staff needing to become familiarised with new roles, procedures and systems. The sharing of functions will also impact on the audit coverage, with activity relating to Havering needing to be covered at Newham, and vice versa; the consequences of harmonising audit coverage are being followed up with the new auditors, Ernst and Young.

Significant areas affected for 2015/16 include the Collection Fund, with Council Tax being administered at Havering and Business Rates being administered at Newham. The Collection Fund impacts on all the prime statements in the accounts and any delay in this data being available will impact on finalisation of the accounts.

• Implementation of One Oracle at Newham

Supporting the April 2016 on-boarding of Newham to One Oracle will potentially necessitate the support of staff pivotal to the successful

closure of accounts. Reconciliations need to be completed by 15 April, and diversion of resources could increase the risk of:

- error or misstatement in Havering's accounts;
- audit issues being identified, increasing workload in responding to the auditors; and
- compromising achievement of the earlier closedown timetable, resulting in earlier closedown not being embedded for 2016/17.

Managers are aware of the accounts timetable and are managing the competing demands by, for example, ensuring reconciliations are completed in a timely manner.

3. Progress to Date

3.1 The closedown planning process began in earnest in November 2015. The process is being monitored routinely by Corporate Finance, and regular reports will be made to both Corporate Management Team and Audit Committee.

3.2 The finalised timetable for the year end closure of accounts is on the intranet and is being monitored. Regular meetings have been scheduled until June 2015. The timetable has been aligned with Newham's timetable where possible, and this will be further developed for 2016/17 once Newham have adopted One Oracle from April 2016.

3.3 EY carried out walk through tests on various processes during their interim audit in January. Initial feedback to officers indicated that these have progressed well and to date they have not communicated any significant issues arising.

They have also issued their draft list of working papers required for their audit. Officers have responded on individual requests, but the working paper requests are similar to those from their predecessors PWC.

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

4.1 Bank Accounts

As reported to Audit Committee on 24 September 2015, the only issue highlighted by PWC in the ISA260 report relating to the main accounts was un-reconciled balances on two of the bank accounts. This was due to supporting documentation not initially being provided to PWC to explain and evidence the balance; this was an oversight that was immediately rectified.

IMPLICATIONS AND RISKS

5. Financial Implications and risks:

- 5.1 A risk log has been prepared for submission to CMT.
- 5.2 There are risks associated with oneSource and Newham's implementation of One Oracle, as staff may be re-deployed or temporarily re-assigned to support the implementation. These risks should be mitigated by the project management approach to the closedown process ensuring that tasks are assigned to individuals/teams with a clear understanding of deadlines and requirements.
- 5.4 Ernst and Young, the new auditors, will not be able to rely on findings from previous years' audits and will need to form their own audit opinion over Havering's financial procedures and systems. Although the audit coverage will be similar to previous years, there may be a change of emphasis in the detail of the work carried out. This could initially result in additional officer time in responding to audit queries and in responding to any audit recommendations arising therefrom. This will be contained within the statutory timetable for the publication of the accounts.

6. 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 2015/16 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1st April 2015/.

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

7. Human Resources Implications and risks:

None arising directly.

8. Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

None

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AUDIT COMMITTEE
2 March 2016

Subject Heading:	Accounting Policies 2015/16
CMT Lead:	Jane West
Report Author and contact details:	Contact: Mike Board Designation: Corporate Finance & Strategy Manager Telephone: (01708) 432217 E-mail address: mike.board@oneSource.co.uk
Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2015/16
Financial summary:	There are no direct financial implications to the report.

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

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 2015/16 although none are anticipated at this stage. Any significant changes will be highlighted in the statement of accounts report in September 2016.

- The report presents the accounting policies applicable to the financial year 2015/16 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 2015/16.

RECOMMENDATIONS

The Committee is asked to note and comment on the accounting policies applicable to 2015/16.

REPORT DETAIL

1. Introduction

- 1.1 This report tables the revised accounting policies that will be applied during the financial year 2015/16. 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 2015/16 will be presented to the September 2016 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 separately if material and no offsetting of assets and liabilities.

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 raises 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 three pension schemes Council employees contribute to (teachers, health workers 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 2015/16

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 the 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 councils to regularly review the accounting policies adopted to ensure 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 2015/16. The proposed accounting policies for 2015/16 are reflected in **Appendix A**.

4.6 There are some minor changes proposed to Havering's accounting policies for the 2015/16 accounts. The proposed amendments are highlighted in green and include:

- ii Accruals of Income and Expenditure – policy amended to disclose a de minimus for accruals raised manually of £50,000 for 2015/16 (£25,000 for 2014/15). The note showing the impact on the accounts resulting from the change (a reduction in net accruals raised estimated at around £2 million, which is not material to the overall published accounts) is not part of this accounting policy and will be included in the note on Critical Judgements in the Statement of Accounts.

Various other minor wording changes to update Havering's accounting policies for changes in the 2015/16 Code of Practice

Guidance; these have no practical implications on Havering's policies.

4.7 The proposed accounting policies for 2015/16 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 the external auditors with regard to proposed changes in accounting regulations and how these impact on accounting policies.

IMPLICATIONS AND RISKS

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 Council's 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 2015/16 (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

Chartered Institute of Public Finance and Accountancy “Code of Practice on Local Authority Accounting in the United Kingdom – Guidance notes for practitioners, 2015/16 Accounts.

London Borough of Havering

**Statement of Accounting Policies for the financial year
2015/16**

Notes to the Core Financial Statements

Statement of 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 2015/16 financial year and its position at the year end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by 30 June 2015, which the Accounts and Audit (England) Regulations 2015 require 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 2015/16* and the *Service Reporting Code of Practice 2015/16*, 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 Authority 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 Authority;
- revenue from the provision of services is recognised when the Authority 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 Authority;
- 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; and
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. Following a review of accruals raised over the past three years, the de minimis was raised from £25,000 for 2014/15 to £50,000 for 2015/16. – this change has resulted in a reduction in net accruals raised estimated at around £1 million.

iii. 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 highly liquid 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.

iv. 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 Authority'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.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. 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 fixed 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; and
- 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 Authority 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.

vi. 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 Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the relevant service line or, where applicable, to the Non Distributed Costs line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement when the Authority 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 Authority are members of three separate pension schemes:

- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- the National Health Service Pension Scheme, administered by the National Health Service; and
- the Local Government Pension Scheme, administered by the Authority.

All three schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the Teachers' and National Health Service schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. Those schemes are therefore accounted for as if they were defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education and Public Health Services lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the Teachers' and National Health Service Pensions Scheme 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 Authority 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 Authority are included in the Balance Sheet at their fair value:

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

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

- 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 arising from current year decisions 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;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- 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; and
- 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 Authority 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 Authority 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.

vii. 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; and
- 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.

viii. 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 Authority 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 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 Authority 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.

Loans and Receivables

Loans and receivables 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. 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 Authority 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.

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.

ix. Foreign Currency Translation

Where the Authority 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 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

x. 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 Authority when there is reasonable assurance that:

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

Amounts recognised as due to the Authority 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 that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential 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.

All Town and Country Planning Act 1990 (as amended) Section 106 contributions, because of their complex nature and numerous legal conditions, 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.

Non Ring-fenced Grants

These are allocated by Central Government directly to local authorities as additional revenue funding. They are not ring-fenced and are credited to the Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts

The Authority is the billing authority for the London Riverside Business Improvement District (BID) managed by Ferry Lane Action Group which provides a cleaner, safer more secure business environment and promotes the interests of the business community within the BID. The Authority 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.

xi. Heritage Assets

The Authority's Heritage Assets are split into two categories

- Civic Regalia; and
- Heritage Buildings.

Civic Regalia

The collection of civic regalia includes the Mayor's and the Deputy Mayor's 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 Authority 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 xviii.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority 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 Authority.

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 Authority 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 Authority'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 Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority 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.

xiii. Inventories

The Authority has a 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 first in first out (FIFO) costing formula.

xiv. 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.

xv. 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 Authority 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 Authority 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 Authority 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.

xvi. 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 SeRCOP 2015/16. 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 Authority’s status as a multifunctional, democratic organisation; and
- 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 the SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

xvii. Interest in Joint Committee

oneSource is a participative arrangement created by the Authority and the London Borough of Newham to share back office operations. It is governed by a joint committee and is not deemed to meet the definition of joint control; hence the assets, liabilities, income, expenditure and cash flows of the joint committee are not consolidated into the Authority’s group accounts. Instead, the Authority accounts for its own transactions arising within the agreement, including the assets, liabilities, income, expenditure and cash flows, in its single entity financial statements. Cost savings are shared between the two authorities on the basis of an agreed formula and are allocated on an annual basis.

xviii. 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 Authority 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 Authority). 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 Authority.

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – **current fair** value, determined using the basis of existing use value for social housing (EUV-SH);
- **council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);**
- **school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;**
- **surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;**
- all other assets – **current 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 revalued 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 as follows:

- 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); and
- 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 1 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 as follows:

- 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); and
- 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 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 not charged in the year of acquisition but is charged in full during the year of disposal.

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; and
- infrastructure – straight-line allocation over 20 years.

Where an item of Property, Plant and Equipment 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 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; and
- assets valued at less than £3,000,000.

As a consequence of the application of this policy the Authority has not identified any major components with materially different asset lives. However, the application of this policy will be reviewed on an ongoing 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 revalued 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 Authority'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.

xix. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority. 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.

xx. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. 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 Authority – these reserves are explained in the relevant policies.

xxi. 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 Authority 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.

xxii. 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.

xxiii. Accounting for Schools

The Authority includes the income and expenditure of local authority maintained schools within its financial statements on the basis that they remain within the local authority boundary under common control. These are defined as community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools. Assets of these schools are also included in the Authority's Accounts except for non-current assets owned by another legal body acting as a trustee (such as the diocese) and made available for the school's use.

Academies control their own assets and prepare accounts under the Charities' Statement of Recommended Practice. This is a requirement in their Funding Agreements. Academies are therefore excluded from the Authority's Accounts from the date of conversion with any outstanding grant allocations for the financial year of conversion being included as expenditure within the Consolidated Income and Expenditure Statement.

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AUDIT COMMITTEE
2 March 2016

Subject Heading:	Grants report to Audit Committee
CMT Lead:	Andrew Blake Herbert
Report Author and contact details:	<i>Lilian Thomas</i> <i>Senior Accountant - Grants</i> <i>01708431057</i> <u>Lillian.thomas@onesource.co.uk</u>
Policy context:	The Audit Committee are required to review the outcomes of the Authority's grant claims process for audited grant claims relating to the financial year 2015/16
Financial summary:	Total Audit Fees 2015/16 £46,006 are split between Core audit fees: £21,570 and Additional Audit fees: £24,436

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

The 2014/2015 audit process was completed by the Audit Commission's representative, PricewaterhouseCoopers. (see appendix 1 for the PwC audit report)

RECOMMENDATIONS

The Committee is recommended to:

1. note the report
2. consider the outcomes of the 2014/2015 grant claims process
3. raise any issues of concern with officers on specific grant claims
4. note the year-on-year grant claims performance (see paragraph.1)

REPORT DETAIL

Overall summary of the 2014/2015 audited grant claims compared to 2013/2014.

Background

The way that grant claims are audited has changed in recent years. Grant funding bodies are moving away from certified audits to audit assurance. This report outlines the outcomes of these processes.

Performance - Certified Grants Process

1. In 2014 the Secretary of State for Communities and Local Government delegated statutory functions from the Audit Commission to Public Sector Audit Appointments Ltd (LPAA), who is an independent company limited by guarantee incorporated by the Local Government Association. The company is responsible for appointing auditors to local government, police and local NHS bodies for setting audit fees and for making arrangements for the certification of the housing benefit subsidy claims.
 - 1.1. There was 1 grant noted on the LPAA Index that required audit certification, in 2014/2015, compared to 2 certified by the Audit Commission in 2013/2014.
 - 1.2 The 1 grant audited for 2014/2015, Housing and Council Tax Benefits has now been certified by PricewaterhouseCoopers (PwC).
 - 1.3 There are no amendments to the claim for 2014/2015, and there were none in 2013/2014.

1.4. The Housing and Council Tax Benefits claim was qualified for 2014/2015, (see appendix 1 for PwC audit report) as was it qualified in 2013/2014. (see appendix 2 for 2013/14 PwC recommendation)

1.5. Of the 1 claim audited for 2014/2015 it achieved its Audit Commission/Grant Funding Body certification deadlines as did both claims for 2013/14.

	2013/2014		2014/2015	
	No.	%	No.	%
Total Claims	2	100	1	100
Submitted by due date	2	100	1	100
Amended claims	0	0	0	0
Qualified claims	1	50	1	100
Certified by deadline	2	100	1	100

1.6. Audit Recommendations

PricewaterhouseCoopers identified 1 recommendation to address in the 2013/2014 Action Plan. The recommendation was implemented during 2014/2015 and is on-going. (see Appendix 2)

There are no 2014/2015 recommendations or reported control issues.

1.7. Audit Fees

The following table records audit fees paid each year:

Paid in 2012/2013 re 2011/2012 audits	Paid in 2013/14 re 2012/13 audits	Paid in 2014/15 re 2013/14 audits	Paid in 2015/16 re 2014/15 audits
£67,105	£43,025	£22,565	£21,570
No of Claims Audited 6	No of Claims Audited 4	No of Claims Audited 2	No of Claims Audited 1

The audit fee for the 1 grant subject to audit for 2014/15 is £21,570. The audit fee for 2 grants audited for 2013/14 was £22,565. This shows a decrease of 4.4% in costs.

- 1.8. PricewaterhouseCoopers have been the Council's appointed auditor for grant claims since 2008/2009. Ernst and Young take over as the Council's external auditor from 2016 and will carry out the audit to provide certification for the Housing and Council Tax Benefit Grant 2015/16.

2. External Compliance/Assurance Audit requirements for 2014/15

- 2.1. 5 Grant Funding Bodies published a requirement for grantees to engage an external auditor to report audit compliance or assurance for their 2014/15 funding.
- 2.2. The audit fees for these 5 grants were negotiated over and above the audit commission agreed audit fee. An additional £24,873 is to be funded from the appropriate service.
- 2.3. Of the 5 grants audited for 2014/2015 all 5 achieved their Grant funding body reporting deadlines as did 2 grants for 2013/14.

	2013/2014		2014/2015	
	No.	%	No.	%
Total Claims	2	100	5	100
Submitted by due date	2	100	5	100
Amended claims	0	0	0	0
Qualified claims	1	50	1	20
Certified by deadline	2	100	5	100

The five grants that required audit compliance or assurance are:

- Teachers Pensions 2014/15 - Teachers Pensions have required end of year certification assurance instead of a full audit and thus local authorities are required to engage an external auditor to provide that assurance. PwC were engaged to perform this service for 2014/15 at a cost to the Council of £9,750 plus vat.

Outcome

PwC concluded that the End of Year Certificate (a) has been prepared in accordance with the regulations underpinning the Teachers' Pension Scheme.

- GLA Decent Homes Grant 2014/15 – The GLA conditions and guidelines stated that certification relating to the Schedule 8 Statement of Grant Usage required external audit scrutiny by way of sampling. 2014/15 is the final year for this 3 year allocation. We engaged PwC to perform this service at a cost to the Council of £8,000 plus vat.

Outcome

PwC provided the GLA with a report which they reviewed. There were no issues raised by the Grant Funding Body.

- DCLG Pooling of Housing Capital Receipts 14/15 - For the 2014/15 return the DCLG required an external audit to be carried out so we engaged PwC to perform this service at a cost to the Council of £2,500 plus vat.

Outcome

The Pooling of Housing Capital Receipts 2014/15 was subject to qualification following discrepancies being found between data on the return and data held by the authority's housing management system, however the return was not required to be amended.

- GLA Housing Compliance Audit 2014/15. Beever and Struthers was engaged to perform the compliance audit at a cost to the HRA of £2,185.71 plus vat.

Outcome

At the date of writing this report the GLA have yet to report on the outcome of the compliance audit.

- Skills Funding Agency (SFA) 2015/16 - Subcontractors Assurance Audit to be completed by the end of January 2016. Mazars was engaged to perform this assurance service. The cost to the service was £2,000 plus vat.

Outcome

Mazars reported satisfactory assurance on the systems and no recommendations were identified.

2.4. Additional Audit Fees over and above the LPAA remit.

Paid in 2014/15 re 2013/14 audits	Paid in 2015/16 re 2014/15 audits	Total Additional Audit Fees to date
£18,500	£24,436	£42,936
No of Claims Audited 2	No of Claims Audited 5	

The audit fee for the additional 5 grants outside the LPAA remit for 2014/15 is £24,436. The audit fee for the 2 grants audited for 2013/14 was £18,500. This shows an increase of 32%. Total additional audit fees for years 2014/2016 are £42,936.

When engaging an auditor for the additional requirements in 2014/15 we looked to achieve value for money and procured services at competitive costs whilst aiming to retain auditor expertise.

3. In Year Achievements

- Service and Finance staff who work with grants were invited to attend grants workshops which took place in June 2015 and also in October 2015. These workshops were well attended and feedback was very positive.
- Both service and finance staff are being supported by one to one grants training upon request.

4. Future Planned Developments

- A grants workshop is due to take place in February 2016 to assist with closedown processes and also in June 2016 which will be delivered prior to the start of the 2015/2016 grants and audit process.

IMPLICATIONS AND RISKS

Financial Implications and risks:

For 2014/2015 specific grant claims that require external audit provided £91m and those that require compliance/assurance audit provided £41m in funding for the Council. 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. The good standard of working papers provided continues to contribute to the grants audit process.

For 2013/14 the cost of additional audit fees, outside the audit commission remit was £18,500 and for 2014/15 is £24,436 totalling £42,936. It is not currently possible to estimate how many grant funding bodies will require external audit certification from 2015/16 onwards and as such the Council may be exposed to the risk of increased audit fees.

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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Annual Certification Report 2014/15 London Borough of Havering

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

December 2015



The Members of the Audit Committee

London Borough of Havering
Town Hall
St Edwards Way
Romford
RM1 3AR

December 2015

Ladies and Gentleman

Annual Certification Report (2014/15)

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 the Housing Benefit certification work we have undertaken at the London Borough of Havering for the financial year ended 31 March 2015.

Our work has been undertaken in accordance with our appointment by Public Sector Appointments Ltd (PSAA) as external auditor. The PSAA is the replacement body of the Audit Commission as at 1 April 2015 and from this date only the Housing Benefit Subsidy claim was subject to certification under this new arrangement. For independent reporting on any other grant claim or return this fell outside of the PSAA arrangement and as such is not included within this report.

We ask the Audit Committee to consider the results of Housing Benefit certification work.

Yours faithfully,

PricewaterhouseCoopers LLP

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Results of Certification Work

BEN01 Housing Benefit Subsidy Claim for year ended 31 March 2015

a) Introduction

Local authorities responsible for administering housing benefit (HB) for tenants of a local authority and rent allowances for private tenants, claim subsidy from the Department for Work and Pensions (DWP) in accordance with section 140 of the Social Security Administration Act 1992 and the Income-related Benefits (Subsidy to Authorities) Order 1998, SI 562 as amended. With the exception of certain areas of benefit spending where authorities have the most scope to monitor and control costs, subsidy is paid at the full rate of 100 per cent. The final claim form (MPF720A) reflects the Authorities annual position for subsidy owed to / from DWP. DWP use the results of auditor certification on this claim form as part of their determination in the annual settlement or claw back with an Authority.

Public Sector Audit Appointments Ltd (previously known as the Audit Commisison) require that all matters arising are either amended for (where appropraite) or reported within a qualification letter which follows a prescribed format. The certification approach which is to be applied by auditors (acting as agent to PSAA) is defined by the PSAA and they have agreed guidance with the DWP.

The Authority claim required no amendments to the original claim form as submitted to the DWP in April 2015 and 3 qualification letter matters. These matters were not significant and related to roundings between the benefits system and the claim form, an overpayment of benefit of £50 in one case and an underpayment of benefit of £174 in another.

b) Summary information

CI Reference	Scheme Title	Form	Original Value	Final Value	Amendment	Qualification
BEN01	Housing Benefit Subsidy	MPF720A	£91,427,310	£91,427,310	No	Yes

c) Fee

Claim/Return	2014/15 Indicative Fee	2014/15 Proposed Final Fee	2013/14 Billed Fee
	£	£	£
BEN01 Housing Benefit Subsidy	21,570	21,570	20,107

The fee reflects the Council's current performance and arrangements for Housing Benefit certification.

d) Control issues

We have no control issues to raise following the completion of our 2014/15 certification work. No matters were raised in 2013/14 either.

Glossary

Scope of Work

Each year the Department for Work and Pensions (DWP) requests certification by an appropriately qualified auditor, of the Housing Benefit subsidy claim as submitted to them by local authorities each April. Certification arrangements are made by the PSAA (transitional body for the Audit Commission from 1 April 2015) under Section 28 of the Audit Commission Act 1998 and allows for the DWP to obtain assurance about an authority's entitlement to Housing Benefit subsidy in respect of their administering of housing benefit (HB) for tenants of a local authority and rent allowances for private tenants.

Certification work is not an audit but a different type of assurance engagement which reaches a conclusion but does not express an opinion. This involves applying prescribed tests, as set out within HBCOUNT Modules and BENO1 Certification Instruction (CI) issued to us by the PSAA; these are designed to provide assurance, for example, that the Authority claim is fairly stated and in accordance with specified terms and conditions.

Our role is to act as 'agent' of the PSAA when undertaking this certification work. We are required to carry out work and complete an auditor certificate in accordance with the arrangements and requirements set by the PSAA.

We also 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 value for money.

International Standards on Auditing UK and Ireland (ISAs), the Auditing Practices Board's Practice Note 10 (Revised) and the PSAA's Code of Audit Practice do not apply to certification work.

Statement of Responsibilities

The PSAA publishes a 'Statement of responsibilities of grant-paying bodies, authorities, the PSAA and appointed auditors in relation to claims and returns' this is available from the PSAA website. It summarises the Commission's framework for making certification arrangements and highlights the different responsibilities of grant-paying bodies, authorities, the PSAA and appointed auditors in relation to claims and returns.

PSAA Definitions for Certification work

Abbreviations used in certification work are:-

'appointed auditor' is the auditor appointed by the PSAA (previously known as 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;

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

'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

'Commission' refers to either the PSAA 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

assurance about that subject matter;

issues;

‘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;

‘HBCOUNT Modules’ are written instructions and a set of mandated tools from the Commission to appointed auditors on the certification of the Housing Benefit claims and returns;

‘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;

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

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

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

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

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

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

This document has been prepared only for the London Borough of Havering and solely for the purpose and on the terms agreed through our contract with the PSAA. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else. © 2015 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

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Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>Housing and Council Tax Benefits Subsidy (BEN01) (30/11/2014)</p> <p>Recommendation: 1</p>	<p>From our initial testing of 60 cases, we found one case where benefit had been overpaid as a result of miscoding the claimant's income and applying a disregard inappropriately. The overpayment was classified incorrectly as the claimant's error when it was the Council's error.</p> <p>Testing of an additional sample of 40 cases identified one further error which was similar in nature.</p> <p>The extrapolated error across the population of similar cases is £2,055. This matter was reported in our qualification letter.</p>	<p>While the issue noted is relatively minor in the context of the complexity of the BEN01 claim, we recommend that the Authority continues its programme of training officers regularly, to minimise the possibility that errors occur in future.</p>	<p>I can confirm that in both instances we have taken the necessary steps to bring this to the attention of those officers involved. Furthermore, I have detailed the nature of the error and provided advice to the processing team on what to do in similar circumstances, if there is any doubt about the classification. Any issues of this nature identified by my team throughout the year, as well as those identified during the audit, are resolved and addressed in the same manner.</p>	<p>Responsible Officer:</p> <p>Sarah Bryant, Director of Exchequer and Transactional Services/Chris Henry, Council Tax and Benefits Manager</p> <p>Timescale:</p> <p>On-Going</p>

AUDIT COMMITTEE
2 March 2016

Subject Heading:	Audit plan 2016/17
CMT Lead:	Jane West Managing Director oneSource
Report Author and contact details:	Daniela Jung, Senior Audit Manager Tel: 0203 373 9782 Email: daniela.jung@onesource.co.uk
Policy context:	To inform the Committee of the proposed audit plan for 2016/17.
Financial summary:	N/A

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

Havering will be clean and its environment will be cared for	[x]
People will be safe, in their homes and in the community	[x]
Residents will be proud to live in Havering	[x]

SUMMARY

This report provides the Audit Committee with a proposed audit plan for 2016/17. The oneSource audit team delivers an integrated service to both Havering and Newham and the plan includes audit reviews within oneSource. The audit plan is attached to this report (Appendix 1)

The work of the oneSource audit team is underpinned by the Audit Charter and Strategy. This is shown in Appendix 2.

RECOMMENDATIONS

1. To approve the 2016/17 audit plan.

2. To raise any issues of concern and ask specific questions of officers where required.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs related to the delivery of this interim plan will be met from within the 2016/17 budget.

Legal implications and risks:

There are no apparent risks in noting the content of this report. Failure to effectively manage risk is likely to have legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

N/A

REPORT DETAIL

1. Introduction

- 1.1 The Internal Audit Service is part of oneSource and provides an integrated service to the two partner authorities. The service review has been completed and a structure proposed but the change management process has not yet been completed. Nevertheless, efficiencies will be achieved in the forthcoming year by delivering a total of 395 days of reviews within oneSource (support services).
- 1.2 Work delivered against the 2016/17 audit plan will be presented to the June Committee in line with the quarterly reporting cycle.

2. Developing the 2016/17 Audit Plan

- 2.1 The methodology used to develop this plan focused on the quantification of the risks associated with the London Borough of Havering's objectives in consultation with key officers. The process has identified a number of audit areas that will require attention in year but focused on highlighting the areas where priority is needed.
- 2.2 In addition, for the development of the audit plan, there have been meetings with colleagues working within oneSource and Newham to discuss shared and converging systems and processes and the opportunity to provide increased assurances with reduced audit input.
- 2.3 The draft plan has been circulated to senior management and the oneSource management team for comment.

3. Proposed Plan

- 3.1 The audit plan has been developed to provide maximum assurance using the internal audit resource available. Considering the resources that are available during 2016/17 and expected utilisation rates, the full oneSource plan contains 1,900 days. 602 days have been allocated to Havering audits and 395 days to auditing oneSource services across both authorities.
- 3.2 Appendix A attached to this report contains the proposed audit plan for 2016/17. The complete audit plan, including Newham audits, is presented for information.

3. Audit Charter and Strategy

- 3.1. The role, purpose, authority and responsibility of Internal Audit is set out in the Audit Charter and Strategy. This is shown in Appendix 2.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs related to delivery of this audit plan will be met from within the 2016/17 budget for the Audit Service. The resources available are sufficient to review all the high risk areas identified in the planning process, as well as allowing the team to undertake some probity work. There are risks associated with not having an adequate audit provision to provide assurance and protect the organisation from loss.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report. Risk relating to the change management process within the service will be managed under the relevant policy and procedure.

Equalities implications and risks:

None arising directly from this report.

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
oneSource LBN/LBH	Exchequer & Transactional Services (oneSource)	25	NNDR - billing and collection	Postponed at request of Director. Brought forward from 2015/16.	To confirm that there are robust arrangements to ensure that NNDR income is maximised.	Fundamental financial system
	Exchequer & Transactional Services (oneSource)	25	NNDR - debt recovery and write offs	Postponed at request of Director. Brought forward from 2015/16.	To confirm that there are robust arrangements to ensure that NNDR income is maximised.	Fundamental financial system
	Exchequer & Transactional Services (oneSource)	30	Establishment controls	Staff costs represent a significant proportion of the councils' budgets.	To review the adequacy of controls and processes relating to the staff establishment.	Strategic and operational risk
	Exchequer & Transactional Services (oneSource)	25	Cash management	High value transactions.	To confirm that all receipts and payments recorded are properly accounted for.	Fundamental financial system
	Legal Services	20	Legal charges	New system for charging.	To confirm that there is a robust system for the calculation and communication of recharges to services.	Strategic and operational risk
	Finance	30	Capital monitoring and forecasting (Collaborative Planning)	Audit intelligence.	To confirm that capital expenditure forecasts are fed into the reporting tool promptly and accurately.	Strategic and operational risk
	Finance	20	Capital e-sourcing application review	New application.	To confirm the confidentiality, availability and integrity of data held on the system.	IT audit
	ICT	25	Change management	Has not been audited recently.	To confirm that changes to the IT infrastructure are handled promptly and efficiently.	IT audit
	oneSource ICT	25	Security over data warehouse	Has not been audited before.	To confirm that confidential personal data is protected and access to it controlled.	Strategic and operational risk

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
	Asset management	25	Corporate property portfolio management	Has not been audited recently.	To provide assurance that the corporate property portfolio is managed effectively in accordance with strategic objectives; that statutory requirements and environmental obligations are complied with.	Strategic and operational risk
	Finance/Exchequer & Transactional Services	70	1Oracle	1Oracle implementation in Newham in April 2016/ Cyclical review of financial systems.	Scope for reviews to be determined in consultation with S151 officers at Havering and Newham and Director of Exchequer & Transactional Services.	Fundamental financial system
	Exchequer & Transactional Services (oneSource)	30	Housing Benefit	High value/complex system.	Review to be scoped in consultation with the Director of Exchequer & Transactional Services.	Fundamental financial system
	Exchequer & Transactional Services (oneSource)	15	BACS transmission files (payments and receipts)	Risk that BACS transmission files can be tampered with if access is not strictly controlled.	To provide assurance that processes for transmitting BACS files are sufficiently secure to mitigate any fraud risks.	Strategic and operational risk
	Exchequer & Transactional Services (oneSource)	30	Staff vetting	Reputational and financial risk arising from individuals being employed without the right to work in the UK.	Compliance checks on ID check, Right to Work and criminal records clearance.	Strategic and operational risk
		395				

Appendix 1

HAVERING AND NEWHAM AUDIT PLAN 2016/17

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
Havering	Adults' services	20	Care packages	Audit intelligence.	To confirm that that care packages meet the client's needs and are value for money.	Strategic and operational risks
	Adults' services	20	Reablement service	Audit intelligence.	To confirm that the council has an reablement service that is effective and efficient.	Strategic and operational risks
	Adults' services	20	Hospital discharges	Audit intelligence.	To ensure that the council's arrangements with the NHS Trust for hospital discharges is effective and efficient.	Strategic and operational risks
	Adults' services	20	Safeguarding	Corporate risk.	To ensure compliance with the council's safeguarding policies and procedures, in line with the Care Act 2014.	Strategic and operational risks
	Children's services	20	Fostering and adoption	New team established.	To confirm that fostering allowances are paid to the right families and that they are monitored. That the process of placing a child from referral is robust and ensures that this happens within an adequate time period.	Strategic and operational risks
	Children's services	20	Commissioning	Rolling programme of procurement reviews.	To confirm that services commissioned represent value for money.	Procurement/Commissioning/Contracts
	Children's services	20	Children's and Adults' disability service	New team established.	To confirm that the new team has established sound processes to enable them to discharge their responsibilities under the Children's and Families Act 2014.	Strategic and operational risks
	Children's services	5	Troubled Families programme	Funding requirement	Results verification	Grant certification
	Community and Resources	20	Grants to Voluntary Organisations	Audit intelligence.	This review will examine monitoring arrangements to ensure that monies are spent in accordance with grant conditions.	Procurement/Commissioning/Contracts
	Cross cutting	40	Compliance with procurement rules: services tbc	Rolling programme of procurement reviews.	To check compliance with procurement rules.	Strategic and operational risks

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
	Cross cutting	20	Risk management	New risk management policy and strategy.	Compliance with the risk management policy and strategy.	Corporate governance
	Cross cutting	5	Grant claims	Some grant claims require Internal Audit sign off.	In accordance with requirements of funding body.	Strategic and operational risks
	Cross cutting	15	Interface with 1Oracle (feeder system tbc)	Rolling programme of interface reviews.	To confirm that interfaces between different applications are working as intended, enabling data to be transferred completely and accurately.	Strategic and operational risks
	Cross cutting	20	Consultancy and advice to directorates	To respond to emerging risks.	Provide consultancy and advice as required.	Consultancy/Advice
	Crosscutting (Adults/Children)	20	Social care application (SWIFT) review	Has not been audited recently.	To confirm that there are application controls within the system to ensure the confidentiality, integrity and availability of the data.	IT audit
	Housing	20	Liberty Housing/Private Sector Leasing	Complex area, with significant expenditure.	To confirm that the management of properties leased from the private sector provides value for money.	Strategic and operational risks
	Housing	20	Audit of process following review by the Chartered Institute of Housing	At request of Head of Service.	Scope to be determined in consultation with the Head of Housing Services.	Strategic and operational risks
	Human Resources/Organisation Development(one Source)	20	Declarations of interest	Issues of failure to declare interests and lack of awareness of responsibilities identified by Governance Group.	To check compliance with the requirement to declare personal interests.	Strategic and operational risks
	Schools	4.5	Broadford Primary	Triennial review.		LA schools

Appendix 1

HAVERING AND NEWHAM AUDIT PLAN 2016/17

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
Havering	Schools	4.5	Clockhouse Primary	Triennial review.		LA schools
	Schools	4.5	Dame Tipping CE Primary	Triennial review.		LA schools
	Schools	4.5	Hacton Primary	Triennial review.		LA schools
	Schools	4.5	Harold Wood Primary	Triennial review.		LA schools
	Schools	4.5	Langtons Infant	Triennial review.		LA schools
	Schools	4.5	Newtons Primary	Triennial review.		LA schools
	Schools	4.5	Parsonage Farm Primary	Triennial review.		LA schools
	Schools	4.5	Ravensbourne Special	Triennial review.		LA schools
	Schools	4.5	Rise Park Junior	Triennial review.		LA schools
	Schools	4.5	St Ursula's RC Junior	Triennial review.		LA schools
	Schools	4.5	The Mawney Primary	Triennial review.		LA schools
	Schools	4.5	Towers Infant	Triennial review.		LA schools
	Schools	4.5	Wykeham Primary	Triennial review.		LA schools
	Schools	5	Gaynes	Triennial review.		LA schools
	Schools	5	Marshalls Park	Triennial review.		LA schools
Schools	5	Royal Liberty	Triennial review.		LA schools	
Schools	5	Sanders Draper	Triennial review.		LA schools	

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HAVERING AND NEWHAM AUDIT PLAN 2016/17

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
	Schools	90	Health checks	Service to schools.		LA schools
	Streetcare	20	Parking enforcement: Blue Badges	Audit intelligence.	Compliance checks on the validity of Blue Badges.	Strategic and operational risks
	Streetcare	15	Contract monitoring	Rolling programme of procurement reviews.	To confirm that there are robust arrangements for ensuring that services provided are in line with the contract.	Procurement/Commissioning/Contracts
	Cross-cutting	25	Follow up reviews	Annual activity.	Audit recommendations are followed up to check that they have been implemented.	Strategic and operational risks
	Cross-cutting	24	Contingency		Contingency for unexpected events.	Strategic and operational risks
		602				

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
Newham	Adults	20	Mental Health Safeguarding	Team taken back into the council during 2015/16. Brought forward from 2015/16.	To confirm there are robust arrangements to manage mental health safeguarding concerns.	Strategic and operational risk
	Adults	20	Better Care Fund	Better Care Fund: policy framework for 2016/17.	This audit will review the governance and decision making processes relating to the allocation of the funding under the new structures.	Strategic and operational risk
	Adults	15	Azeus case management application review	Implementation delayed to 2016/17. Brought forward from 2015/16.	To confirm the confidentiality, availability and integrity of data held on the system.	IT audit
	Adults	15	Brokerage	Part of the Adults Operating Model. Brought	This audit will review the controls within the brokerage team, which ensure that care packages meet the client's needs and are value for money.	Strategic and operational risk

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
				forward from 2015/16.		
	Adults	20	Scheduled reviews	Part of the Adults Operating Model. Brought forward from 2015/16.	To confirm that scheduled reviews of care packages take place in accordance with the Operating Model.	Strategic and operational risk
	Asset Management (oneSource)	15	East Ham Town Hall roof repairs procurement	Next stage of the East Ham Campus works.	This audit will confirm that the procurement process was carried out in accordance with the Contract Standing Orders.	Procurement/Commissioning/Contracts
	Children's services	20	Emergency Duty Team	Brought forward from 2015/16.	Review of the referral process.	Strategic and operational risk
	Children's services	20	Panel processes	Panel processes have recently been revised.	Review of the management and administration of the panel processes work.	Strategic and operational risk
	Children's services	20	School admissions	At request of the service.	To confirm compliance of the service to the relevant guidance for school admissions.	Strategic and operational risk
	Children's services	100	Schools	Rolling programme of school audits.	Governance and financial controls.	Strategic and operational risk
	Children's services	20	Community Hubs contract monitoring	Has not been audited.	Scope to be determined.	Strategic and operational risk
	Children's services	5	Troubled Families programme	Funding requirement	Results verification	Grant verification
	Community and Environment	15	Blue Badges	Has not been audited recently.	This audit will review arrangements for the issue of blue badges.	Strategic and operational risk
	Community and Environment	20	Vehicle maintenance	At request of the service.	To confirm that arrangements for the maintenance of the council's fleet of vehicles provides value for money.	Strategic and operational risk

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
	Community and Environment	15	Jenkins Lane civic amenity site	Audit intelligence.	Review to establish that there are systems and processes in place to ensure that only Newham residents may tip waste free of charge.	Strategic and operational risk
	Community and Environment	15	Compliance with procurement rules: RMS	Compliance with procurement rules is carried out in different service areas on a rolling basis.	This audit will confirm that procurement is carried out in accordance with the Contract Standing Orders.	Procurement/Commissioning/Contracts
	Corporate Services	15	Customer complaints system (ELIF) application review	New application.	To confirm the confidentiality, availability and integrity of data held on the system.	IT audits
	Cross cutting	30	Data matching	Annual activity.	Comparing data sets to identify and investigate anomalies.	Strategic and operational risk
	Cross cutting	5	Grant claims	Annual activity.	Compliance with funding authority requirements.	Grant certification
	Cross cutting	15	Interface with 1Oracle (feeder system tbc)	New ERP system.	To confirm that interfaces between different applications are working as intended, enabling data to be transferred completely and accurately.	IT audit.
	Cross cutting	25	Risk management	New risk management policy and strategy.	Compliance with the risk management policy and strategy.	Corporate governance
	Cross cutting	25	Consultancy and advice to directorates	To respond to emerging risks.	Provide consultancy and advice as required.	Consultancy/advice
	Cross cutting	25	Corporate governance: decision making process	At management request	To confirm that reports submitted to Members for decision making are cleared by the right officers at the right time	Corporate governance
	Exchequer & Transactional Services (oneSource)	15	Northgate application review	Brought forward from 2015/16.	Confirming the availability, reliability and confidentiality of data.	IT audit
	Finance (oneSource)	15	Council's shareholder function	At request of S151 officer	This review will examine how well the council discharges its responsibilities as a	Corporate governance

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HAVERING AND NEWHAM AUDIT PLAN 2016/17

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
					shareholder of the companies that it has created	
	Housing	20	Houses in multiple occupation licensing	Brought forward from 2015/16.	To confirm compliance with the HMO regulations.	Strategic and operational risk
	Housing	15	Housing Register	New verification processes.	To confirm that the housing register is administered in accordance with the new procedure.	Strategic and operational risk
	Housing	15	Housing Register application review	Changes made to the application to accommodate the new verification process.	Confirming the availability, reliability and confidentiality of data.	IT audit
	Housing	20	Local Space	Audit intelligence.	Confirming the robustness of the council's governance and financial controls.	Strategic and operational risk
	Housing	20	Homelessness	Has not been audited recently.	To confirm that the council complies with its legal obligations	Strategic and operational risk
	Human Resources/Organisational Development (oneSource)	10	Mediation	Annual activity.	To provide consultancy and advice as required.	Consultancy/advice
	Human Resources/Organisational Development (oneSource)	15	Declarations of interest	At request of Audit Board.	To confirm compliance with the declarations of interest policy.	Strategic and operational risk
	Planning and Regeneration	18	Community Infrastructure Levy	New activity.	To confirm that the council has arrangements in place to raise and collect the levy. To confirm that there are arrangements in place to spend the receipts in accordance with the regulations.	Strategic and operational risk
	Planning and Regeneration	15	Section 106 agreements	Audit intelligence.	To confirm that there are arrangements in place to collect and spend the s106 receipts in accordance with the regulations.	Strategic and operational risk

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HAVERING AND NEWHAM AUDIT PLAN 2016/17

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Audit scope	Type of audit
	Cross cutting	100	Follow up reviews	Annual activity.	Audit recommendations are followed up to check that they have been implemented	Strategic and operational risk
	Cross cutting	130	Contingency		Contingency for unexpected events.	Strategic and operational risk
		903				



Internal Audit Strategy and Charter 2016

Background

The purpose of this Internal Audit Strategy and Charter is to define internal audit's purpose, authority and responsibility, in accordance with the UK Public Sector Internal Audit Standards. It establishes internal audit's position within the councils and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of internal audit activities.

This Strategy and Charter also covers the arrangements for the appointment of the Head of Internal Audit and internal audit staff, and identifies the nature of professionalism, skills and experience required.

Statutory requirements for an Internal Audit function

The role of internal audit is underpinned by the statutory requirement. This is set out in the Accounts and Audit Regulations 2015 which states that every local authority "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

The statutory requirement is also within Section 151 of the Local Government Act 1972. This states that every authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs" in that it should include "compliance with statutory requirement for accounting and audit".

The CIPFA statement on the Role of the Chief Financial Officer in Local Government states that the chief financial officer (CFO) must:

- Ensure that an effective internal audit function is resourced and maintained
- Ensure that the authority has put in place effective arrangements for internal audit of the control environment
- Support the authority's internal audit arrangements, and
- Ensure that the Audit Board/Committee receives the necessary advice and information, so that both functions can operate effectively.

In a local authority, internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Leadership/Management Team and in particular to the CFO, assisting the CFO in discharging his/her responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the councils' financial affairs.

The Public Sector Internal Audit Standards require that the internal audit charter defines the terms 'board' and 'senior management' in relation to the work of internal audit. For the purposes of internal audit work, the 'board' refers to the councils' Audit Board/Committee, which oversees the work of internal audit. Senior management is defined as the Corporate Leadership/Management Team.

Definition of Internal Audit

Internal audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Applicable Standards that must be complied with

The internal audit function is required to comply with Public Sector Internal Audit Standards (PSIAS). The relevant internal audit standard setters, which include the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of local government, have adopted the common set of PSIAS from 1 April 2013. The PSIAS encompasses the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). Compliance with the Standards is subject to a quality assurance and improvement programme in line with the Standards.

The PSIAS incorporate a code of ethics to promote an ethical and professional culture. Auditors are required to comply with this code, as well as any code of ethics from other professional bodies they belong to and any code of ethics required by the partner councils.

Responsibility of Internal Audit

The Head of Internal Audit must deliver an annual internal audit opinion and report that can be used by the partner organisations to inform its annual governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is the 'assurance role' for internal audit. In order to achieve this, the internal audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the councils' needs, adds value, improves operations and helps protect public resources.

- To provide assurance to management that the councils' operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
- To provide advice and support to management to enable an effective control environment to be maintained.
- To promote an anti-fraud, anti-bribery and anti-corruption culture within partner councils, to aid the prevention and detection of fraud.
- To investigate allegations of fraud, bribery and corruption via the counter fraud team.

Responsibility of the Councils

Councils are responsible for ensuring that internal audit is provided with all necessary assistance and support to ensure that it meets the required standards.

The respective roles of managers in relation to internal audit are set out in the Council's Financial Regulations.

The Financial Regulations are specific about the role of the Chief Financial Officer in relation to internal audit, setting out access rights, independence and support for resources sufficient to provide an opinion and support managers to prevent and detect fraud.

The Financial Regulations specify the responsibilities of the Directors in terms of access, explanations, reporting of allegations of fraud, consultation ahead of system changes and responding to audit recommendations.

The terms of engagement provide greater detail on the roles of management and the internal audit service for individual topics of work such as:

- Audit and compliance planning
- Risk based audit reviews
- Compliance reviews
- Investigating issues and concerns raised by services
- Auditing grant claims
- Follow up audit reviews
- Consultancy advice on controls and system development

Each individual audit assignment is governed by a specific terms of reference for that piece of work, detailing the scope of the audit and value for money elements that will be covered, and if appropriate, the resources to be applied and the timeframe.

There is a separate part of the terms of engagement covering counter fraud work, setting out in detail the respective responsibilities of the counter fraud team and managers, such as:

- Independent investigation function
- Advice around whether this is a fraud issue
- Fraud awareness.

This is supplemented by two documents;

1. The Anti Fraud and Corruption response plan
2. The Anti money laundering response plan

These provide detailed guidance on what to do if a manager discovers fraud, corruption, money laundering or has an allegation reported to them.

Head of Internal Audit

The Head of Internal Audit will have sufficient skill, experience and competencies to work with the leadership team and the Audit Board/Committee, influencing risk management, governance and the internal control environment of each council. The Head of Internal Audit will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to professional values and the Code of Ethics. The appointment will be made in consultation with the Chair of the Audit Board/Committee and any such other members deemed appropriate at the time.

The Head of Internal Audit is responsible for ensuring that there is access to the full range of knowledge, skills, qualifications and experience to deliver the audit plan and meet the requirements of the PSIAS. In addition to internal audit skills, the Head of Internal Audit will specify any other professional skills that may be needed by the internal audit team.

The Head of Internal Audit has direct access to the Head of Paid Service, all levels of management and elected members, as set out in each councils' financial regulations.

Independence of Internal Audit

Managers and senior staff within internal audit are required to make annual declarations of interest and declarations must be made, if required, by all other staff, in accordance with each council's declaration's policy. Everyone is reminded of the need to make annual declarations of interest. Declarations made are reviewed by management and, if required, appropriate control measures are put in place to prevent conflicts of interest.

Where appropriate, internal audit may provide advice and support during the design and implementation of new systems and controls. In such cases, independence is preserved by ensuring that the person providing this support takes no part in any subsequent audit.

Audit assignments are distributed in such a way as to ensure that independence is maintained and objective opinions can be given. Auditors work on a wide range of assignments and do not focus on any particular area of the council's business.

When auditors are recruited from within the council, they cannot audit the area where they previously worked for at least six months, to preserve the auditor's independence.

Relationships

The Head of Internal Audit reports directly to the S151 Officer of each council.

The Head of Internal Audit can meet separately with the Chair of the Audit Board/Audit Committee, if required.

The Head of Internal Audit, or an appropriate representative of the internal audit team, attends meetings of the Audit Board/Committee.

The Head of Internal Audit, or an appropriate representative, attends meetings of the partner councils' senior management teams to discuss the audit plan, following consultation over the proposals with directors.

Scope of Internal Audit

Responsibility

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions

for the purposes of audit work and to ensure the authenticity of these documents.

Due Professional Care

The internal audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All council policies and procedures
- All relevant legislation
- Any code of ethics prescribed by an accounting or audit body to which an auditor is a member of.

Internal audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor. The last assessment was conducted in 2014.

All staff working on audit engagements is subject to oneSource's performance development scheme.

Opinion work

The PSIAS state that the Head of Internal Audit is responsible for developing a risk-based plan. The Head of Internal Audit takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the Head of Internal Audit uses his/her own judgment of risks, after consideration of input from senior management and the board. The Head of Internal Audit must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

For each audit assignment, a terms of reference is developed and agreed with the client setting out the scope of the audit. At the completion of the audit, a report is produced which provides an audit opinion on the control environment in place.

Additionally, where possible, value for money is considered and if appropriate a value for money opinion is provided to enable members to gain a more comprehensive view of value for money within the council. As a general rule, there are unlikely to be value for money opinions for audits of information technology applications.

The risk based plan is subject to review mid year to take account of changes in the risk environment and internal factors within each council.

All audit reports are submitted to the Audit Board/Committee for information and discussion.

Non- opinion work

From time to time, the internal audit service will undertake work which does not contribute explicitly to the overall audit opinion. These will be probity or regularity audits in response to investigations, certification of grant claims or limited consultancy exercises in the form of support for new systems being developed.

Where such work is undertaken, this is set out as part of the Head of Internal Audit's annual report. The risk the work is providing assurance around is also specified.

Prior to accepting any consultancy work, due consideration is given to its potential impact on the independence of internal audit and the impact on the ability of the section to provide sufficient assurance to provide an opinion on the council's overall control framework.

Fraud

Managing the risk of fraud is the responsibility of line management; however the Section 151 Officer retains specific responsibilities in relation to the detection and investigation of fraud.

The internal audit service provides a counter fraud function to support the Section 151 officer in the discharge of his/her responsibilities.

Fraud risks are also considered as part of the scope for audit assignments and specific testing takes place to ensure that there are adequate controls in place to prevent and detect fraud, errors and omissions, as part of the opinion work.

The oneSource counter fraud team is trained to deal with cases to a criminal standard and adhere to a range of legislative requirements to enable cases to be prosecuted, where necessary.

The counter fraud team undertakes work of a proactive nature through various data matching exercises. The aim is to try to identify potential frauds at an early stage, assess the controls against the risks and enable identified fraud to be dealt with whilst giving a level of assurance over council data.

The counter fraud team also responds reactively to allegations of fraud from both internal and external sources, aiming to investigate cases where appropriate to a criminal standard.

The counter fraud team maintains and updates each councils' counter fraud policies, including:

- Anti fraud and corruption policy statement
- Anti fraud and corruption publicity policy
- Anti fraud and corruption prosecution policy
- Anti bribery policy
- Anti money laundering policy
- Policy for the use of the confiscation regime within the Proceeds of Crime Act 2002.

The team also maintains specific, detailed guidance for managers to help them to deal with situations that they may be unfamiliar with the:

- Anti fraud and corruption response plan
- Anti money laundering response plan.

They also provide training and resources to enable officers to identify and prevent fraud in the design and control of their systems.

Work carried out by the counter fraud team is reported to members and contributes to the Head of Internal Audit's annual opinion.

Reporting

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report to the top of the organisation and this is done in the following ways:

- The Internal Audit Charter and any amendments are reported to senior management team and the Audit Board/Committee. The annual Internal Audit Plan is compiled by the Head of Internal Audit, taking account of the risk framework and after input from directors and heads of service. It is then presented to the senior management team, the oneSource Management team and Audit Board/Committee, annually, for noting and comment.

- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the Audit Board/Committee as part of the audit planning process. Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported regularly to Audit Board/Committee.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Board/Committee.
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be included in the annual Head of Internal Audit report. If there is significant non-conformance, this may be included in the partner council's Annual Governance Statement.

Internal Audit Access Rights

Internal audit has unrestricted access to all records and information, both manual and computerised, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. Audit may enter a property and has unrestricted access to all locations and officers where necessary, on demand, and without prior notice. Right of access to other bodies funded by the council should be set out in the conditions of funding.

Internal Audit Resources

The Head of Internal Audit carries out regular benchmarking to compare the audit service to other London boroughs and all participating councils. The key indicator around resources is the level of audit coverage per £m turnover.

External audit carry out an annual review of internal audit to determine if reliance can be placed on its work.

The internal audit service has a train all policy, where information is cascaded to all members of the team to ensure that they can keep their skills up to date.

AUDIT COMMITTEE
2 March 2016

Subject Heading:	Head of Internal Audit - Quarter Three Progress Report: 5 th October 2015 to 3 rd January 2016
CMT Lead:	Jane West Managing Director oneSource
Report Author and contact details:	Sandy Hamberger - Interim Head of Internal Audit. Tel: 01708 434506 E-mail: sandy.hamberger@onesource.co.uk
Policy context:	To inform the Committee of progress on the assurance work undertaken in quarter three of 2015/16.
Financial summary:	N/A

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

Havering will be clean and its environment will be cared for	[x]
People will be safe, in their homes and in the community	[x]
Residents will be proud to live in Havering	[x]

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 5th October 2015 to 3rd January 2016.

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. The report is presented in three sections.

Section 1 Introduction, Issues and Assurance Opinion

Section 2 Executive Summary A summary of the key messages from quarter three.

Section 3 Appendices Provide supporting detail for members' information

Appendix A Detail of Quarter Three Internal Audit Work (5th October 2015 to 3rd January 2016)

Appendix B Summary of Audit Reports

Appendix C List of High Priority Audit Recommendations

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks and ultimately good governance. 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 obliged 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. Such failures may result in financial losses for the Council.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report. Any implications or risks arising from the planned restructure of the service will be picked up under the change management procedures and identified within the restructure report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

N/A

Section 1: Introduction, Issues and Assurance Opinion

1.1 Introduction

- 1.1.1 This composite report brings together all aspects of internal audit and anti-fraud work undertaken in quarter three, 2015/16, in support of the Audit Committee's role.
- 1.1.2 The main body of the report provides the Head of Internal Audit's ongoing assurance opinion on the internal control environment and highlights key outcomes from audit and anti-fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide greater detail for the committee's information.
- 1.1.3 The 2015/16 planned audit days is 800, which has reduced by 8% (67 days) compared to 2014/15. This is in line with the 2013/14 London average of 900 days.
- 1.1.4 The oneSource service transformation restructure is due to be formally launched, with consultation starting in late March 2016. It is anticipated this will now include a third partner. This will deliver the savings and efficiencies required in line with the Joint Committee Business Case.

1.2 Current/Future Key Issues

- 1.2.1 The new Accounts and Audit Regulations 2015 for local Authorities in England that came into effect on 1st April 2015 are being followed.
- 1.2.2 The requirement to have internal audit has been amended to require local authorities to "*...undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*".
- 1.2.3 The Head of Internal Audit chairs the officer working group, which seeks to strengthen the Officer Governance Group; this will include consideration of the assurance perspective and will include the risk management arrangements and any changes that may arise from the current CIPFA/SOLACE consultation paper on the *Framework for Delivering Good Governance in Local Government* that closed at the end of September 2015. The report is expected in April 2016. The Governance Group met in January 2016 and considered progress against the significant governance issues in the 2014/15 Annual Governance Statement and the Corporate Risk Register, to ensure it was still relevant.
- 1.2.4 Organisations are no longer required to undertake an annual review of effectiveness to meet the requirements of the Public Sector Internal Audit Standards but to have an ongoing programme of quality assessment and improvement and an external review every five years. This will form part of the oneSource Audit Charter and Strategy.
- 1.2.5 With the demise of the Audit Commission from April 2015, councils are required to consider how they will procure External Audit. The LGA have set up a company to oversee the existing contracts and councils will be required to

determine if they wish to remain part of that arrangement or look at an alternative. It was anticipated that an information report would be presented at the December Committee; however the LGA has not concluded its offering in time for this to happen. The Audit Committee will be advised when the information is available.

- 1.2.6 The DCLG funded Fraud Data Sharing Hub is under development across London Boroughs. This enables data to be shared in order to help deter and prevent crime. Havering has signed the required Memorandum Of Understanding in order to progress this.
- 1.2.7 Post the implementation of the oneSource restructure of Internal Audit, there will be a “one Policy, Strategy and Procedure” approach, in line with the principles in the Business case that will ensure duplication is removed and partners receive the same service standard. The Audit Committee is reminded that it agreed the oneSource Anti-Fraud and Corruption Strategy at the September 2015 meeting.

1.3 Level of Assurance

- 1.3.1 At the December Committee meeting, Members received the Head of Internal Audit’s opinion based upon the work undertaken in quarter two of 2015/16, which concluded that reasonable assurance could be given that the internal control environment is operating adequately.
- 1.3.2 Based upon the work undertaken since the last update to Members, no material issues have arisen, which would impact on this opinion. There have been three Limited assurance reports issued this quarter.

Section 2. Executive Summary of work undertaken in quarter three, 2015/16

- 2.1.1 Delivery of the Audit Plan is progressing as anticipated. There have been three deletions from the 2015/16 Audit Plan in quarter three (Appendix A, Section 1.1.6 sets out these alterations).
- 2.1.2 In the previous quarters, one Nil Assurance report (Manor Green Pupil Referral Unit [MGPRU]) and one Limited Assurance report (Members’ Allowance Payments) were issued.
- Progress on the implementation of recommendations for the Manor Green Pupil Referral Unit is being monitored. Further progress has been made since the original audit with 21 of the 27 recommendations being implemented. Members will have the opportunity to ask questions of the appropriate officer, who will be in attendance at this meeting.
 - A follow up audit has been undertaken of Members Allowances Payments. The follow up found that the recommendation to review the process of Members Allowances Payments has now been implemented and a new process instigated. As a result of the findings of this follow up review the assurance level has been raised from Limited to Full Assurance.
- 2.1.3 In quarter three there have been three Limited assurance reports issued, these being:
- Service Manager (Transactional Services);

- Tenant Incentive Scheme; and
- Offsite Storage.

A follow up of these areas will be included in the 2016/2017 Audit Plan.

2.1.4 Of the 85 audit recommendations, 28 (Appendix C sets out the list) were categorised as “High Priority”. Nineteen of these have been completed, one has been superseded and eight are in progress.

2.1.5 The performance against key performance indicators is within acceptable variances.

2.2.1 There have been no amendments to the Proactive Audit Work Plan for 2015/16 in quarter three, shown within Appendix A, Section 2.1.

2.2.2 The NFI Council Tax ‘Single Person Discount’ and ‘Approaching 18’ matches have been reviewed.

- Two thousand seven hundred and eighty eight Council Tax ‘Single Person Discount’ matches were identified and 283 investigations are currently in place to establish whether Single Person Discount applies; and
- Three hundred and twenty five ‘Approaching 18’ matches were identified and 62 investigations have so far resulted in 35 cancellations and recharges applied, totalling £11,646.82.

2.2.3 On 11 September 2015 all staff were advised via email that if they were identified on 9 October 2015 as an employee in council tax arrears, and had not contacted the team to make arrangements for repayment, the Council would be making arrangements to make the relevant deductions directly from their salary to bring the account up to date.

Following investigation, 14 employees were identified as owing Council Tax, of these:

- One of the 14 employees had no arrangement in place to repay their Council Tax debt;
- Two of the 14 employees were proceeding to an Attachment of Earnings;
- Eleven of the 14 employees had made arrangements with the Council Tax Team to repay their debt prior to 9 October 2015; and
- Savings identified £841.32.

2.2.4 The reactive auditor received 10 new investigator referrals in quarter three; three were passed to the criminal investigation team. From the start of the year £41k of savings and £2k of losses were identified. Of the £41k savings identified £16k has been recovered. Eighty nine recommendations were made to improve the control environment.

2.3.1 During quarter three the criminal investigation team:

- Recovered two properties with a nominal value of £36k;
- Had one housing application withdrawn with a nominal value of £18K;
- Had five Right to Buy applications withdrawn with a value of £190k;
- Had three Notices to Quit served; and
- 128 housing cases were under investigation.

Appendix A: Quarter Three Internal Audit Work (5th October 2015 to 3rd January 2016)

1.1.1 Excluding the Interim Head of Internal Audit, the established structure of the team delivering this work is six full time equivalent posts. The structure of the team is used to determine the number of days in the Audit Plan.

1.1.2 The team:

- Undertake risk based systems audits;
- Review grant claims;
- Provide consultancy advice for new and developing systems;
- Provide assurance with regard to compliance with policy and procedure;
- Undertake school probity audits;
- Undertake audit health checks on schools, on behalf of the Head of Learning and Achievement, which generates an income for the team; and
- Undertake proactive and reactive audits/investigations as required

1.1.3 With the transfer of Havering counter fraud employees to the Department for Work and Pensions (DWP), the residual workload has been incorporated into the team and has been classified into four headings:

- Proactive audit investigations;
- Reactive audit investigations;
- Criminal / fraud investigations and
- HR investigations.

1.1.4 In June 2015 the Audit Committee approved an Annual Audit Plan for the 2015/16 financial year totalling 560 days for Havering Audits, 110 days for auditing oneSource services across both authorities and 185 days for proactive audits (800 audit plan days).

1.1.5 The table below provides a summary of the audits removed from, and added to, the 2015/16 approved Audit Plan during quarter three and the reason for the change; this is a common occurrence within audit services. For some audits the budget is not required or is exceeded; this is closely monitored for performance management purposes.

1.1.6 The impact on the total days in the plan has been managed by adjusting other budgets for the year. The totalled planned days remain at 800.

Audit Title	Orig. Days	Rev. Days	Reason
Corporate Complaints	15	1.5	As the Service has undertaken quarterly 'audits' this has been removed from 2015/2016 Audit Plan
NNDR	15	0	At the request of the Director this has been moved to 2016/17 Audit Plan.
Council Tax Collection	15	0	Removed from the 2015/16 Audit Plan as a previous review was completed in May 2015

1.2 Risk Based Systems and School Audits

1.2.1 As at 3rd January 2016, 11 assignments had been completed and 10 were in progress but had not reached final report stage. The table below details the final reports issued in quarter three.

Report	Assurance	Recommendations				Ref
		High	Med	Low	Total	
System / Computer Audits						
Service Manager (Transactional Services)	Limited	2	4	1	7	B (1)
Tennant Incentive Scheme	Limited	1	6	0	7	B (2)
Offsite Storage	Limited	3	3	0	6	B (3)
Troubled Families Phase 2	N/A	0	0	0	0	B (4)
Long Term Sickness Follow Up	N/A	0	0	0	0	B (5)
Members Allowances Follow Up	N/A	0	0	0	0	B (6)
School Audits						
Corbets Tey School	Full	0	0	1	1	B (7)
The James Oglethorpe Primary School	Substantial	1	2	5	8	B (8)
La Salette Catholic Primary School	Substantial	0	3	2	5	B (9)
Parklands Infant School	Substantial	0	3	3	6	B (10)
St. Ursula's RC Infant School	Substantial	0	6	5	11	B (11)
Total		7	27	17	51	

1.2.2 Management summaries for the six system reports and five school reports are included under Appendix B: Audit Report Summaries.

1.2.3 Work nearing completion at the end of December included four risk based systems audits and two computer audits.

1.3 Key Performance Indicators

1.3.1 The table below details the profiled targets and the performance to date at the end of December 2015. The total number of audits, where there will be a standard approach to deliverables for 2015/16 is 45.

Performance Indicator	Quarter 3 Target	Quarter 3 Actual	Quarter 3 Variance
Percentage of Audit Plan Delivered	74	81	+7
Number of Briefs Issued	38	39	+1
Number of Draft Reports Issued	36	27	-9
Number of Final Reports Issued	32	27	-5

1.4 Outstanding Audit Recommendations Update

1.4.1 Internal Audit follow up all recommendations with management 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.

1.4.2 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.

1.4.3 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.

1.4.4 The list of what the High Priority Risks are is shown in Appendix C; the current level of implementation is shown in the table below.

1.5 Outstanding Audit Recommendations			No. of Recommendations in the Original Report			Position as at 03/01/16		
Audit Year	Area Reviewed	HoS Responsible	Assurance Level	H	M	L	Complete	In Progress
12/13	iProcurement	Internal Shared Services	Limited	0	2	1	2	1 ♦
12/13	Transport	Asset Management	Substantial	1	4	2	5	2
12/13	Accounts Payable	Internal Shared Services	Substantial	0	1	0	0	1♦
2012/13 Totals				1	7	3	7	4
13/14	Tenancy Management	Homes & Housing	Limited	0	14	0	13	1
13/14	Compliance with Corporate Policy: Fees and Charges	Finance / Asset Management	N/A	0	2	0	1	1
2013/14 Totals				0	16	0	14	2
14/15	Gas Safety (Building Services)	Homes & Housing	Substantial	1	4	3	5	3
14/15	TMO's	Homes & Housing	Limited	3	4	0	5	2
14/15	Environmental Protection & Housing	Regulatory Services	Limited	2	2	2	5	1
14/15	PARIS System	Exchequer & Transactional Services	Limited	3	1	0	3	1
14/15	Manor Green PRU	Children's Services	Nil	17	10	0	21	6
14/15	Responsive Maintenance	Homes & Housing	Substantial	1	2	0	0	3
2014/15 Totals				27	23	5	39	16
15/16	Service Manager (Transactional Services)	Human resources & Organisational Development	Limited	0	2	1	2	1
2015/16 Totals				0	2	1	2	1
Totals				28	48	9	62	23

♦ Implementation of these recommendations are being delayed due to the development of joint oneSource procedures etc.

2.1 Proactive Audit Investigations

2.1.1 The revised proactive work plan for 2015/16 is shown below:

Description	Risks	Plan days	Quarter 3 Status
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	On Hold
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	Completed
NNDR	A full review of the NNDR process to gain a position statement and establish the recovery levels to date and possible weaknesses in the system particularly with Charities and 'Pop Up Shops'	20	Delayed due to Restructure
Direct Payment Assessments	This to include the assessment and payment calculations and follow ups with the Care Assessors to establish processes and evaluate controls.	15	Planned
Employee Applications	This could involve any applications, including attempts, to gain employment or subsequently where any of the details prove to be false, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.	20	Planned
NFI	The match identifies addresses where the householder is claiming a council tax single person discount on the basis that they are the only occupant over 18 years of age yet the electoral register suggests that there is somebody else in the household who is already or approaching 18 years of age. This may or will make the discount invalid.	30	In progress
NAFN	National Anti-Fraud Network	0	Now with

Description	Risks	Plan days	Quarter 3 Status
			Corporate Fraud
Whistleblowing	All whistleblowing referrals. Eight reported.	10	Ongoing
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation. Ninety six made; three outstanding.	15	Ongoing
Freedom of Information Requests	To undertake all Freedom of Information Requests relating to Internal Audit Investigations.	5	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. Fourteen calls received; two remain under investigation.	5	Ongoing
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. Twenty one cases received and completed.	15	Ongoing
Advice to Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. Seventeen cases assisted.	15	Ongoing
	TOTAL	180	

2.1.2 The proactive audit investigation work comprises three elements:

- Co-ordinating the Authority's investigation of the National Fraud Initiative (NFI) data;
- A programme of proactive audit investigations; and
- Following up the implementation of recommendations made in previous corporate fraud investigations and proactive audit reports.

2.1.3 The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud and is conducted every two years. The 2014 NFI matches are available in 2015 and comprise of 11,329 High Risk matches. 2,788 Council Tax 'Single Person Discount' matches were identified and 283 investigations are currently in place to establish whether Single Person Discount applies. 325 'Approaching 18' matches were identified and 62 investigations have so far resulted in 35 cancellations and recharges applied, totalling £11,646.82.

2.1.4 On 11 September 2015 all staff were advised via email that if they were identified on 9 October 2015 as an employee in council tax arrears, and had not contacted the team to make arrangements for repayment, the Council would be making arrangements to make the relevant deductions directly from their salary to bring the account up to date.

On 29 October 2015 Internal Audit conducted an Oracle employee name and address report comparison to the Council Tax debtors. The IDEA report matched 14 employees to Council Tax debtors via postcode and surnames. Further analysis via Academy identified:

- 1 of the 14 employees had no arrangement in place to repay their Council Tax debt;
- 2 of the 14 employees were proceeding to an attachment of Earnings;
- 11 of the 14 employees had made arrangements with the Council Tax Team to repay their debt prior to 9 October 2015; and
- Savings identified £841.32.

2.2 Reactive Audit Investigation Cases

2.2.1 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 2015/16						
Cases at start of period	Referrals received	Referred To Criminal Fraud Team	Referred to HR	Audit Investigations		
				Not Proven Cases	Successful Cases	Cases at end of period
5	10	3	0	4	3	5

2.2.2 The table below provides information on the sources of Audit Investigation referrals received.

Source and Number of Referrals Quarter 3 2015/16	
Number of Referrals/ Type	IA Reports Qtr 3
Anonymous Whistle blower	3
External Organisations / Members of the Public	1
Internal Departments	6
Total	10

2.2.3 The table below shows the number and categories of Audit Investigation cases at the end of the Quarter 3, compared to the quarter 2 totals.

Reports by Category		
Audit Investigation Category	Previous Cases Qtr 2	Current Cases end of Qtr 3
PC – Misuse and Abuse	0	1
Breach of Code of Conduct	1	1
Breach of Council Procedures	3	2
Misuse of Council Time	0	0
Direct Payments	0	0
Theft	1	0
Disabled Facility Grant	0	0
Procurement Fraud	0	1
Money Laundering	0	0
Total	5	5

2.2.4 The table below shows the case outcomes for the Internal Audit Investigations from September to December 2015.

Case Outcomes	
Outcome	Qtr 3
Management Action Plan	3
Resigned	0
Disciplinary	0
No case to answer	4
Withdrawn Application	0
Total	7

2.3 Savings and Losses

2.3.1 The investigations carried out by Audit Investigations 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.

2.3.2 The table below shows the savings and losses identified during 2015/16.

Case details	Savings Identified	Losses Identified	Actually Recovered Savings	Details
Timesheet Abuse		£238.70		Employee falsifying flexi records. 34 working days over claimed 13 hours. Employee resigned.
Falsification of Flexi Records		£162.90		Employee falsifying flexi records.
Overcharge Gas Safety 2013	£866.00		£866.00	Contractor overcharge and poor internal check and control.
Overcharge Gas Safety 2014	£912.00		£912.00	Contractor overcharge and poor internal check and control.
Mileage Claim		£133.62		Officer falsified mileage claims disciplinary action taking place
Internet Misuse		£457.88		28.13 hours on the internet during Council time. Time Lost.
Misuse of Time		£790.25		Employee leaving early arriving late and taking unauthorised

Case details	Savings Identified	Losses Identified	Actually Recovered Savings	Details
				breaks.
Misuse of Time		£141.22		Employee leaving early arriving late.
Member of Staff in Housing		£65.69		Overclaiming start and finish points with mileage claims minimum losses from analysis but has actually been going on for years.
NFI	£6,159.23			NFI death pension report identifies total gross overpayment that Pensions will now recover.
NFI	£49.78			NFI death pension report identifies total gross overpayment that Pensions will now recover.
NFI	£574.13			NFI death pension report identifies total gross overpayment that Pensions will now recover.
NFI	£18,000.00			Housing Waiting List to Immigration Status no right to housing report 236. Housing application removed and notional £18k applied as instructed via Cabinet Office.
Council Tax Debts to Council Employees	£841.32			Employee debt. Unable to attach to earnings as a School employee and differing Code of Conduct. Schools Code of Conduct to be updated.
Duplicate Payment	£2,055.00		£2,055.00	Duplicate Payment found and payment stopped.
Internet Misuse	£259.35		£259.35	14 hours and 51 minutes during 31.5 working days on the internet to be

Case details	Savings Identified	Losses Identified	Actually Recovered Savings	Details
				reimbursed in time.
NFI Approaching 18's	£11,646.82		£11,646.82	NFI flexible data matching and Council Tax Teams recovery process have @ 31 December 2015 removed 62 SPD and imposed back payments totalling £11,646.82 to date and ongoing.
	£41,363.63	£1,990.26	£15,739.17	

2.4 Audit Investigation Recommendations

2.4.1 In 2014/15 there were 15 'Recommendations Not Yet Due' carried forward. Ninety six recommendations were made at the end of December 2015 and three are outstanding at the agreed implementation date.

Quarter 3 Audit Investigation Recommendations	Qtr 1	Qtr 2	Qtr 3
Total Recommendations	54	89	96
Recommendations Implemented	34	69	81
Recommendations Not Yet Due	20	19	8
Recommendations Slipped	1	3	3
Of Which High Priority	0	1	1

3.1 Criminal Investigations Team

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

Open and under investigation c/f from Q1	Referrals			Housing Out comes	Housing Benefit		Fraud not proven	Cases open and under investigation
	Received	Passed to DWP	Rejected		Over-payments	Prose-caution		
128	69	0	0	3	0	1	16	128

3.1.2 During the quarter:

- Two properties were recovered with a nominal value of £36k;
- One housing application was withdrawn with a nominal value of £18K;
- Five Right to Buy applications were withdrawn with a value of £190k;
- Three Notices to Quit were served; and
- One hundred and twenty eight housing cases were under investigation.

Appendix B Summary of Audit Reports

Service Manager (Transactional Services)	Schedule B (1)
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1.1 Introduction

- 1.1.1 The audit of Service Manager forms part of the 2015/2016 Internal Audit plan.
- 1.1.2 Support Works has been used by Transactional Services since its launch in April 2011. Due to the holding server no longer being supported by Microsoft and Support Works itself no longer having a maintenance contract, an alternative solution was needed.
- 1.1.3 Following consultation and system demonstrations it was decided that the system to be implemented was to be Service Manager. This system is already used by the ICT service within oneSource.
- 1.1.4 The Service Manager system went live within Transactional Services on 11th May 2015.

1.2 Objectives and Scope

- 1.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance that:
- Staff are adequately trained to use the system;
 - Service requests are accurately processed and completed in a timely manner; and
 - Service Manager provides meaningful management information that is monitored regularly.
- 1.2.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:
- Staff lack adequate training;
 - Access to the system is not controlled;
 - Service requests are not being recorded within the system;
 - Service requests are not allocated or are incorrectly allocated;
 - Service requests received are not monitored accurately / effectively;
 - Service requests are not completed within the timescales detailed within the SLA;
 - Management information is not produced and monitored; and
 - Poor performance is not acted upon.

1.3 Summary of Audit Findings

- 1.3.1 The system automatically issues a reference number when a request is received. If the initial call reference is not referred to when contacting shared services a new request is raised which results in the duplicate request. Duplicate requests that have been raised will be closed within the system and therefore be included, and skew, performance data. There will also be an impact on resources of having to complete duplicate requests.

- 1.3.2 Service requests raised that require information from multiple teams will be allocated to individual teams one at a time. It is the responsibility of the person who is assigned to the request to reallocate the call in the system to the second team and to not close the request until fully completed. Performance information within the system monitors the length of time it takes to complete each call. This does not consider whether the call requires information from multiple sources, which could affect the delivery time and have a detrimental effect on performance data.
- 1.3.3 Each service request raised is allocated a severity which dictates the length of time it should be completed in. There are three levels of severity within the system; these are severity 4, severity 5 and severity 6. The deliverable timescale varies from 5 days to no fixed period. The system currently attaches a default of severity 4, which is notified to the customer at the point of raising the request. Once requests are assigned to staff the severity of the call can be changed to reflect the level of work required to complete the request. Customers aren't made aware of any changes to severity other than at the initial point of contact when notified of the request being severity 4.
- 1.3.4 When initially installed the system had a holding period for service requests of 6 months. Beyond that period the requests are archived. Due to the level of financial information passed through the service teams some information is required by statute to be kept for a set period of time; this includes the information included within journal requests. When archiving service requests the system deletes attachments, meaning that journal requests would not be stored on the system beyond a 6 month period. A process has been implemented that ensures that the system saves attachments onto a specific computer drive. This enables the relevant financial information to be retained for the required length of time.
- 1.3.5 The Service Manager system has no capability to put calls on hold. Therefore if additional information/ clarification is sought from the customer the system continues to monitor each request against the pre-set delivery timescales, regardless of whether the service are able to action the request. There are no alternatives within the system that will allow for the delivery time to be suspended while the customer is contacted. Any calls where the customer is contacted for additional information is likely to extend beyond the current timescale limits and adversely affect any performance data.
- 1.3.6 Currently there are no reports set up within the system that will allow for meaningful performance data to be extracted.
- 1.3.7 The Service Manager system is also used by ICT staff within both Havering and Newham. There should therefore be scope to be able to share knowledge of the system amongst oneSource staff.
- 1.3.8 When monitoring performance within the system it has been noticed that the delivery time of severity 6 (no fixed time) doesn't therefore allow these calls to be monitored accurately. There have been discussions within the service as to how best to monitor these calls, and a change in the timescale has been agreed with the severity 6 calls to be delivered within two months. At the time of the audit this had not been actioned within the system.

1.4 Audit Opinion

1.4.1 Limited Assurance has been given on the system of internal control.

1.4.2 The audit makes two high, four medium and one low priority recommendations which comprise the need for:

High

- Training to be undertaken by those staff responsible for creating performance reports.
- Reports to be created/ extracted that accurately reflect the performance against agreed objectives.

Medium

- Customers should be made aware at the point of request for the need to include the service request [reference] in any future communications to reduce the risk of duplication.
- User training and 'How to' guides to include managing multi-faceted requests.
- Spot checks to be carried out on calls that exceed delivery limits to highlight non-compliance.
- Delivery timescale for Severity 6 to be amended in order to be reported on.

Low

- Customers should be notified when the severity of the Service Request has been amended.

2.1 Introduction

2.1.1 The Tenant Incentive Scheme has been introduced, as an alternative to the Right to Buy Scheme, with the main purposes:

- To assist existing Council housing tenants to buy a home in the open market and in so doing vacate their council property so that it can be re-let to someone in need; and
- Free up council accommodation to meet the highest property size demand on the Housing register.

At the time of the review there were 2,484 people on the Council Housing list and 9,696 of housing stock; of which 8,889 is general needs and 807 is sheltered accommodation.

2.1.2 The Tenant Incentive Scheme offers a one off grant of up to £33,000 to cover the shortfall between the tenant's saving's and the amount required to make a deposit of 20% of the purchase price. Council tenants can apply for the scheme through Liberty Housing (previously Private Housing Solutions), a Council run social letting agency.

2.1.3 The grant is equally funded by the Greater London Authority (GLA) and from allocated resources within the Housing Revenue Account and can be used to fund house purchases inside or outside the borough. The scheme is run by the Private Housing Initiatives Team.

2.1.4 The scheme was launched in October 2014 with funding for an expected 20 grants being issued over a two year period. At the start of the review, two grants had been awarded.

2.1.5 This review has been undertaken to ensure that the council is compliant with regulations and council requirements. This audit report is in respect of the control environment within the Private Housing Initiatives Team with regard to the issuing of Tenant Incentive Scheme grants.

2.2 Objectives and Scope

2.2.1 The audit of the Tenant Incentive Scheme is included in the 2015/16 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control in operation.

2.2.2 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance regarding:

- Compliance with the GLA funding conditions and the organisation's policies and procedures;
- The Tenant Incentive Scheme is administered in an effective manner and that payments are accurate and timely;
- Resources are safeguarded from fraud and abuse; and
- The production and review of accurate and relevant management information including performance monitoring.

2.2.3 The audit examined the internal control environment applied to mitigate the following potential key risks:

- Delivery of the service does not comply with the GLA funding conditions and the organisation's policies and procedures;
- Procedures are bureaucratic and / or fail to acknowledge risk;
- Unauthorised and / or incorrect grants are made;
- Ineligible grants are paid / fraud goes undetected;
- Errors / overpayments go undetected;
- Transactions are not supported by robust audit trails;
- Funding is not reclaimed from the GLA;
- Inadequate budgetary control;
- The system does not support the production of suitable management information; and
- Management information is not utilised to monitor achievement of the service objectives and drive key decisions.

2.3 Summary of Audit Findings

2.3.1 The procedure document does not include the following requirements, which would ensure that the correct information is requested and also mitigate the risk of fraud:

- Wage slips to include shift allowances and bonuses and to cover a six month period;
- Statements for all current and savings accounts to be requested to cover a six month period; and
- Proof of residency documents to be requested to cover specific periods of time e.g. current, 6 months and 1 year to show that the applicant has been residing at the property for a period of time.

2.3.2 Testing was carried out on the two successful applications processed to date, to establish if all necessary checks were being carried out in line with the Tenant Incentive Procedure document. The findings are as follows:

- Procedures are not being fully followed;
- Requested documents are not always scanned to the system;
- An income and expenditure form is not being completed; and
- The figures used for the calculation of the grant are not retained on file.

2.3.3 Applicants are required to commission a survey on the property they wish to purchase, however, both applicants were not advised of this requirement and therefore a copy of the survey was not obtained and retained on file. Applicants are also advised to contact Homes and Housing to give a Notice to Quit. Evidence that this has been completed is not requested by the member of the team processing the application; however, they do advise Housing Officers that the tenant has applied for the scheme.

2.3.4 On completion of the purchase of the property, the applicant's solicitor is requested to complete and submit an RX1 on behalf of the Council stating that a charge is to be put on the property and if the property is to be sold within five years of completion, written confirmation from the Council must be gained and the amount of the grant repaid. No documentation is retained on file to indicate that the RX1 has been completed and a charge has been put on the property.

- 2.3.5 The Tenant Incentive Scheme Application form is completed which includes a declaration signed by each applicant. There is no reference to the fact that any grant awarded cannot be used to purchase a property under the Right to Buy scheme.
- 2.3.6 Applications are processed by either of the two Private Sector Housing Advisors and this is determined by who deals with the initial enquiry. There are no secondary checks on the application to ensure all necessary checks have been carried out and the grant amount has been correctly calculated. No secondary checks take place on the Electoral Register or Council Tax records to establish if a single applicant is the only resident at the property. Audit checks found that this would be a useful additional control.

2.4 Audit Opinion

- 2.4.1 A **Limited** Assurance has been given on the system of internal control.
- 2.4.2 When an audit is given a limited assurance, it is normal practice to conduct a follow up audit to test that the recommendations have been fully implemented. As the Tenant Incentive Scheme had a low uptake and is due to end in March 2016, a follow up audit will only be conducted if there are further successful applications.
- 2.4.3 The audit makes one high priority and six medium priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to:

High

- Procedures are fully followed to ensure the applicant meets the eligibility criteria.

Medium

- The procedure document to be reviewed;
- All documentation is requested as specified in the procedure document;
- A copy of the RX1 is obtained and retained on file;
- The application to include reference to the Right to Buy scheme on the declaration;
- Secondary checks should be carried out before the grant amount is released; and
- A robust audit trail to be maintained throughout the application process.

3.1 Introduction

- 3.1.1 Councils need to have a robust framework for managing the storage of its data, to maintain their legal responsibilities under the Freedom of Information Act 2000 and the Data Protection Act 1998 (DPA).
- 3.1.2 Havering uses an organisation called Iron Mountain for storing paper records offsite
- 3.1.3 The spend on offsite storage with Iron Mountain in 2014/15 was approximately £69,000.

3.2 Objectives and Scope

- 3.2.1 The objective of the audit is to confirm that both Havering and Newham Councils have a robust framework to manage its offsite data storage.
- 3.2.2 This audit review considered the management of offsite storage. We interviewed officers in a sample of services, who were high users of offsite storage, including Adults, Children, Planning and Property Services, to find out what arrangements are in place.

3.3 Summary of Audit Findings

- 3.3.1 The main supplier for the provision of offsite storage (Iron Mountain) has been in use for a prolonged period of time. Although officers were approached to provide a copy of the contract with Iron Mountain, one was not provided. It is unclear how the services of Iron Mountain were procured in the absence of a signed contract. The Head of Facilities Management was able to provide a pre-tender report that was drafted in 2013. This was drawn up to address poor performance that Housing was experiencing with Iron Mountain. However, no further information was forthcoming.
- 3.3.2 No disaster recovery plan for Iron Mountain was provided. Hence, Audit cannot confirm whether there are adequate arrangements in place.
- 3.3.3 Audit was informed by the Information and Records Officer that when the council was in the process of procuring the offsite storage service, they had visited Iron Mountain's depot in Kent to confirm what security arrangements they had. However, this has not been confirmed/repeated recently.
- 3.3.4 There was evidence of offsite records being reviewed in Adults' and Children's services. Audit was provided with a pre-destruction list prepared by Iron Mountain, which identified the files held that were due to be destroyed. Upon destruction, a destruction certificate was provided as evidence. However, there was no evidence that documents have been reviewed in the other services looked at although the officers stated that records need to be held for an indefinite period as part of historical records.
- 3.3.5 An excel data log was provided for files sent to storage by the Adults' and Children's services, which is managed by the Records and Information Officer.

The excel log included destruction dates. The planning team also maintains an excel record.

- 3.3.6 There is no documented process for the authorisation and retrieval of paper files held in offsite storage. Audit was informed that Iron Mountain have a list of authorised officers who can request a file from storage, via email. An order form is completed and faxed. Audit was informed that when an officer who is not authorised sends an email request, Iron Mountain is unable to process their request and would ask for a listed user to send in the request.
- 3.3.7 The Records and Information Officer is able to set up officers to be authorised users across the council. A charge is applicable for requesting files and sending back the files for re-storage. The spend on offsite storage with Iron Mountain in 2014/15 was approximately £69,000.

3.4 Audit Opinion

- 3.4.1 A **Limited** Assurance has been given on the system of internal control.
- 3.4.2 The audit makes three high and three medium priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to:

High

- Market testing for offsite storage should be carried out as soon as possible, to identify whether value for money is being achieved.
- Officers should ask Iron Mountain for a copy of their disaster recovery plan and enquire whether it has been tested recently.
- Officers should satisfy themselves that the current security arrangements are robust. This check should be repeated periodically.

Medium

- On a periodic basis, paper files held in storage should be reviewed by officers to identify whether any files are due for destruction. Where files have been destroyed, destruction certificates should always be retained.
- For the purpose of consistency and data quality, the council should develop guidance on the information that should be recorded in the data logs. The council may also want to consider developing a pro-forma data log that services can adopt and adapt to their circumstances. Data logs of paper files kept offsite should always be maintained, including destruction dates. Where possible, this should be cross referenced with periodic reports from the offsite storage provider.
- There should be a documented process for officers on how to manage data held offsite, including file retrieval.

4.1 Introduction

- 4.1.1 The Troubled Families Programme was first launched in 2012 and has been expanded into Phase 2 which began during 2015/16. The target for the London Borough of Havering is to claim for 1,410 families by end of May 2020. The expectation is that around 2,000 families will need to be nominated to ensure the claim target is met.
- 4.1.2 To be eligible for the expanded programme each family must meet three out of the six national or local criteria as detailed in the Troubled Families Outcomes Plan (TFOP). The six criteria focus on antisocial behaviour, poor school attendance, worklessness, domestic violence and abuse and health problems.
- 4.1.3 A Payment by Results (PBR) claim can be submitted as soon as the turnaround of the troubled family can be determined under the significant and sustained progress / outcomes as detailed in the TFOP and evidenced by relevant sources.
- 4.1.4 For Phase 2 a Financial Framework for the Expanded Troubled Families Programme has been issued by the Department for Communities and Local Government (DCLG) which outlines a specific role for Internal Audit. This includes consultation during the development of the TFOP and some on-going sample testing, checks and verification prior to each claim being made.

4.2 Objectives and Scope

- 4.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee assurance regarding:
- Evidential expectations required to claim results;
 - The robustness of the process in place for making a claim; and
 - The validity of the claims to be made.
- 4.2.2 Given that there is yet to be a claim made under this phase the audit has only reviewed the documents, forms and processes in place to ensure that there are sufficient controls to prevent invalid claims being submitted.

4.3 Audit Findings

- 4.3.1 The Troubled Families Programme has been in existence across the Council since 2012 so the process is already embedded within relevant areas. However, Phase 2 is introducing new criteria and in doing so is drawing additional teams and practitioners into the process. This has been dealt with well by the Troubled Families Team with the successful delivery of four briefings to around 80 members of staff outlining the process and the new criteria, including a scenario based exercise to promote discussion and highlight potential misunderstandings.
- 4.3.2 Generally staff seemed aware of their responsibilities and when they might need to seek clarification. Staff attending the sessions received information packs including all the relevant forms they might need. The intention is to include these

forms in an electronic version as part of the next Early Help and Troubled Families newsletter.

- 4.3.3 Communication, training and assistance from the Troubled Families team has been found to be timely, consistent and proactive. The briefing attended by the auditor demonstrated that the Troubled Families programme is mostly embedded in current processes and that it was viewed positively by staff for the most part. Getting to grips with the new criteria under Phase 2 appears to be the biggest challenge but was embraced positively by staff.
- 4.3.4 The TFOP is a living document which will be subject to amendment and update as this process continues. This includes the indicators to assist in the identification of families for nomination as well as the outcome and evidence source. Because the criteria is new under Phase 2 there is an element of trial and error that cannot be avoided and actually is crucial to ensuring the positive development of the programme. The potential impact of this on claims will be an unknown until a claim window is reached.
- 4.3.5 The Troubled Families Resource Panel is a new addition to the programme and has only recently been promoted to staff involved in nominating families. As the panel has not yet convened the success of this is also likely to be a case of trial and error due to the individual circumstances of each family. This was discussed at the briefing attended by the auditor and an element of uncertainty was noted amongst the staff regarding the circumstances when this might be utilised. Further guidance citing some examples when this might be an option for families could be useful as well as detailing any situations in which funds would not be considered. However, at the point of the next audit review (expected to be early January 2016 to coincide with the claim window) if the Resource Panel has met and funds have been released then this will be included in audit testing. If possible the auditor will also attend a Resource Panel meeting to aid the review.
- 4.3.6 The Troubled Families Programme Team has demonstrated that there is sharing of process and procedure with other Councils and seeking out best practice and innovations. Furthermore there is evidence of joined up working practices within the Council as once a nomination is accepted the Troubled Families Team email out all relevant information to all the teams and practitioners involved with the family, pulling them all together for this purpose. This was further demonstrated at the briefing in which the auditor was able to observe the interactions of staff from different areas when discussing the scenarios and how this might apply to an actual family in the Borough.

4.4 Conclusion

- 4.4.1 There are adequate procedures and processes in place to successfully assist and lead practitioners through the process of nominating a family and evidencing and submitting a claim. However, until a number of families under the varying criteria in Phase 2 have passed through the entire process it is difficult to determine if the TFOP and other relevant forms and guidance are sufficient and complete. Therefore a further audit review will take place near the January claim window to carry out some sample testing of the nominations, evidencing and claims as well as any resources allocated via the Troubled Families Resource Panel.

5.1 Background

- 5.1.1 The 2014/15 Internal Audit Plan included a review of Long Term Sickness. The audit found that only a nil assurance level could be provided as a result of the findings and so a follow up audit was scheduled into the 2015/16 audit plan. The purpose of this review was to provide the Authority's management and the Audit Committee with assurance the recommendations raised from the original Long Term Sickness audit had been implemented or to provide a progress update for any that remain outstanding.
- 5.1.2 The 2014/15 audit review found that 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. In order to strengthen the control environment four medium priority recommendations were raised and accepted by management and were due to be implemented by the end of February, March and April 2015.

5.2 Progress on Implementation

- 5.2.1 A follow up review has now been completed to assess progress made to implement the recommendations raised in the original audit report.
- 5.2.2 The follow up found that all four recommendations have been implemented.
- 5.2.3 An original sample of 6 absences was chosen at random and managers contacted to provide evidence of any interaction with the member of staff who was sick; this included Occupational Health referrals, formal/ informal discussions, Fit Notes and Return to Work documentation. It was found that:
- In one case incorrect details had been entered into Oracle and the employee had only been off sick for three days and not 38 as per Oracle;
 - In one case the manager had left and documentation was unavailable;
 - three cases had been progressed in line with the policy; and
 - in the remaining case the manager was on leave at the time of the review.

5.3 Conclusion

- 5.3.1 As a result of the findings of this follow up review the assurance level has been raised from Nil to Substantial Assurance which means that 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.

6.1 Background

- 6.1.1 The Local Authorities (Members' Allowances) (England) Regulations 2003 provide that a Local Authority shall make a Members' Allowance scheme in accordance with these regulations each year.
- 6.1.2 All Councillors are paid a basic allowance, which is currently £10,208 per annum, paid monthly. A Special Responsibility Allowance (SRA) is also paid to those councillors who hold special responsibilities in relation to the Council.
- 6.1.3 The 2014/15 Internal Audit Plan included a review of Members Allowances. The audit found that a limited assurance level could be provided as a result of the findings and so a follow up audit was scheduled into the 2015/16 audit plan. The purpose of this review was to provide the Authority's management and the Audit Committee with assurance the recommendation raised in the original audit had been implemented or to provide a progress if it remained outstanding.
- 6.1.4 Limitations in the system of control were identified in the original audit that put the system objectives at risk. In order to strengthen the control environment one high recommendation was raised. The recommendation was accepted by management and was to be implemented by the 1st July 2015.

6.2 Progress on Implementation

- 6.2.1 A follow up review has now been completed to assess progress made to implement the recommendation raised in the original audit report. The follow up found that the recommendation has now been implemented.

6.3 Conclusion

- 6.3.1 As a result of the findings of this follow up review the assurance level has been raised from Limited to Full Assurance which means there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

7.1 Introduction

- 7.1.1 The audit of Corbets Tey School was undertaken as part of the rolling triennial programme of school audits.
- 7.1.2 Corbets Tey School was last audited in March 2015 when the completion of the Audit Health Check resulted in a Substantial Assurance on the School's system of internal control being given. The opinion reflected the fact that whilst there was basically a sound system of control in place, limitations in the systems of control identified were such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
- 7.1.3 The 2015 report made two medium priority recommendations and four low priority recommendations. As part of this review, progress to implement the recommendations raised in 2015 has been undertaken. This review confirmed that four recommendations have been implemented.
- 7.1.4 The remaining two outstanding recommendations, both low priority, relate to the need for:
- Action should be taken to ensure that the access rights detailed within the Finance Policy accurately match the current access rights to the FMS system.
 - As a good practice exercise a summary income and expenditure should be recorded for each trip.

7.2 Objectives and Scope

- 7.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:
- Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management;
 - Income;
 - Banking;
 - Procurement;
 - Payments; and
 - Capital Projects.

7.3 Summary of Audit Findings

- 7.3.1 The schools Business Continuity arrangements are documented and have been tested. There is currently no alternative accommodation for pupils, in the event of long term closure of the school. Due to the level of behaviors and complex needs of pupils, it is considered that in the event of an emergency, leading to the closure of the school, the re-location of the pupils would be decided at the time with decisions made dependent on the level of damage to the school and the classes involved.

- 7.3.2 The Finance Policy and Procedures document and the authorised users of the SIMS system should agree. A comparison was undertaken between the users of the system as detailed within the Finance Policy & Procedure document against those who actually have access. Within the Finance Policy the Head teacher is detailed as having access Authorise only, when checking against the access to the system it was found the Head Teacher does not have access.
- 7.3.3 The school undertakes a residential trip with one overnight stay. The last Health check identified that an income and expenditure sheet was not produced for the trip in order to balance the cost centre to zero. The value of the trips is low and the trip is subsidised, apart from the food, where parents are asked for a contribution to cover the cost. As there had not been a school trip undertaken so far this year, an income and expenditure sheet was not available to test, therefore this recommendation is not being reiterated within this report but the school should progress this recommendation when the needed arises.
- 7.3.4 The inventory has not been reviewed since the beginning of term, as there have been changes in classroom position; therefore the location of items on the inventory has become out of date. The inventory has not been tested as the Finance Officer is preparing to undertake a stock check within the next couple of weeks. As classrooms move annually, the stock check is always undertaken after the academic year has begun.

7.4 Audit Opinion

- 7.4.1 **Full Assurance.** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- 7.4.2 The audit makes one low priority recommendation which comprise the need for:
- Access rights detailed in the Finance Policy & Procedure document to accurately match the current access right to the system

8.1 Introduction

- 8.1.1 The audit of James Oglethorpe Primary School was undertaken as part of the rolling triennial programme of school audits.
- 8.1.2 James Oglethorpe Primary School was last audited in May 2014 when the completion of the Audit Health Check by Internal Audit resulted in a Substantial Assurance on the School's system of internal control being given. The opinion reflected the fact that whilst there was basically a sound system of control in place, limitations in the systems of control identified were such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
- 8.1.3 The May 2014 report made one high and nine medium priority recommendations. As part of this review, progress to implement the recommendations raised in 2014 has been undertaken.
- 8.1.4 The review found that seven recommendations had been implemented. The remaining recommendations have been reiterated as part of this review and relate to:
- It is recommended that a costing and end of journey summary is prepared and signed off for school trips;
 - Staff using their own cars for school business should produce relevant documentation confirming that they are legally allowed to do so; and
 - The school should ensure that all governors and key staff complete a pecuniary interest form each year.

8.2 Objectives and Scope

- 8.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:
- Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management;
 - Income;
 - Banking;
 - Procurement;
 - Payments; and
 - Capital Projects.

8.3 Summary of Audit Findings

- 8.3.1 Checks on staff driving documentation had been undertaken in December 2014. These checks have covered most staff however appear to be incomplete. A review is due to be undertaken by the Office Manager.

- 8.3.2 The details regarding access to FMS held within the Finance Policy do not accurately reflect the current access rights to the system. LMS should be contacted to remove the access of any leavers.
- 8.3.3 The annual inventory check was last completed in May 2014. Work has begun on the annual check for 2015; however this was incomplete at the time of the audit.
- 8.3.4 The newly appointed Deputy Head Teacher should attend Safer Recruitment training as best practice.
- 8.3.5 A summary of income and expenditure should be completed upon conclusion of a school trip. This summary should be reviewed and signed off by an appropriate signatory.
- 8.3.6 Of fourteen orders tested, ten were found to have been raised retrospectively following receipt of an invoice.
- 8.3.7 When completing procurement testing official order forms for six purchases could not be located. These related to purchases in the last financial year. Procurement documentation retention seems to have improved in recent months following a new Finance Officer being in post.
- 8.3.8 Of fourteen payments reviewed it was unclear as to who had authorised the cheque for payment. Although the bank act as an assurance function to ensure no unauthorised payments are processed it wasn't possible through the testing to ensure that the Scheme of Delegation had been followed.

8.4 Audit Opinion

- 8.4.1 A **Substantial Assurance** on the system of internal control operating at the time of audit is given. This reflects the fact that the school has maintained good controls during a period of instability and as a result there is a basically sound system of control in place. However, 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 and therefore need to be addressed.
- 8.4.2 The audit makes one high, two medium and five low priority recommendations which comprise the need for:

High:

- Staff using their own cars for school business should produce relevant documentation confirming that they are legally allowed to do so. This should be undertaken on an annual basis.

Medium:

- The school should undertake a review of inventory on an annual basis and report the findings of this check to the Governing Body; and
- The school should reduce the number of retrospective orders raised in order to safeguard the efficiency of the budget monitoring process.

Low:

- Access to the FMS system to be limited to only those with required access, as listed within the Finance Policy;
- The Deputy Head to undertake Safer Recruitment training;
- It is recommended that a costing and end of journey summary is prepared and signed off for school trips;
- Cheque stubs to be initialed to evidence that the Scheme of Delegation is being followed; and
- Monthly timecards to be authorised as a good practice exercise following completion by the Finance Officer.

9.1 Introduction

- 9.1.1 The audit of La Salette Catholic Primary School was undertaken as part of the rolling triennial programme of school audits.
- 9.1.2 La Salette Catholic Primary School was last audited in April 2012 when Limited Assurance on the School's system of internal control was given. The opinion reflected the fact that there were limitations in the systems of control which put the system objectives at risk, and/or the level of non-compliance put the system objectives at risk.
- 9.1.3 The 2012 internal audit report made fourteen recommendations, two of a high priority, nine medium priority and three low priority, which were designed to mitigate potential risk. All fourteen of the recommendations had been completed at the time of the audit.

9.2 Objectives and Scope

- 9.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:
- Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management; and
 - Procurement & Capital Projects.
- 9.2.2 The school had chosen to not buy-in the annual Health Check for 2014/2015.

9.3 Summary of Audit Findings

- 9.3.1 The SIMS access detailed within the Finance Policy does not accurately reflect the current access to the system.
- 9.3.2 An annual inventory check had been carried out however no declaration of inventory check had been completed or reported to the Governing Body.
- 9.3.3 The equipment register of items loaned to staff did not include an authorising signature or a verifying signature once the equipment has been returned.
- 9.3.4 Of twenty orders tested, eleven were found to have been raised retrospectively following receipt of an invoice.
- 9.3.5 The schools petty cash account has been reimbursed beyond the imprest level detailed within the Finance Policy.

9.4 Audit Opinion

- 9.4.1 A Substantial Assurance has been given as the audit found that 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.

9.4.2 The audit makes three medium and two low priority recommendations which comprise the need for:

Medium

- Schools Finance Policy should be updated to include the Finance Assistant as having access to the SIMS system;
- Equipment loaned to staff should include an approving signature for the loan to take place as well as a verifying signature once the equipment has been returned; and
- The school should reduce the number of retrospective orders raised in order to safeguard the efficiency of the budget monitoring process.

Low

- The Management Declaration of Inventory check to be completed and presented to the Governing Body as evidence of the check taking place; and
- The Petty Cash account should be reimbursed only to the imprest level.

10.1 Introduction

- 10.1.1 The audit of Parklands Infant School was undertaken as part of the rolling triennial programme of school audits.
- 10.1.2 Parklands Infant School was last audited in March 2012 when Substantial Assurance on the School's system of internal control was given. The opinion reflected the fact that the system of internal control was sound but a number of limitations and/or instances of non-compliance with some of the controls may put some of the system objectives at risk were identified.
- 10.1.3 The 2012 internal audit report made eight recommendations, one of a high priority, five medium priority and two low priority, which were designed to mitigate potential risk. All thirteen of the recommendations had been completed at the time of the audit.

10.2 Objectives and Scope

- 10.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:
- Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management; and
 - Procurement & Capital Projects.
- 10.2.2 The school had chosen to not buy-in the annual Health Check for 2014/2015.

10.3 Summary of Audit Findings

- 10.3.1 The schools Emergency Plan included the review date of September 2014. Although the Plan was up to date and had been reviewed this was unclear from the review date shown on the plan.
- 10.3.2 An annual inventory check had been carried out however no declaration of the inventory check had been completed or reported to the Governing Body.
- 10.3.3 The equipment register of items loaned to staff did not include an authorising signature or a verifying signature upon return.
- 10.3.4 The completion of disqualification checks had not been included on the schools Single Central Record.
- 10.3.5 Of twenty orders tested, sixteen were found to have been raised retrospectively following receipt of an invoice.
- 10.3.6 Of the twenty cheque slips reviewed, fifteen were found to be not initialled at all, with a further four initialled by one signatory.

10.3 Audit Opinion

10.4.1 A **Substantial Assurance** has been given as the audit found that 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.

10.4.2 The audit makes three medium and three low priority recommendations which comprise the need for:

Medium

- Equipment loaned to staff should include an approving signature for the loan to take place as well as a verifying signature once the equipment has been returned.; and
- Disqualification completion dates to be included on the Single Central Record;
- Orders to be raised on the system in advance of invoices being received.

Low

- The Emergency Plan to include a clear version control;
- An Inventory declaration of the annual check to be completed and reported to the Governing Body; and
- Cheque slips to be initialled/ signed by the individuals signing the cheques. This allows the school to demonstrate that cheque payments are being carried out inline within the Scheme of Delegation.

11.1 Introduction

- 11.1.1 The audit of St Ursula's RC Infant School was undertaken as part of the rolling triennial programme of school audits.
- 11.1.2 St Ursula's RC Infant School was last audited in March 2014 when the completion of the Audit Health Check by the Council's LMS Team resulted in a Substantial Assurance on the School's system of internal control being given. The opinion reflected the fact that whilst there was basically a sound system of control in place, limitations in the systems of control identified were such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
- 11.1.3 The 2014 report made one priority one (High) and ten priority two (Medium) recommendations. As part of this review, progress to implement the recommendations raised in 2014 has been undertaken. This review confirmed that eight recommendations have been implemented, one recommendation had been partly implemented and two recommendations are still to be implemented and have been re-iterated in this report.
- 11.1.4 The three recommendations outstanding, all a priority two (Medium), relate to the need for:
- Cheque stubs to be initialled by both signatories at the time the cheque is signed;
 - Petty cash to be approved at the time or before re-imburement is made; and
 - Two people to take income to the bank.

11.2 Objectives and Scope

- 11.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:
- Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management;
 - Income;
 - Banking;
 - Procurement;
 - Payments; and
 - Capital Projects.

11.3 Summary of Audit Findings

- 11.3.1 The current Finance Policy & Procedure document has not been presented to Governors for approval. Information contained within this document was found to be out of date and requires updating to reflect changes in staff and providers and to rectify the omission of key processes.

- 11.3.2 The schools Emergency Plan has not been presented to Governors. Whilst approval of the plan by Governors is not expected, as a matter of good practice, the plan should be presented to Governors for information purposes.
- 11.3.3 A review of the annual driving checklist showed that not all forms were being signed by members of staff to confirm whether they would or would not use their own car for work purposes. In addition no evidence was available to support the submission of driving documents for verification by those staff that indicated that they do use their car, although these are seen by the Head Teacher.
- 11.3.4 The previous Finance Officer has recently been appointed to the post of School Business Manager after the resignation of the previous member of staff. It was stated that a formal handover was not completed. The current School Business Manager needs time to understand the processes in place and therefore the controls that need to be applied. Due to the lack of guidance notes, it is advisable that the School Business Manager engage with the relevant Council departments / external organisation to increase understanding in regards to the areas set out within the audit.
- 11.3.5 Members of staff are loaned equipment, which they can remove from the school premises. There are two equipment on loan registers, a laptop register and an iPad register. Both registers were found to be lacking key information required to ensure a robust audit trail is maintained.
- 11.3.6 During the audit testing was undertaken on a sample of eighteen purchases selected from the schools bank history reports from both 2014/2015 and 2015/2016. Testing found that ten of the purchases were a result of orders that had been raised retrospectively.
- 11.3.7 Testing also found issues in relation to the adequacy of the Scheme of Delegation. Non-compliance in relation to authorised signatories and financial limits were found as the Assistant Head Teacher approved an invoice, but is not included within the Scheme of Delegation and the financial limit applied to the Head and Assistant Head Teachers for the signing of cheques is £5k however one of the payments tested exceeded this limit.
- 11.3.8 Finally, testing found five cheque slips that had only been signed by one of the authorised signatories.
- 11.3.9 The Borough's Use of Charge Card Procedures are not being complied with. Receipts for purchases and the Charge Card statement are not being retained with the transaction log and there is no evidence that these are present when the transaction log is being checked and authorised.
- 11.3.10 Petty cash is controlled by the School Business Manager who completes a petty cash voucher which is attached to the relevant receipt. The voucher details, name, amount, reimbursement received and date. However, the member of staff signs the slip when the cash is reimbursed before the Head Teacher has authorised the payment.

11.3.11 Limited checks are being undertaken in regards to payroll as the School Business Manager needs to engage with the Councils Payroll Team to understand all the checks that require completion. This issue has been addressed via a specific recommendation. Currently the School Business Manager checks the totals of the payroll report against the total shown on Personnel Links. However there is no evidence to support who has completed the check. As a matter of good practice, the School Business Managers entry on the payroll report should also be subject to independent verification.

11.4 Audit Opinion

11.4.1 A **Substantial Assurance** on the system of internal control operating at the time of audit is given. This reflects the fact that the school has maintained good controls during a period of instability and as a result there is a basically sound system of control in place. However, 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 and therefore need to be addressed.

11.4.2 The audit makes six medium and five low priority recommendations which comprise the need for:

Medium:

- The school to introduce the driving disclaimer to ensure that sufficient evidence is maintained to support that staff have been suitably notified of their responsibilities in relation to the use of personal vehicles for school activities;
- The School Business Manager to engage with the relevant Council departments / external organisations to obtain advice and support in respect of processes and controls;
- Amendments to be made to the laptop and iPad register to ensure all key information is being recorded;
- The school to work on reducing the number of orders raised retrospectively;
- The Use of a Charge Card Guidance to be followed for the day to day administration of the cards: and
- Petty cash claims to be authorised before reimbursement is made to the member of staff.

Low:

- Amendments to be made to the Finance Policy & Procedure before it is presented to the Resource Committee for approval;
- The schools Emergency Plan to be presented to Governors for information purposes;
- The school to review current arrangements in regards to authorised signatories and financial limits to ensure that these arrangements are practical to allow the school to comply;
- All key procurement documents to be appropriately signed to ensure that a robust audit trail is in place: and
- Payroll reports to be signed by the School Business Manager as the person checking the accuracy of the report; in addition, the School Business Managers entry on the monthly payroll report should be independently verified (signed) by the Head Teacher.

Appendix C: List of High Risk Recommendations and status

Of the 28 high priority recommendations due, 19 have been completed, 1 has been superseded and 8 remain in progress

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
12/13	Transport	Asset Management	<p>Management should ensure that:</p> <ul style="list-style-type: none"> • Members of staff should submit CRB renewals prior to expiration; • CRB renewals are followed up if a response has not been received in a timely manner; and • Members of staff should not be permitted to work with vulnerable people if a CRB renewal has not been submitted or a response has not been received in a timely manner. 	Complete
14/15	Gas Safety (Building Services)	Housing Services	Procedures are documented and communicated so that contractors know what processes to follow in the event of them finding a property that is over occupied or in an uninhabitable state of repair or if they suspect a vulnerable person is subject to neglect or abuse.	Complete
14/15	TMO's	Housing Services	Management to either utilise the consultant used by the TMOs or enlist some additional, experienced resource to assist in brokering discussions with the TMO to ensure the MMA is updated, fit for purpose and is agreed and signed by all parties as soon as is possible.	Complete
			A process map to map the risks LBH need to manage with regards TMO's areas that require monitoring and starting objectives should be developed prior to agreeing the MMA.	In Progress
			Recognition in the Homes & Housing Risk Register of the potential risk to LBH in the event of a disaster or financial failure by a TMO.	Complete
14/15	Environmental Protection & Housing	Regulatory Services	The results of the HMO records testing is followed up and corrective action undertaken.	Complete
			The inspection of HMO's is monitored and corrective action undertaken to ensure inspections are carried out in accordance with legislative and service requirements and APP records are in accordance with service requirements.	In Progress

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			Management reports from APP should be produced to assist in the monitoring of these inspections.	
14/15	PARIS System	Exchequer & Transactional Services	A full review of users and group permissions should be undertaken. In addition, the service, in conjunction with ICT, should investigate the completeness and accuracy of the reports produced by the application.	Complete
			<ol style="list-style-type: none"> 1. Audit trail reports should be extracted from the system and they should be reviewed by an appropriately senior officer on a regular basis. 2. The Senior Team Leader (Systems and Reconciliations) should consider the production and review of regular exception reports. Information that should be monitored includes, but is not limited to, unusual login times, repeated failed logon attempts, repeated daily password changes and unusual high frequency usage. 	Complete
			The ICT Applications Manager should consider carrying out a data restoration exercise, to confirm that backed up data could be restored to a usable state, if required. As a minimum, the data recovery process should be validated in a test environment.	In Progress
14/15	Manor Green PRU Follow Up	Children's Services	Declarations of Interest should be signed (annually) by all members of the Management Committee and those staff involved in financial processes / making financial decisions for the College.	Complete
			The SFVS for the financial year 2015/16 should be completed and approved by the Management Committee, before being submitted to the Council's LMS Team.	Superseded
			The College's performance targets should be clearly documented, ensuring that sufficient systems are in place to capture the information needed to monitor performance.	In Progress
			A College Improvement Plan should be documented and made available to all staff. This plan should clearly identify: <ul style="list-style-type: none"> · Objectives; · How success will be achieved; 	Complete

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			<ul style="list-style-type: none"> · Responsible Officer; and · Any cost / resource implications (linked to the budget). 	
			The College should clarify the current arrangements for all campuses and where necessary ensure that appropriate service level agreements are in place setting out responsibilities and applicable costs.	In Progress
			<p>The College should produce a documented Asset Management Plan setting out remedial and improvement related works across all sites, including:</p> <ul style="list-style-type: none"> · Priority of the work; · Estimated costs; and · Expected timescale for completion. 	In Progress
			Emergency Planning / Business Continuity arrangements covering both the College and the individual campuses should be documented and made available to all staff.	In Progress
			<p>All staff should be required to complete a driving declaration that identifies whether they use their car for work purposes.</p> <p>For those that declare they do use their car for work purposes, the full driving checklist should be completed to verify eligibility.</p>	Complete
			The College must register with the Information Commissioner for Data Protection.	Complete
			The College should ensure that appropriate records are maintained at each campus of all assets. Records should be checked annually for accuracy and results reported to the Management Committee.	Complete
			Formal budget monitoring should be undertaken and documented. This should include explanations of variations to projected spend and should be submitted to Committee members in advance of meetings to ensure sufficient time is available for the information to be analysed before the meeting.	Complete
			<p>Bank reconciliations should be:</p> <ul style="list-style-type: none"> · Completed regularly (in line with Financial Regulations / Finance Policy); and 	Complete

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			<ul style="list-style-type: none"> · Appropriately signed by the Executive Head; and Submitted to LMS by the deadline. 	
			The College should drive down the number of retrospective orders being placed, to allow funds to be committed against the budget at the earliest opportunity and ensuring the accuracy of budget monitoring processes.	Complete
			Key procurement documents to be in place and signed by an appropriate authorised signatory in line with corresponding financial limits.	Complete
			The College should ensure that all petty cash and charge card procedures have been embedded at each of the campuses and that all documents are sufficiently completed / signed to evidence compliance with these procedures.	Complete
			Timesheet information should be supplied to the Business Manager to allow checks on the payroll report to include checks on these payments.	Complete
			The College should engage with the Council to explore the possibility of using Personnel Links to allow efficient and effective monitoring of payroll related payments.	Complete
14/15	Responsive Maintenance	Housing Services	Work should be undertaken to investigate and resolve the issues with the data interface between systems to ensure that only accurate information is being used.	In progress

AUDIT COMMITTEE
2 March 2016

Subject Heading:	Corporate Risk Register
CMT Lead:	Jane West Managing Director oneSource
Report Author and contact details:	Sandy Hamberger, Interim Head of Internal Audit Tel: 01708 434506 Email: sandy.hamberger@oneSource.co.uk
Policy context:	To inform the Committee of the current Corporate Risk Register contents and Risk Ratings.
Financial summary:	N/A

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

Havering will be clean and its environment will be cared for	[x]
People will be safe, in their homes and in the community	[x]
Residents will be proud to live in Havering	[x]

SUMMARY

This report provides the Audit Committee with an update on the Strategic Risks the organisation currently faces, the ratings applied to them and the mitigations and planned actions identified and documented through the risk management activity of the council.

RECOMMENDATIONS

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

REPORT DETAIL

1. Introduction

1.1 Risk Management is defined by the Institute of Risk Management as:

“Risk Management is the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of failure.”

1.2 The added value of effective risk management is when it becomes part of the DNA of an organisation – and not simply a process. A streamlined process results when risk management is embedded into roles, responsibilities and thinking/actions. This underpins good governance and contributes to the delivery of outcomes that make a significant difference to people’s lives and increases trust in public servants.

1.3 Risk management will, by adding to the business planning and performance management processes, strengthen the ability of the Council to achieve its objectives. Risks associated with these objectives can be managed and the potential impact limited, providing greater assurance that the Vision will be achieved.

1.4 As councils respond to the austerity agenda and the need to make significant savings, risk management resources will have to reduce, in line with all council resources. This will require a new pragmatic and streamlined approach to maintaining an adequate risk management approach.

1.5 The Corporate Risk Register outlines the key strategic risks facing the council, the controls currently in place to respond to these risks and any further action required by the council to properly manage these risks

2. Risk Management Activity

2.1 Although there has not been a formal review of risk management arrangements the work to manage risk and deliver the strategy obviously continues day to day within the business and decision making processes.

2.2 The Corporate Risk Register is owned by the Corporate Leadership Team to ensure that links to risks within services and directorates as well as projects are robust. The Head of Internal Audit is responsible for reporting the status half yearly to the Audit Committee. Effective risk management is a fundamental component for a strong internal control environment and good governance.

- 2.3 Heads of Service are responsible for risk management within their own service area and all projects and programme boards maintain risk logs. Significant risks are escalated to Corporate Management Team through one to ones and management team meetings. Internal Audit are reliant on risk management to determine where to direct their resources and focus.
- 2.4 The service planning process for 2016/17 has commenced and this will include a review of service risks.
- 2.5 The Corporate Leadership Team has participated in the recent update of the risk register where appropriate.

3. Annual Review

- 3.1 As previously reported to the audit Committee, the review of the Risk Management Policy and Strategy was delayed as part of the review and restructure of the Audit and Risk Service. The Policy and Strategy has now been revised and presented to tonight's Audit Committee for approval.
- 3.2 The service restructure is scheduled to be formally consulted on in March 2016 to enable a third partner to join the service
- 3.3 Risk Management will also be considered as part of the current CIPFA and SOLACE consultation on "Governance" expected late April 2016. This may impact on the future risk management approach.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised. There are financial implications where risks are not managed in an efficient and effective manner. The new strategy will be developed based on resources that are available within the budget for the Council. The responsibility for risk management is shared across all services of the Council therefore individual Heads of Service deploy the level of resources required to manage risks in their area. It is part of business as usual and integral to roles, particularly management within the organisation.

Legal implications and risks:

There are no apparent risks in noting the content of this Report. Failure to effectively manage corporate risks are likely to have legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report. Equality and social inclusion are key factors to consider within the Council's objectives and therefore requirements are embedded within governance framework. Failure to manage risk in this area would have implications.

BACKGROUND PAPERS

Corporate Risk Register

CRR

Corporate Risk Register

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
	Organisation and Governance											
G1	Failure to have governance arrangements in place to ensure compliance with statutory and regulatory requirements and to ensure that all decisions taken are legal and robust enough to withstand challenge	Reputational damage, legal action, fines and penalties, cost of corrective action	3	2	6	Chief Executive	Governance Group oversees key aspects of the governance framework and monitors compliance reporting by exception to CMT on issues and risks Constitution is reviewed regularly - review currently underway. Training provided on decision making process. Robust procedures for decision making Reviews to reduce bureaucracy planned Overview and Scrutiny committees are embedded into Governance Framework and a new Overview and Scrutiny Board established to oversee.	75 90 100 25 100	Director of Communities and Resources Director of Legal & Governance (oneSource) Director of Legal & Governance (oneSource) Director of Communities and Resources Leader	3	1	3
G2	Failure to ensure the organisation is free from fraud and corruption from both internal and external threats	Financial loss, reputational damage.	1	3	3	Director of Communities and Resources	Fraud strategy monitored by Audit Committee. Dedicated fraud resources undertaking both proactive and reactive work. Governance Group oversees fraud issues and trends reporting by exception to CMT on issues and risks Fraud Campaign to deter fraud run annually. Whistleblowing Policy in place and activity reported to Audit Committee Council requires Heads of Service and Managers to ensure system of internal control is robust and audit work provides assurance and raises recommendations.	80 80 80 80	Director of Finance (oneSource) Director of Communities and Resources Director of Finance (oneSource) Director of Finance (oneSource)	1	2	2
G3	oneSource - Failure to manage the impact on governance framework of a shared back office and potential conflicts of interest	Non compliance with local requirements, Havering's best interests not served	2	3	6	Chief Executive	Review of Scheme of Delegation and update to constitution Induction and Training for oneSource managers PDR and 1:1s undertaken Legal are providing advice to support governance arrangements where required.	25 20 75 100	Director of Legal & Governance (oneSource) MD oneSource CLT Director of Legal & Governance (oneSource)	2	1	2
G4	Care Act Implementation - inability to deliver in the defined timescales or deliver the broader changes in social care and improve wider health services	Non compliance with legislation, failure to achieve the outputs for the community	3	2	6	Director of Children, Adults and Housing	Programme Board monitoring implementation includes all relevant service area representatives Risk Register in place for the Programme, regularly updated and Red risks visible to other CMT members. Demand and expectations management controls identified as part of the programme risk register which would limit the impact of the risk Financial Risk Management as part of the programme is critical as insufficient resources is biggest cause of this risk materialising	100 100 80 80	Director of Children's, Adults and Housing Director of Children's, Adults and Housing Director of Children's, Adults and Housing Director of Children's, Adults and Housing	2	2	4
G5	Business Continuity and Disaster Recovery Failures	loss of critical services	4	3	12	Director of Communities and Resources	Business Continuity Plans in place, monitored by HoS and tested periodically Reassurance of ICT capability within the server rooms of Newham and Havering ensuring a resilient and accessible service is available to both Councils. Plans to incorporate the communications systems linked through ICT ensuring resilience is maintained. Plans incorporating activation, escalation and maintenance of ICT systems with resilient 24/7 maintenance of the systems especially identifying single points of failure and criticality.	100 100 90 80	Director of Communities and Resources Director of ICT Services Director of ICT Services Director of ICT Services	4	2	8

CRR

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
Generation and Management of Funds												
F1	Lack of oversight of future budget trends and failure to control budgets in year and achieve savings proposals	Unable to meet demand for services within budgetary constraints. Overspends occur.	4	2	8	Director of Communities and Resources	Medium Term Financial Strategy in place, robust forecasting in place	100	Director of Communities and Resources	4	1	4
						Impact of new legislative demands understood and factored in	100	CMT				
						Robust in year budget monitoring arrangements - supported by technology	80	CLT				
						Savings achievement is monitored and independently confirmed	100	Director of Finance (oneSource)				
F2	Failure to exploit potential income streams and maximise the funds generated and received	Missed opportunities, increased budgetary pressure.	3	3	9	Director of Communities and Resources	Income collection plans and targets monitored by CMT	100	CMT	3	1	3
						Robust business retention Strategy in place	100	Head of Economic Development				
						oneSource business development plan has been produced for 2015/16	100	MD oneSource				
						Robust plans to deliver large impact projects aimed at delivering income i.e. Havering Company	100	Director of Communities and Resources				
F3	Failure to manage increased demands for services in the short, medium and long term	Cuts in services, unable to deliver statutory responsibilities, resident dissatisfaction	3	3	9	Chief Executive	Demographic and demand trends modelled quarterly by CMT	100	Head of Business & Performance	3	2	6
						Key drivers i.e. school places separately modelled	100	Head of Learning and Achievement				
						Demand Management Strategy reported quarterly	100	Director of Children's, Adults and Housing				
						CLT Working group planned	50	Chief Executive				
						Corporate Early Help, Intervention and Prevention Strategy to be developed through the Corporate Brain Steering Group	100	Head of Business & Performance				
Organisation and Management												
M1	The workforce does not have the capacity or is not sufficiently skilled and motivated to meet the future needs of the organisation	Unable to deliver key projects and programmes, reduced productivity, lack of innovative ideas, failure of deliver objectives and outcomes	3	3	9	Chief Executive	PDRs and 1:1s are mandatory part of the performance management process	80	CLT	2	2	4
						Managers Development Programme completed by majority of LBH managers	100	Head of Human Resources and Organisational Development				
						Workforce and Organisational Development Strategies monitored at CMT	75	CMT				
						Partnership working with Newham will gong forward increase resilience	100	MD oneSource				
Duty of Care												
C1	Failure to ensure we are carrying out our duty of care to the most vulnerable in our community	Harm suffered by individual, reputational damage, financial cost of dealing with the issue or any legal action	4	2	8	Director of Children's, Adults and Housing	Safeguarding and Early Intervention programmes in place for referrals and management of vulnerable children	100	Director of Children's, Adults and Housing	4	2	8
						Safeguarding Adults and Children's Board with opportunities for chair to report issues to Chief Exec and Cabinet	100	Chief Executive				
						Robust monitoring and escalation processes with Council including the Child Safety Performance Board between Leader, Cabinet Member, CE and Director.	100	Leader				
						Multi Agency Safeguarding Hub established with links to the above	100	Director of Children's, Adults and Housing				

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CRR

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
						Annual Secion 11 Audit Carried out and findings acted upon.	100	Head of Business & Performance				
C2	Health and Safety arrangements are not robust for our own operations and for the community	Harm suffered by individual, reputational damage, financial cost of dealing with the issue or any legal action	4	1	4	Chief Executive	Appropriate plans in place issues of compliance reported to CMT	100	CMT	4	1	4
						Appropriate training and awareness provided to staff and manager as compulsory training	100	CLT				
						Governance Group oversee compliance and communicate issues.	25	Director of Communities and Resources				
						Local and Corporate Health and Safety Groups operate reviewing incidents and near misses for lessons learned	100	Director of Asset Management (oneSource)				
C3	Emergency Planning / Community Safety	Harm suffered by individual, health, Social, Economic and environmental impacts, reputational damage, financial cost of dealing with the issue or any legal action	4	2	8	Chief Executive	Borough Resilience Forum	100	Director of Communities and Resources	4	1	4
						Robust Emergency Plans in place, monitored by CMT and tested periodically	100	CMT				
						Having Community Safety Partnership	100	Chief Executive				
						Borough Risk Register reviewed and maintained with partner organisations	100	Director of Communities and Resources				
						Business Continuity Plans in place, monitored by HoS and tested periodically	50	CLT				
	Relationships and Reputation											
R1	Failure to engender the trust of our residents in order to implement demand management strategies or encourage participation in community provided services	Unachievable expectations of residents = dissatisfaction and reputational damage, missed opportunities to continue services for the community without financial burden on council	3	3	9	CMT	Clear visions and communications strategy	100	Chief Executive	3	2	6
						Good consultation process around change	100	Head of Communications				
						Robust engagement plan with customers receiving direct services	100	CLT				
						New complaints policy has been in operation for nine months and pending final approval of the Vexatious Policy and refining of the Stage 3 process, will be fully implemented.	90	Chief Executive				
						VCS infrastructure support to be re-commissioned	100	Head of Business & Performance				
R2	Failure to have a positive relationship with our private and public sector partners	Loss of opportunity to minimise our costs or share opportunities, cost of increased bureaucracy,	3	2	6	CLT	Scanning of opportunities in London and local area including watch on strategic and partnership agenda.	100	Chief Executive	2	1	2
						Retention of good working relationship with neighbouring Leaders	100	Leader				
						Shared / integrated strategies for Health	100	Director of Children's, Adults and Housing				
						Robust governance in place	85	Chief Executive				
						Compact to be reviewed and re-launched	100	Head of Business & Performance				
R3	Failure to ensure that third parties operate in accordance with contractual or partnership requirements and fulfil the Council's responsibilities	Liability for Claims for Damages, increased premiums for insurance, harm to an individual, reputational damage, legal action and the cost of fines	3	2	6	CLT	Robust legal process delivers signed contracts or memorandum of understanding	80	CLT	3	1	3
						Corporate Contract Monitoring approach defined and guidance and support for all contract managers available	80	MD oneSource				
						Roles and responsibilities and Governance is clearly defined	100	Director of Legal & Governance (oneSource)				
						Risks of the relationship clearly outlined when the decision is made	80	CMT				

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AUDIT COMMITTEE
2 March 2016

Subject Heading:	oneSource Risk Management Policy and Strategy
CMT Lead:	Jane West Managing Director oneSource
Report Author and contact details:	Nicole Metivier, Audit Manager Tel: 0203 373 9783 Email: nicole.metivier@onesource.co.uk
Policy context:	For the Committee to consider the oneSource Risk Management Policy and Strategy
Financial summary:	N/A

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

Havering will be clean and its environment will be cared for	[x]
People will be safe, in their homes and in the community	[x]
Residents will be proud to live in Havering	[x]

SUMMARY

This report provides the Audit Committee with a proposed risk management policy and strategy. The oneSource audit team delivers an integrated service to both Havering and Newham and the policy and strategy will be applicable to both councils. The policy and strategy is attached to this report (Appendix 1).

RECOMMENDATIONS

1. To consider the risk management policy and strategy.
2. To raise any issues of concern and ask specific questions of officers where required.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications or risks arising directly from this report. There are financial implications where risks are not managed in an efficient and effective manner. A review of the risk management policy and strategy is essential to ensure that the council's approach to risk management is up to date, is consistent with practice and is subject to examination by the Audit Committee. The responsibility for risk management is shared across all services of the council and individual Directors and Heads of Service deploy the level of resources required to manage risks in their area. It is part of business as usual and integral to roles, particularly management within the organisation.

Legal implications and risks:

There are no apparent risks in noting the content of this report. Failure to effectively manage risk could result in legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report. Equality and social inclusion are key factors to consider within the council's objectives and, therefore, requirements are embedded within the governance framework. Failure to manage risk in this area would have implications.

BACKGROUND PAPERS

N/A.



Risk Management Policy and Strategy 2016-2019

Introduction

March 2016

Definition

“Risk Management is the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success in achieving its objectives and reducing the likelihood of failure.”

Institute of Risk Management

Purpose of the strategy

To set out how oneSource will assist partner councils in ensuring that they are risk aware and have appropriate risk management arrangements in place. This will help to strengthen the ability of the councils to achieve their objectives/outcomes.

Risk management also has a vital role in an organisation’s delivery of robust corporate governance and public trust.

The aim of this policy and strategy is to raise risk awareness across the councils, confirm that the risk appetite is considered and defined and that roles and responsibilities are clear in regard to risk.

This will ultimately help embed risk awareness into the DNA of the partner councils and ensure transparent decisions are taken that deliver outcomes that improve peoples’ lives.

Background

As councils respond to increasing pressures on their resources, they will need to depend on innovation and transformation to realise their outcomes. This will require them to adopt a new, pragmatic and streamlined approach to maintaining adequate risk management arrangements that is focused on empowering managers and staff.

Policy statement

Risk management is the identification, assessment, and prioritisation of risks, followed by the coordinated and economical application of resources to minimise, monitor and control the likelihood and/or impact of unfortunate events or to maximise the realisation of opportunities.

In order to make formal arrangements for risk management, oneSource has created a framework, as set out in this document, to ensure that risk management is carried out efficiently, effectively and coherently. However, ownership and accountability for risk management rests with every officer.

The approach is based on best practice industry standards including the International Organisation for Standardisation's ISO 31000:2009 Risk management – Principles and guidelines.

All services work to actively anticipate and manage their risks, including opportunities and threats, and take steps to mitigate threats in line with the council's risk appetite. The risks are then collated and compared so that each council has a whole organisation view of the risks it faces.

The effective management of risks enables a council to:

- Increase the probability of achieving its objectives
- Improve the identification of opportunities and threats
- Improve governance, confidence and trust
- Establish a reliable basis for planning and decision making
- Improve council resilience.

At an operational level council officers are responsible for the management of risks that are linked to their role. Directors and Heads of Service are responsible for overall risk management within their own service area.

An assurance focus that draws upon the 'triangulation' of various intelligence streams helps to identify significant/ political/ corporate risks. These risks are monitored by each council's Governance and Assurance Board (or similar forum) and, if necessary, are referred to the Corporate Leadership/Management Team.

The councils will no longer have a dedicated risk management team. It is, therefore, crucial that each and every officer within each council is risk aware and understands the risk management principles. These should be embedded in all their activities, including managing people, services, projects and programmes.

The oneSource risk management policy and strategy, and its underlying objectives, is intrinsic to good governance and is fully supported by the leaders of each council. They set the tone for risk awareness and good decision making at the top of the council and they act as ambassadors and role models for the rest of the organisation.

Risk management strategy

Our approach

This document is one part of the overall risk framework, which also includes:

- The Risk Management Methodology
- Risk Management Tools and Guidance to support the Methodology
- Each council's Governance and Assurance Board (or appropriate forum)
- The Programme Management Office (where this exists).

Leaders of the organisation, including officers and Members, are responsible for identifying and mitigating the strategic and business critical risks. Responsibility for operational risks lies with services, where managers manage and monitor their risks, and escalate them where necessary.

Risks and their related controls are managed through each council's risk register. They should be considered regularly and the register updated, as necessary. Where a service has identified a significant risk that needs escalation, the reporting route is to the Governance and Assurance Board (or similar). The Board considers and decides whether further escalation to the Corporate Leadership/Management Team is needed.

The Governance and Assurance Board is made up of the statutory officers and other key post holders, including:

- Head of Internal Audit (chair)
- S151 Officer
- Monitoring Officer
- Head of Paid Service.

Others will be asked to provide assurance to the Board, as required.

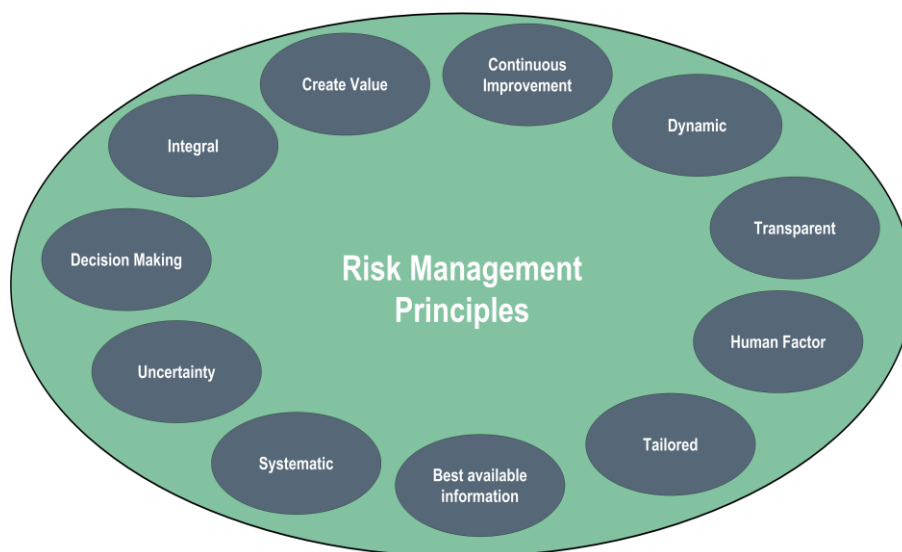
The Governance and Assurance Board (or similar forum) will project manage the completion of the Annual Governance Statement that is signed by the Leader or Mayor, and Chief Executive. The Statement is approved by the Audit Board/Committee and accompanies the statement of accounts, each year.

Risk management principles

The ISO has defined specific core principles in regards to risk management. It should

- Create value
- Be an integral part of the organisation
- Contribute into the overall decision making process
- Explicitly address uncertainty
- Be systematic and structured
- Be based on the best available information
- Be tailored to the organisation
- Take into account human factors
- Be transparent and all-inclusive
- Be dynamic and adaptable to change
- Be continuously monitored and improved upon

Adapted from ISO's risk management principals



Risk management appetite

The amount of risk that an organisation is willing to accept is described as its risk management appetite. Different organisations have different levels of risk appetite and it may also vary across the organisation itself. Services focused on safeguarding have a different risk appetite from other services. The organisation's culture at the top also influences how much risk officers are prepared to take.

An organisation cannot be completely risk averse, otherwise it will miss out on potential opportunities. However, an organisation also has a base line level of risk appetite, below which it will not accept, which could include:

- Actions, or failure to take action, that could result in harm to an employee or a customer
- Acts that could lead to breaches of law or regulations

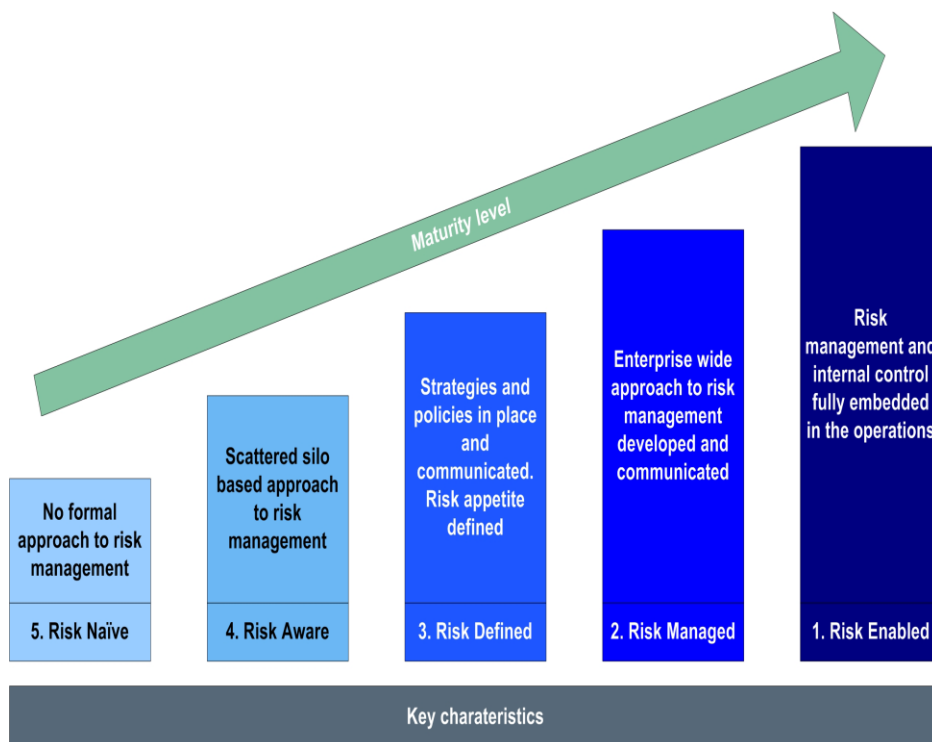
- Anything that could damage the future operations of the council and/or its reputation.

The tone at the top, the organisation’s strategy and the local environment all influence risk appetite. oneSource’s role is to assist each of the councils to articulate their risk appetite, which should then be communicated to the rest of the council. This forms part of the twice yearly review of strategic risks, facilitated by the Head of Internal Audit (or as frequently required by each partner).

Risk appetite can be seen solely from a negative point of view, with an organisation seeking to reduce, remove or transfer risk. This approach may prevent an organisation from pursuing a risky course of action with the potential for significant benefits. Risk management equally applies to potential opportunities, as well as managing ongoing activities.

Risk maturity

All councils are on a risk management journey. Risk maturity refers to where the organisation is on that journey and how well established risk management is as a discipline across the organisation. There are five stages of risk maturity:



Councils may also have services at different stages of risk maturity.

Risk management levels

All levels of the council must adopt risk management principles. These levels are defined as:

Service/Unit level: Line managers undertake their day to day management activities, to provide reasonable assurance that their operational risks are identified, considered, managed and monitored. These should be recorded in the council’s risk register.

Programme/Project Level: The identification of risks from the initial business case to managing those risks through the project’s lifetime, ensuring that the project’s objectives are met. The risks should be

recorded by each project/programme manager in accordance with their council's project management methodology.

Heads of Service/Directors: Their role is to ensure that their services are complying with the risk management strategy and to escalate risks to the Governance and Assurance Board (or other similar forum), where the risks can no longer be contained at their level.

Governance and Assurance Board (or similar forum): The Board is made up of the statutory officers and other key post holders and meets regularly. The Board is responsible for monitoring strategic/corporate risks and escalates these to the Corporate Leadership/Management Team, where necessary.

Corporate Leadership/Management Team: The highest level of risk is managed at this level. The Corporate Risk Register is reviewed twice yearly by the management team.

Risk escalation

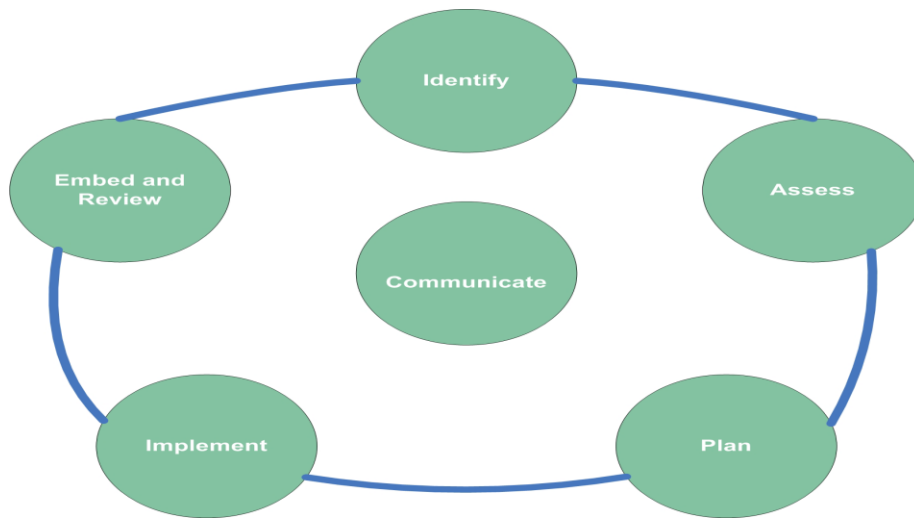
When a risk cannot be contained at its defined risk management level, it must be escalated to a more senior level via the agreed procedure.

Before deciding to escalate the risk, the risk owner should consult with their line manager about moving the risk. If the risk impacts on other services, the risk owner should also consult with them.

If Heads of Service/Directors consider that the risk is sufficiently serious and that it should be escalated, the first port of call should be the Governance and Assurance Board (or similar forum). Members of the Board will consider and decide what should be referred upwards to the Corporate Leadership/Management Team and the Chief Executive.

Risk management process

The risk management process is a series of ordered steps, which are cyclical:



Throughout this process communication is key. In fact, it may be necessary to revisit steps depending on the outcome of each stage.

The risk management process starts by identifying which activity, objective, outcome and project you want to assess. Risks that could threaten successful delivery should be documented completely, including factors that could impact on whether the risk will materialise. Once identified, the risks need to be assessed in terms of their potential impact and probability, with scores assigned accordingly. oneSource has adopted a 4x4 risk matrix to be used when scoring risks. Further information about this process is in the next section.

Following risk identification, officers have to decide on how best to respond to the risk and if controls can be created to address it. This can be referred to the four T's.

Tolerate means the risk is known and accepted by the organisation. In such instances the senior management team should formally sign off that this course of action has been taken.

Transfer means the risk is passed to a third party, for example to an insurer or an outsourcer to manage, although this does not eliminate the risk.

Terminate means the process, activity etc. is stopped and, hence, the risk is no longer relevant.

Treat means to introduce controls to reduce the likelihood of the threat materialising.

The risk should be monitored continually throughout the life of the activity/objective/outcome/project.

The management of risk is woven through the annual planning process and governance arrangements, and as such, there is a requirement for all officers to consider the risks surrounding their area of work, and adopt a formal approach to risk management when they consider there to be significant risks present. Some of the areas or processes which may contain significant risks include;

- Key decision making reports
- Corporate and Divisional planning processes
- Commissioning planning
- Programme and project management
- Commissioning, procurement and contract management processes
- Partnership working arrangements
- Change management processes
- Externalisation of services.

Risk profile

Carrying out an assessment of the council's risk profile is different from carrying out a risk assessment. They are two different risk management tools, each with a different objective, different implications and different levels of information for management. The development of a risk profile is usually reasonably high level, while a risk and/or control assessment is far more detailed, usually within individual processes performed within services. Secondly, the output is intended for different purposes – a risk profiling exercise is aimed at identifying high level areas of greater or undesirable exposure, which require management attention, while a risk and/or control assessment is trying to assess how great the potential frequency/ probability/severity of a risk is and how effective controls against such risks are deemed to be.

In effect, the twice yearly review of strategic risks is an assessment of each council's risk profile.

Types of risk

Strategic risk: These are the high priority risks associated with the operations of the council e.g. adapting the way the council delivers services in the current economic environment.

Financial risk: These are the risks associated with the reductions in central government funding or failing to maximise other sources of income.

Operational risk: These are the risks associated with the operational and administrative procedures of the council.

Compliance risk (legal risk): These are risks associated with the need to comply with the rules and regulations of the government and the EU.

Reputational risk: Bringing the council's reputation into disrepute.

Other risks: This could include failure to prepare for natural disasters (e.g. floods).

Risk matrix

The risk matrix is used to score each risk, taking into account the probability of the risk materialising and the potential impact it could have, resulting in a risk rating for each risk. This enables the organisation to gain an understanding of its risk exposure and how to prioritise the control measures that should be applied to manage/reduce/prevent the risk from materialising. By collating all the risks and their scores, it also helps the organisation to gain an understanding of its overall risk exposure. oneSource uses the risk matrix below.

Further guidance on how to evaluate likelihood and impact is included in Appendix 1.

	Remote	Unlikely	Likely	Very Likely
Impact	Major	4 (Low Risk)	8 (Medium risk)	16
	Serious	3	6	12
	Significant	2	4	8
	Minor	1	2	4

Likelihood

Guidance, education and training

A formal approach to risk management involves undertaking a risk assessment or detailing risks in a report. The approach to risk management should be proportionate to the level of risk present. A suite of supporting guidance is available, which includes:

- How to complete a risk assessment
- Managing risks in programmes/projects
- Managing risks in key decision making reports
- Managing risks in service planning
- Managing risks in contracts
- Managing risks in partnerships
- Managing risks in procurement

These will be made available on the oneSource intranet pages shortly.

The risk management policy and strategy and the guidance documents are reviewed regularly to ensure that they continue to meet the partner councils’ needs and to reflect changes in risk management best practice.

Further consideration of what risk management training will be provided to officers and Members is required. This will be on the risk management development plan for 2016-17.

Risk register application

Each partner council will have their own standalone risk register for recording their risks, although there may be commonalities in the IT application used.

The risk register is a vital tool to enable officers to manage their risks. The risk register should be considered a live tool, allowing officers to update the register as and when a new risk is identified, the risk exposure changes or the risk no longer exists.

The risk register application is administered by the Internal Audit Team, however, it does not own the risks within the database. They are owned by the services.

Roles, responsibilities and accountabilities

All Members, officers and partner organisations have a role in managing risk successfully, however, this will only be achieved if this is led from the top. For that reason, Member and Senior Officer Sponsors for risk management have been/will be appointed.

In addition, the risk management policy and strategy has been endorsed by Audit Board/Committee and senior officers within each council.

The table below sets out who is responsible for risk and their respective responsibilities.

Group/Stakeholder	Responsibilities
Mayor/Leader	<ul style="list-style-type: none"> • Holding the Corporate Leadership/Management Team to account for ensuring the effectiveness of the council's risk management arrangements.
Council (Newham)	<ul style="list-style-type: none"> • Approving or adopting the risk management policy, insofar as it is not delegated by council, under the officer's scheme of delegation. • Members act as ambassadors for their portfolio and the attached risks.
Cabinet (Havering)	<ul style="list-style-type: none"> • Collectively responsible for agreeing the risk management policy • Members act as ambassadors for their portfolio and the attached risks.
Risk Management Sponsors	<ul style="list-style-type: none"> • Leads by example, by promoting the council's risk management arrangements.
Audit Board/Audit Committee	<ul style="list-style-type: none"> • Review the effectiveness of risk management arrangements • Provide challenge on risk management arrangements and progress • Approves the annual governance statement.
Corporate Leadership/Management Team	<ul style="list-style-type: none"> • Overall accountability for risk management, including ensuring that the corporate risk register is a live and up to date record of the current risk exposure • Sets the organisation's risk appetite <p>Set the tone for risk management, promote the benefits of effective risk management and lead by example in</p>

Group/Stakeholder	Responsibilities
	<ul style="list-style-type: none"> embedding the risk management framework • Establish a control environment and culture where risk can be effectively assessed and managed • Regularly discuss and review the strategic risk register and associated risk reports.
Governance and Assurance Board (or similar forum)	<ul style="list-style-type: none"> • Consider and challenge the council's management of risk, to provide assurance that a strong control framework and good governance arrangements are in place • Ensure that any significant emerging governance issues, identified through governance reporting, are escalated in accordance with the risk management framework.
Corporate Programme Board (or similar forum) <i>(In Newham, the Corporate Leadership Team sits as the Corporate Programme Board, once a month)</i>	<ul style="list-style-type: none"> • Ensure risk is appropriately considered in the business cases submitted to the Corporate Programme Board for approval • Ensure risk is appropriately monitored throughout the life of the programmes and projects. • Consider escalation of significant risks to the Governance and Assurance Board.
Procurement Board (where established)	<ul style="list-style-type: none"> • Ensure risk is appropriately considered in the pre-procurement reports submitted for challenge and approval • Ensure risk is appropriately considered during the procurement checkpoint governance process • Escalate significant risks to the Governance and Assurance Board.
Programme Management Office (where established)	<ul style="list-style-type: none"> • Ensure risks are regularly reviewed and updated through the project lifecycle • Ensure any emerging risks identified through project monitoring are escalated to the Corporate Programme Board, in accordance with the agreed governance framework • Consider escalation to the Governance and Assurance Board, where necessary • In the absence of this office, discrete project and programme boards to escalate any significant risks to the Governance and Assurance Board.
Section 151 Officer	<ul style="list-style-type: none"> • Under the officer's scheme of delegation, making amendments to the risk management policy and strategy in consultation with Audit Board (Newham) • Overall accountability for the effective delivery of the organisation's risk management arrangements • Ensure risk management features as part of the organisation's proper administration to protect the authority from financial and reputational risk.
Director of Legal and Governance and Monitoring Officer	<ul style="list-style-type: none"> • Overall responsibility for providing advice on legal and governance risks.

Group/Stakeholder	Responsibilities
Directorate management teams	<ul style="list-style-type: none"> To be risk aware and outcome focused Ensure adherence with the risk management strategy and framework Champion the benefits of effective risk management Ensure that risks in the supply chain/contracts are identified and managed. Take ownership for risks within their directorate and ensure risk registers are regularly discussed, reviewed, updated and escalated as appropriate To raise significant risks with the Head of Internal Audit or Monitoring Officer Appointing a risk champion to drive forward the risk management framework within their function.
Service Managers	<ul style="list-style-type: none"> Manage risks effectively in their service area, in accordance with the risk management framework Where necessary escalate risks to Heads of Service/Directorate Management Teams Ensure their staff have appropriate understanding of risk management Champion the benefits of risk management across their service and communicate the corporate approach to managing risk.
Officers	<ul style="list-style-type: none"> Manage risk as part of their job and report risks to their managers Develop understanding of risk management in the council Maintain awareness of risks, their impact, costs and feed these through the adopted risk management process.
Internal Audit	<ul style="list-style-type: none"> Ensure the risk management policy and strategy is reviewed and updated regularly Submit the risk management policy and strategy to Audit Board/Committee for approval at least yearly Update and report the council's corporate risks to the Corporate Leadership/Management Team and Audit Board/Committee twice a year In accordance with the Public Sector Internal Audit Standards 2012, the Head of Internal Audit ensures that a risk-based audit plan is delivered.
oneSource management team	<ul style="list-style-type: none"> Maintain a oneSource strategic risk register and service registers Provide assurance to the Governance and Assurance Board (or similar forum) that the oneSource risks and controls are regularly reviewed and updated.
Other partners/shared services/ alternative delivery units	<ul style="list-style-type: none"> Partners are required through their memorandum of understanding (or equivalent) to adopt a risk management policy – to be determined on a case by case basis

Group/Stakeholder	Responsibilities
External Audit	<ul style="list-style-type: none"><li data-bbox="735 277 1519 353">• Raise any concerns through statutory reports to Audit Board/Committee.<li data-bbox="735 360 1519 436">• Unfettered right of access to Head of Internal Audit and Chair of the Audit Board/Committee.

Risk governance framework

The risk governance framework sets out the forums and groups where risk management activities are considered and reported. The reporting arrangements cover all levels within each partner council and all its activities. Please note that some partner councils will not have all of these forums/groups.

Audit Board/ Committee	Corporate Risk Report (twice yearly) Risk Management Policy and Strategy (as required)
Corporate Leadership/ Management Team	Corporate Risk Report (twice yearly) Governance and Assurance Report (new corporate/strategic risks – as required)
Governance and Assurance Board (or similar forum)	New corporate/strategic risk referrals (as required) Call in of Heads of Service/Directors (as required)
Corporate Programme Board	Programme/Project Monitoring Reports (monthly)
Heads of Service/ Directors	Risk referrals from their services/units (as required)
Service/Unit Level	Risk referrals from officers (as required)
Project Management Office	Monitoring of risks recorded on Verto (monthly) Escalation of significant risks to the Governance and Assurance Board (as required)

Control Environment

Risk management is a key element of delivering robust corporate governance within an organisation.

One of the main principles in the UK Corporate Governance Code from the Financial Reporting Council (2014) is:

“The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.”

One of the code provisions goes on to say:

“The board should monitor the company’s risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.”

This strategy sets out the arrangements for facilitating compliance with the Code. Primarily, this is addressed in the Roles and Responsibilities and the Risk Governance Framework sections.

The Audit Board/Committee is the forum through which the council can challenge its arrangements to monitor and challenge risk management.

Internal Audit is responsible for auditing each council's risk management arrangements. An audit will take place in 2016/17, following the launch of the new policy and strategy.

Quality Assurance and Review Procedures

In response to the reductions in council funding, all councils are reviewing their approach to delivering services. The way that risk management is delivered has also had to change as a result, hence, this revised Risk Management Policy and Strategy.

It is likely that the Policy and Strategy will have to adapt further in the future, once the impact of changes in council funding are fully realised.

Internal Audit will continue to learn from developments in the risk management arena through attending risk management seminars and the like. Learning will be reflected in future revisions of the Policy and Strategy.

Risks - Criteria for negative impacts

Factor	Score	Effect on service	Reputation	People	Financial & Resources	Legal and Statutory Compliance	Effect on project objectives/ scheduled deadlines
Major	4	<p>Complete breakdown in service delivery.</p> <p>Failure of a strategic partnership or significant alternative delivery model.</p>	<p>Intense political and national media scrutiny.</p>	<p>Life threatening or multiple serious injuries or prolonged workplace stress.</p> <p>Severe impact on morale and service performance.</p>	<p>Significant financial loss of over £0.5m or >51% of budget.</p> <p>Total loss of a critical building.</p>	<p>Possible criminal or high profile civil action against the council, members or officers.</p>	<p>Time: Project benefits are not realised.</p> <p>Cost: Punitive costs that require financial re-planning and service cuts elsewhere, or project is no longer sustainable.</p> <p>Quality: Product/service not fit for purpose.</p>
Serious	3	<p>Complete loss of an important service for a short period.</p> <p>Disruption to service delivery in one or more Directorates for more than one month.</p> <p>Failure of an operational partnership or alternative delivery model.</p>	<p>Unfavourable external media coverage.</p> <p>Noticeable impact on local public opinion.</p>	<p>Serious injuries or stressful experience resulting in many workdays lost. Major impact on morale and performance of a significant number of staff.</p>	<p>High financial loss of £201-500k or 21-50% of budget.</p> <p>Extensive damage to critical building.</p>	<p>Scrutiny required by external agencies e.g. OFSTED.</p>	<p>Time: Significant delays in project implementation and benefits realisation.</p> <p>Cost: >10% of project spend/ scope.</p> <p>Quality: Potential for reduced quality of end product/service.</p>

Factor	Score	Effect on service	Reputation	People	Financial & Resources	Legal and Statutory Compliance	Effect on project objectives/ scheduled deadlines
Significant	2	<p>Substantial effect to an important service area for a short period.</p> <p>Disruption to service delivery from one or more directorates or alternative delivery models for up to one month.</p>	Probable limited, unfavourable media coverage.	<p>Injuries or stress requiring some medical treatment; potentially some workdays lost.</p> <p>Potential impact on team morale and performance.</p>	Financial loss of £51-200k or 11-20% of budget.	Scrutiny required by internal committees or internal audit.	<p>Time: Minor delays with some uncertainties; potential to cause more major impacts.</p> <p>Cost: < 10% of project spend/ scope.</p> <p>Quality: Notable change to project specification, handled within the change control process.</p>
Minor	1	Brief disruption of important service area with a small impact on customer service.	Contained within the council.	Minor injuries or stress, with no workdays lost or minimal medical treatment. No impact on staff morale.	Financial loss of < £50k or 1-10% of budget.	Internal review.	<p>Time: Negligible delays.</p> <p>Cost: < 5% of project spend/ scope.</p> <p>Quality: Minor deviations from project specification; does not affect final benefits.</p>

Criteria for likelihood/probability

Factor	Likelihood Score	Indicators
Very Likely	4	<ul style="list-style-type: none"> • Regular occurrences, frequently encountered • Risk is current and likely to happen in next 12 months • 90-100% chance of occurrence.
Likely	3	<ul style="list-style-type: none"> • Likely to happen at some point in the next 1-2 years. • Circumstances occasionally encountered. • 50-89% chance of occurrence.
Unlikely	2	<ul style="list-style-type: none"> • Has happened in the past. • Reasonable possibility it will happen within the next 3 years. • 11-49% chance of occurrence.
Remote	1	<ul style="list-style-type: none"> • Has happened rarely/never before. • 0-10% chance of occurrence.

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

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