



Haverling

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.00 pm

**Tuesday
29 November 2016**

**Town Hall, Main Road,
Romford**

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 interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any 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 27 September 2016 and authorise the Chairman to sign them.

5 ANNUAL AUDIT LETTER (Pages 7 - 32)

Report attached.

6 CLOSURE OF ACCOUNTS TIMETABLE

To receive an oral update.

7 NATIONAL SCHEME FOR AUDITOR APPOINTMENTS (Pages 33 - 46)

Report attached.

8 INTERNAL ASSURANCE REPORT QTR. 2 (Pages 47 - 88)

Report attached.

9 TREASURY MANAGEMENT UPDATE QTR 2 (Pages 89 - 98)

Report attached.

10 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.

Andrew Beesley
Head of Democratic Services

Public Document Pack Agenda Item 4

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 3A - Town Hall
27 September 2016 (7.00 - 8.00 pm)**

Present:

COUNCILLORS:

Conservative Group Viddy Persaud (in the Chair) and Frederick Thompson

Residents' Group Julie Wilkes (Vice-Chair)

**East Havering
Residents' Group** Clarence Barrett

UKIP Group David Johnson

**Independent Residents
Group** Graham Williamson

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

8 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 30 June 2016 were agreed as a correct record and signed by the Chairman.

9 **ANNUAL ACCOUNTS 2015/16**

In accordance with Section 100B (4) Of the Local Government Act 1972 the Chairman had agreed that the report should be considered to ensure that the Council was able to meet its statutory deadline and sign off the Statement of Accounts.

The Council's Statement of Accounts was required to be published after the conclusion of the external audit of accounts; no later than 30 September 2016. Following approval by this Committee, the accounts must be signed by the Chairman of the Committee and the Chief Executive.

Back in March the Committee had noted the accounting policies applicable to the financial year 2015/16 and these were reflected in the draft statement of Accounts. As a result of the audit of the accounts, **policy ii: Accruals of Income and Expenditure** was updated to state:

"Outstanding creditors are written out of the accounts if they have not been billed for by the supplier after a period of two years."

The draft accounts had been published in June and with one exception there had only been only minor amendments to the statement. The exception was the

reevaluation of the Council's housing stock. The original figure had been based on an assessment by valuers at the beginning of the year. They had since indicated that changes in the market over the year required an uplift of 10% (£44m) in the value of the Housing stock.

The Committee expressed concern at the late circulation of the Statement of Accounts and asked the External Auditors to explain what had caused the delay.

The External Auditors explained that Havering was a new client which presented them with a challenge to understand how the council worked. Additionally OneSource also presented its own challenges.

As had been explained previously a key tool for Ernst & Young (EY) was their use of analytics. Unfortunately EY had experienced difficulty in downloading data from the Council's systems. There had also been an issue with the treatment of school assets.

In 2 years' time auditors would only have 8 weeks in which to complete the audit. They would need to start work earlier to meet the earlier deadlines.

The Committee had asked what plans were in place for next year.

A fresh challenge for 2016/17 would be the valuation of the Highways Infrastructure assets. The external auditors would be looking for the council to produce a template set of accounts as early as possible. They would look to start testing from month 9. The Chief Executive advised this would be a challenge for onesource as the assumption was that staff could be moved from one area to another to deal with peak workloads.

If the valuation of assets and the Pension Fund accounts could be completed early this would help.

The Committee had asked a number of questions and where officers were unable to provide a full answer it was agreed that a written reply would be provided to Members.

The Committee:

1. Approved the Statement of Accounts confirming that no amendments to the accounts were required to be made to the accounts in respect of the items set out in the auditors' report;
2. Noted that the audited accounts must be published by 30 September 2016;
3. Noted the amendments to the accounting policies arising from the audit of the accounts;
4. Placed on record their thanks to both officers and the External Auditors for their hard work in finalising the Statement of Accounts on time.

10 **REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARDS OF AUDITING -(ISA) 260**

In accordance with Section 100B (4) Of the Local Government Act 1972 the Chairman had agreed that the report should be considered to ensure that the

Council was able to meet its statutory deadline and sign off the Statement of Accounts.

The external auditors EY had submitted their ISA 260 report to the Committee at the beginning of the week. Officers had some issues with the report and had contacted EY who had responded by issuing an amended ISA 260 report. It was the amended report that was presented to the Committee for consideration.

EY had substantially completed their audit of the financial statements of the Council. One issue which had delayed matters was a failure by banks and financial institutions to confirm the receipt of bank, borrowing and investment confirmations. This had finally been completed on 27 September 2016.

EY had indicated that there was a significant delay in the issue of the Whole of Government Accounts (WGA) template that the authority needed to complete. As a result the deadline for completion and audit of the WGA template had been extended to 21 October 2016.

It was stated that EY would not be able to issue their audit certificate closing the 2105/16 audit until they had completed their work on the Council's Whole of Government Accounts. They would conclude their work before the 21 October deadline and report any significant findings to the Council in their Annual Audit letter.

Members noted that EY had identified one unadjusted audit difference within the draft statements which management had chosen not to adjust as management consider it to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The Committee had considered and approved managements' rationale as to why the correction was not made.

Two other issues were raised by EY:

- The Council had used an internal valuer to undertake the valuation of certain property assets in 2015/16. The audit work had identified that the Council had not issued formal instructions to its valuer.
- In testing expenditure EY had noted that the transactions recorded in the adult social care system were not reconciled to the general ledger.

In response management had indicated:

- The requirement had been well established for a number of years and they were clarified verbally on an annual basis. They accept that these instructions should be documented and this matter would be incorporated within the 2016/17 timetable.
- Management were seeking a response from the department concerned, however, they understood that the reconciliations were being undertaken and steps would need to be taken to ensure that these were evidenced for 2016/17 closure and audit purposes.

The Committee noted the contents of the EY Report to Those Charged with Governance (ISA 260), the draft letter of representation and management's response.

A second Report to those Charged with Governance (ISA 260) was also issued in respect of the Havering Pension Fund accounts. No issues were raised.

The Committee noted the contents of the EY Report to Those Charged with Governance (ISA 260) and the draft letter of representation.

The EY representative had indicated that they would be issuing an unqualified opinion on the accounts and on the value for money conclusions.

11 ANNUAL GOVERNANCE STATEMENT

At the meeting on 30 June the Committee had agreed the draft Annual Governance Statement. The draft statement had subsequently been signed off by the Leader of the Council and Chief Executive, without change.

The Committee noted the contents of the final 2015/16 Annual Governance Statement.

12 HEAD OF ASSURANCE QUARTER 1 PROGRESS REPORT: 4TH APRIL 2016 TO 3RD JULY 2016

The Committee received a report on the work of the internal audit team during the period 4 April to 3 July 2016. The main driver had been the launch of the one Source service transformation on 15 April, which had closed on 31 May, this had included the new partner Bexley. The new oneSource Assurance Service restructure had been completed in August.

Given the challenge of the restructure this was not yet fully populated with 4 positions vacant in audit and 3 in insurance. These were being held pending the completion of the Finance transformation.

Following the restructure, it was considered that the number of days in the plan was ambitious and needed to be reviewed to reflect the actual position.

Based on the work undertaken since the last update to Members, no material issues had arisen which would impact on the previous opinion. No Nil or Limited Assurance reports had been issued, therefore the Head of Assurance had been able to conclude that a reasonable assurance opinion could be given that the internal control environment was operating adequately.

The Committee considered the list of Outstanding Audit recommendations and sought clarification on the outstanding recommendation from the 2012/13 review of transport. Officers would provide the information following the meeting.

Officers informed the Committee of the work of the Tenancy Fraud Project which was supported by the Lead Member for Housing. This had started last October and

was scheduled to finish this October. As a result of its success the Lead Member was looking to continue the good work going forward.

The project had achieved net savings of £2.3m. Twenty-six Properties had been recovered and 23 Right to Buy applications had been stopped. The estimated savings was based on averages across England.

Officers were working with Media and Communications to arrange coverage of the project both locally and regionally. A letter would be sent to all tenants advising them of the work and an article would appear in the next edition of At the Heart.

Officers advised that there were three cases waiting to be passed to Legal Services for prosecution.

The Committee noted the report and congratulated officers on their good work.

13 **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.

14 **TREASURY MANAGEMENT UPDATE QTR 1**

The Committee noted details of the treasury management activities as set out in the report. Officers had reported that in quarter one the Council had achieved a return on investments ahead of both the benchmark and the Budgeted Rate of Return. Officers did warn that given the Bank of England's decision to reduce the base rate to 0.25% it was likely that we might not achieve the budgeted rate of return over the full year.

Chairman

This page is intentionally left blank

AUDIT COMMITTEE
29 November 2016

Subject Heading:	Annual Audit Letter
CMT Lead:	Andrew Blake-Herbert
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:	Audit Committee responsible for approving accounts.
Financial summary:	There are no direct financial implications from 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

Our external auditors, Ernst & Young, have issued their annual audit letter to the Committee summarising the results of their 2015/16 audit.

RECOMMENDATIONS

The Committee is asked to note the contents of the letter and consider any issues raised by the external auditor.

REPORT DETAIL

1. The purpose of the letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from the auditors' work which they consider needing to be brought to the attention of the Council. The letter is included at appendix A.
2. The letter includes the following issues:
 - 2.1 Ernst & Young issued unqualified opinions on the Council's and the Pension Fund's financial statements. The Audit Results report was issued on 26 September 2016 and their certificate was issued on 28 October 2016 on completion of their Whole of Government Accounts and Pension Fund work.
 - 2.2 The auditors are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. Page 14 of their letter identified one significant risk in relation to sustainable resource deployment, and the need to achieve the savings over the medium term to balance the general fund budget.
 - 2.3 Control themes and observations from the auditors are identified from page 17 of their letter:
 - Their testing found that the auditors were able to place reliance on the work undertaken by management's valuation experts, but the Council had not assessed whether there had been any significant movement in the valuation of council dwellings between the valuation date of 1 April 2015 and the balance sheet date of 31 March 2016. The valuers assessed that there had been an upward movement in values of around 10%. As a result it was estimated that the value for council dwellings in the accounts was understated by £44 million.

This issue was not made clear in the valuers original communication and the accounts were amended to reflect this updated valuation. The change has no impact on the Revenue Out-turn or Useable Reserves as this is essentially a Balance Sheet valuation issue. Future written

instructions will be communicated with the valuers with regard to requirements for year end revaluation and impairment review and the related timescales for the receipt of valuation information.

- When testing expenditure, the auditors noted that the transactions recorded in adult social care system were not reconciled to the general ledger. They acknowledged that this issue has now been addressed for 2016/17.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. There are no financial consequences arising from the outcome of the audit of accounts. The issues raised in the letter are consistent with the matters raised in their earlier "Report to those charged with Governance" (ISA260) and have been addressed as part of 2015/16 closure planning.

Legal Implications and risks:

There are no apparent legal implications in noting the content of the audit letter. The matters highlighted by the letter clearly identify areas of legal and financial risk but the management responses set out how these can be managed.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

Appendix A

London Borough of Havering

Annual Audit Letter 2015/16

London Borough of Havering

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP

Page 11

Contents

Executive Summary	2
Purpose.....	5
Responsibilities.....	7
Financial Statement Audit	10
Value for Money	13
Other Reporting Issues.....	16
Focused on your future.....	19

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to London Borough of Havering (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council and Pension Fund's:	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council and Pension Fund at 31 March 2016 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts 2015/16
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 26 September 2016
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 October once our WGA and Pension Fund work was complete.

In January 2017, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Debbie Hanson
Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 27 September 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 25 April 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on the Council and Pension Fund Statements on 30 September 2016.

Our detailed findings were reported to the 27 September 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

Revenue and expenditure recognition

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.

We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.

Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.

Our testing did not identify any expenditure which had been inappropriately capitalised.

The valuation of investment property and property, plant and equipment

The Council undertakes an annual exercise to revalue property assets (including its social housing stock and investment property assets). The valuation of property assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and will have a significant impact on the Council's financial statements.

IFRS 13: Fair Value Measurement has been introduced into the Local Authority Accounting Code for the first time in 2015/16. This requires investment assets to now be valued at highest and best use based on what someone would pay for the asset. The Council will need to ensure that its investment assets have been appropriately valued in accordance with IFRS 13.

Our testing found that we were able to place reliance on the work undertaken by management's valuation experts.

However, the Council had not assessed whether there had been any significant movement in the valuation of council dwellings between the valuation date of 1 April 2015 and the balance sheet date of 31 March 2016. Additional work was undertaken by the valuer to determine the extent of any change in value over this period. This work identified that there had been an upward movement in values of around 10%. As a result it was estimated that the value for council dwellings in the accounts was understated by £44 million. The accounts were amended to reflect this updated valuation.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

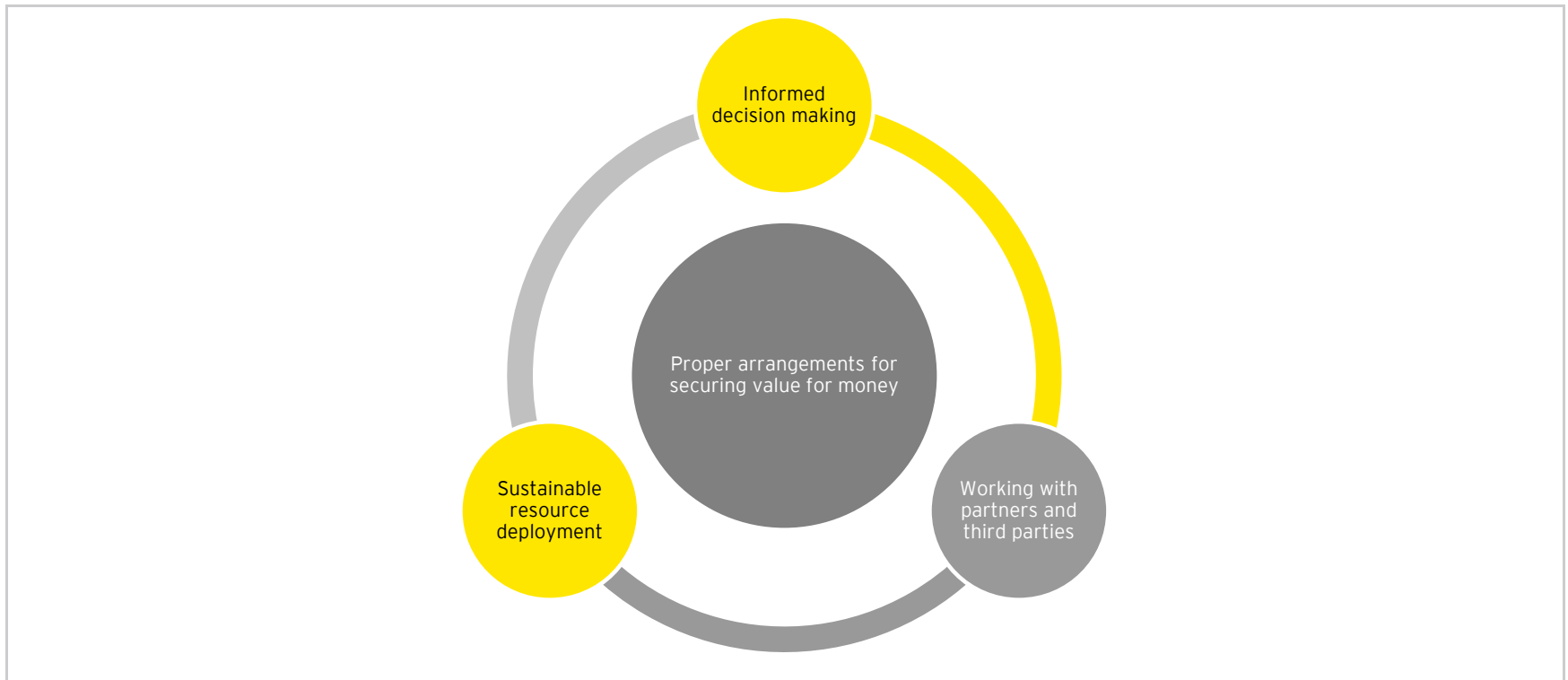
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 30 September 2016.

We identified one significant risk in relation to our value for money conclusion. This related to sustainable resource deployment, and the need to achieve the savings over the medium term to balance the general fund budget. We have performed the procedures outlined in our Audit Plan to address this risk and our work did not identify any significant matters in relation to the Council's arrangements. We therefore concluded that the Council had adequate arrangements in place.

As part of our work we considered the following areas and made the following observations.

Key Findings

The medium term financial plan and key assumptions

The Council's latest Medium Term Financial Strategy (MTFS) identifies a cumulative budget gap in the financial years 2016/17 to 2018/19 of £6.7 million. This gap would increase to 10.8 million if the Council decide not to levy a 2% precept for Adult Social Care in 2017/18 and 2018/19. The Council set a balanced budget for 2016/17, with no unmet budget gap, although this relied on the use of general fund reserves of £1.4 million. The assumptions made in the MTFS are reasonable.

Work is ongoing to address the budget gaps in 2017/18 and 2018/19, whilst maintaining reserves at the Council's recommended minimum levels. The Council has established a process for the identification of savings and income generation proposals for 2017/18 and 2018/19. However, it will need to consider its approach towards the identification of savings in 2019/20 and beyond.

Levels of reserves

The level of useable general fund reserves held by the Council at 31 March 2016 is £78 million. Of these, a number are earmarked for specific purposes, leaving around £11.8 million that could be used to support general spending if needed. This is above the minimum level of £10 million recommended by the Chief Executive. We have therefore concluded that the Council has adequate levels of reserves.

Decision making arrangements and partnership working

The Council has appropriate governance, performance and risk management processes in place.

There is evidence of the Council working effectively with partners in key areas; for example OneSource in the provision of back office services. A clear vision for the Council is included in the Corporate Plan and the Council has effectively managed significant projects such as the establishment of a wholly-owned subsidiary, Mercury Land Holdings, with a view to making a significant investment in housing development across the Borough.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 27 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have however during the course of our audit identified the following matters that we concluded are of sufficient importance to merit being reported to you.

Description	Impact
The Council used an internal valuer to undertake the valuation of certain property assets in 2015/16. Our audit work identified that the Council had not issued formal instructions to its valuer.	Whilst the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 permits the use of internal values, written instructions should be issued to the valuer. The Council is therefore not fully compliant with the Code Where valuers are not instructed formally, there is a risk that valuation work will not be undertaken in accordance with relevant guidance and statutory requirements.
When testing expenditure, we noted that the transactions recorded in adult social care system were not reconciled to the general ledger.	Without these reconciliations, the Council is unable to demonstrate that expenditure recorded in underlying systems has been posted to the general ledger. We noted that the Council has now addressed this issue and reconciliations of transaction data to the general ledger in relation to adult social care commenced in 2016/17.

A close-up photograph of a person's hands holding binoculars to their eyes. The person's face is partially visible in the background, looking through the lenses. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>
Highways Network Asset (HNA)	<p>The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. During 2016, this guidance has been renamed and updated, with the Highways Network Asset (HNA) Code, Guidance Notes and Accounting Guidance being published. Local Government has historically used depreciated historic cost (DHC) as the valuation approach for infrastructure assets. The introduction of the HNA Code will see this valuation basis change to depreciated replacement cost with effect from 1 April 2016. The change will be applied prospectively from that date, so Highways Authorities are not required to disclose comparative information.</p> <p>This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems.</p>	<p>The impact on the Council's Balance Sheet will be highly significant; with the recognition of a single highways network asset of approximately £5 billion. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of this asset.</p> <p>We will work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at the wider level through the continuation of our HNA Client Workshops.</p>

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

**AUDIT COMMITTEE
29 November 2016**

Subject Heading:	Decision to opt in to the National Scheme for Auditor Appointments
CMT Lead:	Jane West, Managing Director, oneSource
Report Author and contact details:	David Hogan, Head of Assurance Tel: 0203 045 4943 Email: david.hogan@bexley.gov.uk
Policy context:	The Local Audit & Accountability Act 2014 sets out the arrangements for the appointment of Auditors. The Council has been invited to opt into the sector led option by Public Sector Appointments.
Financial summary:	Current audit fees are £189k per annum. Fees for 18/19 onwards will be dependent on market forces but large scale contracts procured through PSAA are expected to bring economies of scale and attract keener prices than a smaller scale competition.

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

SUMMARY

This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.

It is likely that a sector-wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement undertaken locally. Use of PSAA will also be less resource intensive than establishing and operating an auditor panel and conducting a direct local procurement.

RECOMMENDATIONS

For the reasons set out in this report, the Audit Committee recommends to Council:

- (a) It accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors commencing 1 April 2018, for the financial years of the contracts let in accordance with their procurement strategy. (5 years is currently proposed).
- (b) If (a) is agreed, delegates to the Section 151 Officer, authority to give notice to the PSSA that the invitation is accepted.

REPORT DETAIL

The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18. The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.

In July 2016 PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.

PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

The principal benefits from such an approach are as follows:

- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- PSAA will monitor contract delivery and ensure compliance with contractual requirements, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;

- It is expected that the large scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be expected to be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised though a smaller number of large contracts across the sector;
- There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below; and
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

The Council's current external auditor is Ernst and Young, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Council's current external audit fees are £168,022 per annum for the main accounts, and £21,000 for the pension fund.

The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms.

The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

If the Council did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.

Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

Neither of these options is recommended. Both options would be more resource intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

PSAA has now formally invited this Council to opt in. Details relating to PSAA's invitation are provided in an Appendix to this Report.

In summary the national opt-in scheme provides the following:

- The appointment of a suitably qualified audit firm for each of the contracted financial years commencing 1 April 2018;
- Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to scheme members;
- Consulting with authorities on auditor appointments;
- Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
- Ongoing contract and performance management of the contracts once these have been let.

IMPLICATIONS AND RISKS

The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

Financial implications and risks:

There is a risk that current external fees levels could increase when the current contracts end in 2018.

Audit Committee, 29 November 2016

Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19. However, any such financial implications arising will be raised through the appropriate channels as the needs arise.

Legal implications and risks:

Under the Local Audit and Accountability Act 2014, the Council is under a duty to appoint a local auditor and have an auditor panel (s.7 and s.9). The body of the report sets out the legal framework for the appointment of a local auditor, the establishment of PSSA as an appointing person by the Secretary of State and the alternatives to “opting in” to the PSSA option under the 2014 Act).

The Committee is asked to recommend to full Council that it exercises its power under Regulation 9 of the Local Audit (Appointing Person) Regulations 2015 to accept the invitation of PSSA (made under regulation 8) to be the appointing person for this Council. Under regulation 19, the decision to accept an invitation made under Regulation 8 must be made by the Council and cannot be delegated.

The Council must exercise this power rationally taking into account the relevant information; the report clearly the benefits and risks of this option and the alternative options if the invitation is not accepted. Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

Under regulation 9, the Council accepts the invitation by giving notice to the PSSA by the closing date within the invitation. If so, the Council becomes an opted in authority from the date of the notice and for the period stated in the invitation. For the avoidance of doubt, it is advised that Committee recommend to Council delegate the function of giving notice to an officer.

Human Resources implications and risks:

N/A

Equalities implications and risks:

This is a statutory requirement with no equalities implications.

BACKGROUND PAPERS

None.

This page is intentionally left blank

27 October 2016

Email: appointingperson@psaa.co.uk

Andrew Blake-Herbert
London Borough of Havering Council
Town Hall
Main Road
Romford Essex RM1 3BD

Copied to: Andrew Blake-Herbert, Group Director Of Finance And Community, London Borough of Havering Council
Daniel Fenwick, Director of Legal and Governance, London Borough of Havering Council

Dear Mr Blake-Herbert

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

This page is intentionally left blank

Form of notice of acceptance of the invitation to opt in

(Please use the details and text below to submit to PSAA your authority's formal notice of acceptance of the invitation to opt into the appointing person arrangements)

To: appointingperson@psaa.co.uk

Subject: [Name of authority]

Notice of acceptance of the invitation to become an opted-in authority

This email is notice of the acceptance of your invitation dated 27 October 2016 to become an opted-in authority for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that [name of authority] has made the decision to accept your invitation to become an opted-in authority in accordance with the decision making requirements of the Regulations and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: [Name of signatory]

Title: [Role title] (authorised officer)

For and on behalf of: [Name of authority]

Date:

This page is intentionally left blank

AUDIT COMMITTEE
29 November 2016

Subject Heading:	Head of Assurance Quarter Two Progress Report: 4 th July 2016 to 2 nd October 2016
CMT Lead:	Jane West Managing Director oneSource
Report Author and contact details:	David Hogan, Head of Assurance. Tel: 0203 0454943 E-mail: david.hogan@bexley.gov.uk
Policy context:	To inform the Committee of progress on the assurance work undertaken in Quarter Two of 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 advises the Committee on the work undertaken by the assurance team during the period 4th July 2016 to 2nd October 2016.

RECOMMENDATIONS

1. To note the contents of the report.
In particular:
 - The proposed revisions to the Havering / oneSource Audit Plan 2016/17
 - To formally accept the revised audit opinions – levels of assurance introduced earlier this year

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 assurance activity. The report is presented in three sections.

Section 1 Introduction, Issues and Assurance Opinion

Section 2 Executive Summary: A summary of key messages from quarter two.

Section 3 Appendices: Provide supporting detail for members' information

Appendix A: Detail of Quarter Two Internal Audit Work (4th July – 2nd October 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.

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 two, 2016/17 in support of the Audit Committee's role.
- 1.1.2 The main body of the report provides the Head of Assurance'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 At the last meeting of the Audit Committee it was reported that the challenge of delivering the restructure along with ICT configuration and set up work has had an inevitable impact on the number of audit days available across the 3 boroughs. A thorough review of current plans and available resources has been undertaken, given that the structure is not fully populated yet.

1.2 Level of Assurance

- 1.2.1 At the September Committee meeting, Members received the Head of Assurance's opinion based upon the work undertaken in quarter one of 2016/17, which concluded that reasonable assurance could be given that the internal control environment is operating adequately.
- 1.2.2 Based upon the work undertaken since the last update to Members, no material issues have arisen, which would impact on this opinion. There has been one Limited assurance report issued this quarter.

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

- 2.1.1 There have been nine reports issued in quarter two. Five of these were Substantial Assurance, four Moderate Assurance and one Limited Assurance. This was on Direct Payments and a follow up audit will be undertaken at the end of the financial year.
- 2.1.2 Of the 18 audit recommendations, 5 (Appendix C sets out the list) were categorised as “High Priority”. One has been completed and four are in progress.
- 2.2.1 Proactive Audit Work Plan for quarter two is shown within Appendix A.
- 2.2.2 The Audit Partner (Pro-Active Audit & Counter Fraud) received 14 new referrals in quarter two to add to the three from quarter one, one of which has been past to the Investigations Team.
- 2.2.3 Four cases have been completed during the quarter resulting in:
- One Management Action Plan;
 - Two Standard Setting’s; and
 - One No Case to Answer.
- 2.2.4 Eight recommendations were made during quarter two to improve the control environment.
- 3.1.1 During the quarter the investigations team:
- have recovered 11 properties with a nominal value of £198,000k;
 - had seven Right to Buy applications withdrawn, with a nominal value of £608,928.46; and
- 3.1.2 The total net savings for the project from Oct 2015 to Sept 2016 is £2,535,748

Appendix A: Quarter Two Internal Audit Work (6th July 2015 to 4th October 2015)

1.1.1 In March 2016 the Audit Committee approved an Annual Audit Plan for the 2016/17 financial year totalling 602 days to Havering Audits and 395 days to auditing oneSource services across both authorities (997 audit plan days). In June, one audit, relating to ICT Data Warehouse was subsequently moved from the oneSource part of the Plan to the individual authorities' plans at Newham and Havering. As a result, the number of days in the Havering part of the Plan was increased to 612 days and the oneSource plan reduced to 370 days.

1.1.2 Revisions to the Havering / oneSource Internal Audit Plan 2016-2017

1.1.3 Introduction and Background

The Internal Audit Service is part of oneSource and had provided an integrated service to the two partner authorities before the London Borough of Bexley joined and the Assurance Service was restructured. Interviews took place throughout the summer months. Appointments were completed in August and the Service went live later in the month. The restructure is not yet fully populated, as there are currently 3 vacancies across the services at Senior Auditor level and 1 at Auditor/Trainee level. Some members of staff have changed roles and it is now evident that there are on the job training requirements. In addition, another member of staff will be commencing maternity leave imminently. The new structure will deliver additional resilience, financial savings and efficiencies required in line with the Joint Committee Business Case. However, the challenge of delivering the restructure along with ICT configuration and set up work has had an inevitable impact on the number of audit days available across the 3 boroughs. A fundamental review of current plans and resources to achieve them has taken place.

1.1.4 Audit Plan 2016/17

Under the Public Sector Internal Audit Standards, the Chief Audit Executive (Head of Assurance) is required to deliver a risk-based audit plan.

The annual plan was developed from a range of sources, including the Corporate Risk Register, and was been developed with the following objectives:

- It should include those audits where there is a mandatory requirement for the work;
- It should give an adequate level of assurance and have sufficient coverage; and
- It should be deliverable by the number and skills mix of staff.

Level of assurance and coverage

In developing the plan, and ensuring that an adequate level of assurance can be given, a number of factors have been taken into account. In particular, it is important that there is assurance about the core systems and processes.

Deliverables

The audit plan was developed to provide maximum assurance using the internal audit resource available. 612 days were allocated to Havering audits and 370 days to auditing oneSource services across the two authorities (982 days in total). Members were also consulted on the plan via a report presented to the Audit Committee in March 2016. However, having now had the opportunity to examine the Plan, there was insufficient provision for; contingencies, the effect of the restructure, the carry forward of prior year work and for the delivery of urgent or unplanned requests for additional work, which had been agreed prior to the restructuring of the Assurance Service. Going forward, such issues will be addressed in plans for 2017/18 and beyond. There are a number of vacant posts, with some staff having applied successfully for posts within and outside the borough. Others have moved into posts with some on the job training requirements and, as a result, it will be necessary to match available resources to individual skill sets.

It is estimated that the plan for 2016/17 could be reduced by 119 days to 863 days. This would comprise a reduction of 74 days in Havering audits and 45 days in oneSource audits. This would be completed with minimal impact on risk, provided that action is in place to deliver full capacity in 2017/18. This would be achieved by: risk assessing which tasks could be moved into 2017/18; reducing the numbers of days planned for the audit engagement; or, addressing the risk in another way. For example, work is being undertaken by the Principal Risk and Insurance Manager, who will be fundamentally reviewing the Risk Management approach at each authority and reporting back to the Audit Committee in due course.

The tasks which had been agreed to be added to the plan and those which are proposed to be rescheduled / removed from the 2016/17 Plan are detailed below:

Audit Committee, 29 November 2016

Previously Added to Plan (see Paragraph 2.4 check):

Directorate/Service	Audit Title	No. of Days
oneSource - ICT	Language Shop	15
oneSource - ICT	Print Room	<u>18</u>
oneSource	<u>Total Added</u>	33
Hadvering - Learning & Achievement	Traded Services Development & Engagement	20
Hadvering - Learning & Achievement	Schools Assurance Programme Development	45
Hadvering - Cross-cutting	Payment in Error	13
Hadvering - Cross-cutting	Advice & Assistance to Directorates	26
Hadvering - Cross-cutting	Amended provision for completion of 2015/16 work	51
Hadvering	<u>Total added</u>	<u>155</u>

Rescheduled / Removed from Plan:

Directorate/Service	Audit Title	No. of Days	Comments
oneSource	NNDR – Debt Recovery and Write Offs	25	Move to early 2017/18 as two other NNDR audits to be completed in 2016/17.
oneSource	Establishment	30	Move to early 2017/18 – recent service restructure.
oneSource	Staff Vetting	30	Move to early 2017/18 – recent service restructure.
oneSource	<u>Total Rescheduled / Removed</u>	<u>85</u>	
Hadvering – ICT	Security over Data Warehouse	25	Move to 2017/18 following risk assessment of audits in plan and availability of remaining budget. (originally in oneSource plan and moved across to Hadvering in early 2016/17)
Hadvering – Adult Services	Care Packages	20	Move to 2017/18 following discussions with Director over timing of audit.
Hadvering – Adult Services	Safeguarding	20	Move to 2017/18 following discussions with Director over timing of audit.

Audit Committee, 29 November 2016

Directorate/Service	Audit Title	No. of Days	Comments
Havering – Children’s Services	Children’s and Adults’ Disability Service	20	Move to 2017/18 - recent service restructure.
Havering – Housing	Audit of Process following review by Chartered Institute of Housing (CIH).	20	Removed following discussion with Director of Housing. Review by CIH recently complete and follow up due in early 2017/18.
Havering – Streetcare	Parking Enforcement – Blue Badges	20	Move to 2017/18 following risk assessment of audits in plan and availability of remaining budget.
Havering - Cross-cutting	Compliance with Procurement Rules: Service TBC	40	Removed as there are already 2 audits taking place in 2017/18 with a focus on procurement (Children’s Services and Streetcare).
Havering - Cross-cutting	Interface with One Oracle (Feeder systems TBC)	15	Amalgamated with the One Oracle audit in oneSource plan.
Havering	Total Rescheduled / Removed	180	
<u>Overall</u>			
oneSource	<u>Net Adjustment (Removed – Added)</u>	52	(85 Days less 33 Days)
oneSource	<u>Other Adjustments</u>	<u>7</u>	As noted in paragraph 1.1.4
oneSource	<u>Total Adjustment</u>	45	As noted in paragraph 1.1.4
<u>Overall</u>			
Havering	<u>Net Adjustment (Removed – Added)</u>	25	(180 Days less 155 Days)
Havering	<u>Other Adjustments</u>	<u>49</u>	As noted in paragraph 1.1.4 and to budgets remaining in Plan
Havering	<u>Total Adjustment</u>	74	As noted in paragraph 1.1.4
	<u>Total Adjustment</u>	119	As noted in paragraph 1.1.4

1.1.5 Audit Opinions – Levels of Assurance

1.1.6 Introduction

Members have been advised previously about the oneSource Assurance Service restructure. This new structure will deliver the required additional resilience, financial savings and efficiencies in line with the Joint Committee Business Case. To assist in achieving this, the effectiveness and efficiency of processes will be improved. A “One Policy, Strategy and Procedure” approach will be developed, which will ensure consistency across the three boroughs, with partners receiving the same service standard. With regard to Internal Audit, it will be ensured that audit work will be undertaken in accordance with the Public Sector Internal Audit Standards (PSIAS).

Some of this work was started to be undertaken before the formal creation of the new Assurance Structure. In particular, a consistent approach to the Audit Opinions given at the completion of each audit had been introduced earlier this year. However, although it is believed that this may have been discussed with some Members, it does not appear that this has been formally brought to the attention of the Audit Committee. This report addresses this omission.

1.1.7 Audit Outcomes – Levels of Assurance

Included in each audit report is an audit opinion. Previously, these were as noted below and defined as follows:

- **Full Assurance** – There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- **Substantial Assurance** – While there is a basically sound system, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- **Limited Assurance** – Limitations in the systems of control are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
- **No Assurance** – Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Earlier this year, the Internal Audit team at Havering introduced revised levels of assurance. This was to ensure there would be a consistent approach to audit opinions given across the three boroughs after the Assurance Service had been restructured. These revised levels of assurance are defined as follows:

- **Substantial Assurance** – There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.

- **Moderate Assurance** – Whilst there is basically a sound system of control within the areas reviewed, a need was identified to enhance controls and/or their application and to improve the arrangements for managing risks.
- **Limited Assurance** – There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

1.1.8 Audit Outcomes - Reporting

At the completion of each audit, following the issue of the final report, the Audit Committee is informed of the outcome of the audit. Where the audit opinion is assessed as Limited, it is proposed that the details of the report will continue to be submitted to the Committee for their consideration.

Where the audit opinion is assessed as Substantial Assurance, for the future it is proposed that a list of these audits will be prepared for the Audit Committee's information and consideration. Where the audit opinion is assessed as Moderate Assurance, as fundamental weaknesses in control have not been identified and the level of risk exposure is not significant, it is proposed that a list of these audits will be prepared for the Audit Committee's information and consideration. Further, more detailed, information about these audits will be made available upon request.

1.1.9 Options

Committee Members are requested to note and accept the revisions to the levels of assurance, which were introduced earlier this year. This will ensure that there is a consistent approach across the oneSource Audit Teams and assist with the implementation of the agreed "One Policy, Strategy and Procedure" approach, in line with the principles in the Joint Committee Business Case.

Committee Members are also requested to note the minor amendment to the reporting of audit outcomes, as noted in paragraph 1.1.8.

Alternatively, Committee Members may request that the levels of assurance revert back to those in operation earlier in the year. The reporting of audit outcomes would therefore remain unchanged.

1.2 Risk Based Systems and School Audits

1.2.1 As at 2nd October 2016, nine assignments had been completed and 21 were in progress but had not reached final report stage. The table below details the final reports issued in quarter two.

Report	Assurance	Recommendations				Ref
		High	Med	Low	Total	
System / Computer Audits						
Direct Payments	Limited	5	9	0	14	B (1)
Disaster Recovery	Substantial	6	8	0	14	B (2)
Talent Link Application	Substantial	0	5	0	5	B (3)
Service Manager Follow Up	Substantial	N/A	N/A	N/A	N/A	B (4)
PARIS Follow Up	Substantial	N/A	N/A	N/A	N/A	B (5)
School Audits						
Dame Tipping Primary	Moderate	2	5	5	12	B (6)
Langtons Infants	Substantial	1	5	0	6	B (7)
Marshalls Park	Moderate	2	8	1	11	B (8)
Royal Liberty	Moderate	1	4	4	9	B (9)
Total		17	44	10	71	

1.2.2 Management summaries for the five system reports and 4 school reports are included under Appendix B: Audit Report Summaries.

1.3 Key Performance Indicators

1.3.1 The table below details the profiled targets and the performance to date at the end of September 2016. The total number of audits, where there will be a standard approach to deliverables for 2016/17 is 63.

Performance Indicator	Quarter 2 Target	Quarter 2 Actual	Quarter 2 Variance
Percentage of Audit Plan Delivered	47%	38%	-9%
Number of Briefs Issued	33	30	-3
Number of Draft Reports Issued	21	12	-9
Number of Final Reports Issued	18	9	-9

Performance has been affected by the time taken on the Assurance restructure and the additional work undertaken prior to the restructure, as noted earlier in this report.

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.

Audit Committee, 29 November 2016

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 02/11/16		
			Assurance Level	H	M	L	Complete	In Progress
15/16	Accounts Payable	Exchequer & Transactional Services	Substantial	0	2	0	1	1
15/16	Accounts Receivable	Exchequer & Transactional Services	Substantial	0	3	0	2	1
15/16	Service Manager	Exchequer & Transactional Services	Substantial	2	4	1	5	2
15/16	Offsite Storage	ICT Services	Limited	3	3	0	0	6
2015/16 Totals				5	12	1	8	10

2.1 Proactive Audit and Counter Fraud

2.1.1 Proactive work undertaken during quarter two is shown below:

Description	Risks	Quarter 2 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.	Ongoing
Whistleblowing	All whistleblowing referrals.	Ongoing
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation. 89 made 3 outstanding.	Ongoing
Freedom of Information Requests	To undertake all Freedom of Information Requests relating to Internal Audit Investigations.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately.	Ongoing
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance.	Ongoing
Advice to Local Authorities	All Data Protection Act requests via Local Authorities, Police etc.	Ongoing

2.1.2 The proactive audit work comprises two elements:

- A programme of proactive audits; and
- Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.

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 2 2016/17						
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
3	14	1	0	1	3	12

Audit Committee, 29 November 2016

2.2.2 The table below provides information on the sources of audit investigation referrals received.

Source and Number of Referrals Quarter 2 2016/17	
Number of Referrals/ Type	IA Reports Qtr. 2
External Organisations / Members of the Public	1
Internal Departments	13
Total	14

2.2.3 The table below shows the number and categories of audit investigation cases received during quarter two, compared to the quarter one totals.

Reports by Category		
Audit Investigation Category	Cases Qtr. 1	Cases Qtr. 2
Breach of Code of Conduct	2	1
Breach of Council Procedures	0	2
Misuse of Council Time	0	2
Theft	0	3
Procurement	1	1
Miscellaneous	0	5
Total	3	14

2.2.4 The table below shows the case outcomes for Internal Audit investigations from July to September 2016.

Case Outcomes	
Outcome	Qtr. 2
Management Action Plan	1
Standard Setting	2
No case to answer	1
Total	4

2.3 Savings and Losses

2.3.1 The investigations carried out 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 There have been no savings or losses identified during quarter two of 2016.

2.4 Audit Investigation Recommendations

2.4.1 In 2015/16 there were 27 'Recommendations Not Yet Due' carried forward. Eight recommendations were made at the end of September 2015.

Quarter 2 Audit Investigation Recommendations	
Total Recommendations	35
Recommendations Implemented	17
Recommendations Not Yet Due	11
Recommendations Slipped	7
Of Which High Priority	6

2.5 Investigations Team

2.5.1 During the quarter the majority of resource has been focused on the Tenancy Fraud Project. The Tables below shows the work undertaken on the project.

Housing Investigations – Visiting Team				
Quarter Two	Tenancy Audit Visits	Tenancy Audits (Checks) completed	Referrals from Audit to Fraud	closed
July	1975	627	13	614
Aug	1799	568	10	558
Sept	1637	543	12	531
YTD	15368	4744	350	4394

Investigation Team							
Quarter Two	Cases Under Investigation (open cases)	NFA'D	Notice to Quit Served	Possession Order Granted	Total Properties Recovered	Cases referred for HB Fraud	RTB cancelled through audits
July	134	9	4	0	6	3	1
Aug	142	8	6	1	4	1	4
Sept	153	3	1	0	1	0	2
YTD	N/A	167	14	6	27	24	27

2.5.2 Outcomes for the quarter include the following;

- Eleven properties were recovered with a nominal value of £198,000k;
- 7 Right to Buy applications were withdrawn, with a nominal value of £608,928.46
- The total net savings for the project from Oct 2015 to Sept 2016 is £2,535,748

Appendix B Summary of Audit Reports

Direct Payments	Schedule B (1)
------------------------	-----------------------

1.1 Introduction

1.1.1 A Direct Payment is one of three types of personal budget awarded to any adult, carer or child who is assessed as needing care services. A Direct Payment allows the client to organise their support themselves and is an agreed amount of money paid by the Council to meet the needs identified in the client's or carer's support plan. A cash lump sum can be paid for an item that the client and their social care worker have agreed is necessary.

1.1.2 A Council Managed Budget is where the client wants the Council to organise their support.

1.1.3 An Individual Service Fund is an agreement made for a service provider to manage the client's personal budget. It must be spent in a flexible way to meet the client's needs. The client remains in control of how the money is spent.

1.1.4 The client can also have a mixture of the different types of payment.

1.1.5 At the time of the audit there were 740 adults, 164 children and 35 carers in receipt of a direct payment. The projected annual spend is gross £10,306,978, net £9,900,493 with a financial contribution of £409,554. The actual spend from 30th March 2015 to 08th November 2015 was £6,333,876 gross, of which £3,492.00 was for carers.

1.1.6 The Direct Payment awarded is dependent upon the need of the client or carer and is established by an initial assessment being carried out, followed by annual reviews.

1.1.7 The Care Act 2014 represents the most significant reform of care and support in more than 60 years and brings the previous laws relating to adult social care together in one law from April 2015. The Act also changes many aspects of how support is arranged and aims to give greater control and influence to those in need of support, with a strong focus on individual wellbeing.

1.2 Objectives and Scope

1.2.1 The audit of Direct Payments is included in the 2016/17 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.

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

- Compliance with the Care Act 2014;
- Assessment of the need of the client and subsequent reviews;
- Adequacy of the financial assessment;
- Safeguarding resources from fraud or abuse; and
- Production and review of accurate and relevant management information including performance monitoring.

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

- Delivery of service is in accordance with legislative requirements; Care Act 2014, and Council rules & procedures;
- Procedures are not overly bureaucratic and /or acknowledge risk;
- Payments are authorised and correct;
- Ineligible amounts are not paid/fraud is prevented
- Errors/overpayments are detected;
- Transactions are supported by robust audit trails;
- Budgetary controls are maintained; and
- The system supports the production of suitable management information

1.3 Summary of Audit Findings

1.3.1 Direct Payment clients were tested as follows;

- Five Carers in receipt of a Direct Payment
- Ten clients in receipt of a Direct Payment between 2010 and 2012
- Ten clients in receipt of a Direct Payment since 2014. One of the clients was not eligible for a Direct Payment and therefore the results of the test are based on nine clients.

1.3.2 The Children's Direct Payment Procedure Guidance is not in place and approved.

1.3.3 Financial Assessments are not always being carried out within the 28 days specified in the Non-Residential Care Assessments Processes and Procedures Document.

1.3.4 Clients who are financially assessed as not eligible for a Direct Payment are not required to reimburse any monies received.

1.3.5 One client's Direct Payment commenced in July 2014 for the amount of £279.08 paid four weekly. There is no evidence on SWIFT that a financial assessment was carried out until 23 September 2015 when it was established that the client was not eligible for a Direct Payment. The Direct Payment paid between 8 July 2014 and 6 November 2015 amounted to £5163.00, which has not been reclaimed.

1.3.6 Clients or their financial representatives have the Financial Assessment undertaken in their home by a Visiting Officer. This process should be reviewed to establish if there is a more efficient and cost effective way of conducting the Financial Assessment.

1.3.7 Quarterly Monitoring Returns are not being submitted by all carers ensuring the Direct Payment is being used appropriately.

1.3.8 There is no procedure in place to ensure that a carers' Direct Payment is stopped if the cared for person goes into residential care.

1.3.9 Copies of documents not verified at the time of the financial assessment visit are not being scanned to the system to evidence they have been received.

1.3.10 Full financial re-assessments are not being carried out every three years.

1.3.11 The Non-Residential Care Assessments Processes and Procedure Document does not specify that financial re-assessments are to be undertaken every three years.

1.3.12 Credit checks are not carried out on clients who are in receipt of Disability Living Allowance (DLA) only. Clients in receipt of other benefits have checks carried out by the Department of Work and Pensions (DWP).

1.3.13 Clients are not requested to supply documents covering a specified period of time. E.g. a three, six and twelve month period to verify financial information.

1.3.14 Documentation in the form of receipts or invoices is not being requested and verified for allowable expenses.

1.3.15 The following documents are not always being scanned to the system;

- Signed and dated Support Plan;
- Commencement letter and contract; and
- Financial Assessment Form

1.3.16 The National Fraud Initiative data matching exercise has highlighted clients in receipt of a private pension which might not have been declared during their financial assessment. Further investigation established that this applied to four clients three of which were re-assessed and one who was deceased.

1.3.17 One client who was re-assessed was requested to supply only one bank statement to evidence the amount of the private pension and had not been re-assessed three years after their initial financial assessment was carried out.

1.3.18 A client has been withdrawing cash from their bank account to pay a carer, which is not permitted. The client has been reminded that this is not in accordance with their contract. A recommendation is not to be raised as the matter was addressed at the time of the audit and further incidences were not found.

1.4 Audit Opinion

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

1.4.2 The audit makes five high priority and nine medium priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to:

High

- The Children's Direct Payment Procedure Guidance should be put in place and approved;
- Clients who are financially assessed as not eligible for a Direct Payment should be requested to reimburse the full amount paid;
- Full Financial Assessments should be carried out every three years to ensure that the client is making the correct contribution towards the cost of their care;

Audit Committee, 29 November 2016

- Credit checks should be carried out on clients who are not in receipt of benefits or in receipt of DLA only, to ensure that the information supplied by the client is correct. This would include bank accounts & savings, and identify ownership of a property other than where the client is permanently residing;
- Documents should be requested over specific periods of time to evidence income received. For example bank statements requested over a three, six and twelve month period will show any income which is received other than on a monthly basis.

Medium

- Financial Assessments should be carried out within 28 days as specified in the Non-Residential Care Assessments Processes and Procedure document;
- Management should review the way the financial assessment is carried out. For example, documents could be requested and received via post or taken to PASC and the financial assessment carried out at Council offices;
- Carers Financial Monitoring Returns should be submitted quarterly;
- Procedures should be put in place to ensure that Carer's Direct Payments are stopped if the cared for person (in receipt of a Direct Payment or Independent Service Fund) goes into a Residential Care Home;
- Documents not verified by the Visiting Officer at the time of the visit should be scanned to SWIFT to evidence they have been received;
- The Non-Residential Care Assessments Processes and Procedures should state that a financial re-assessment is to be carried out every three years;
- All documents should be requested to enable sufficient verification checks to be carried out. This includes documentation for allowable expenses such as utility bills/household insurance;
- Documentation should be scanned to the correct clients SWIFT account and include;
 - Signed and dated Support Plan
 - Commencement Letter and Contract
 - Financial Assessment Form
- Checks should be carried out to ensure that clients fully complete contract addendums/new contracts.

Disaster Recovery	Schedule B (2)
--------------------------	-----------------------

2.1 Introduction

- 2.1.1 Disaster recovery forms part of the overall business continuity management (BCM) process. BCM ensures that the council's processes are protected from disruption and that it is able to respond positively and effectively when disruption occurs.
- 2.1.2 ICT continuity management makes sure that ICT and services are resilient and can be recovered within timescales required by and agreed with senior management. Effective BCM depends on ICT continuity management to ensure that the council can meet its objectives at all times, particularly during times of major disruption.
- 2.1.3 Disaster recovery forms an important part of good governance and organisational prudence in ensuring that the council has the ability to continue to function in the face of any disruption to its systems and is still able to perform its statutory or regulatory duties.

2.2 Objectives & Scope

- 2.2.1 Disruption to critical council systems without proper planning in the event of a disaster can be a huge risk, which could also damage the council's ability to perform and provide statutory and/or regulatory functions.
- 2.2.2 The main objective of the audit is to establish whether the council has a robust workable disaster recovery plan in place that is appropriately managed and aligns itself with the wider resilience agenda.

2.3 Summary of Audit Findings

- 2.3.1 Information supplied by ICT indicated that the DR plan had been approved by the ICT Senior Management Team (SMT). However, at the time of the audit there were no minutes of meetings available detailing that the DR plan had been approved by ICT (SMT), neither had details of the plan been circulated to SLT for information.
- 2.3.2 An email was sent to 16 officers listed on the DR plan as officers that should have a copy of the plan, requesting them to confirm which version of the plan they had in their possession. Information reported by officers identified the following;
- four officers indicated that they had version 6,
 - one officer reported that they had version 9,
 - two officers indicated that they had not been supplied with a copy of the plan,
 - one officer was no longer employed by the oneSource partners,
 - one officer was unsure of which version they had, and
 - responses were not received from five officers.
- 2.3.3 Information was sought to confirm whether key officers involved in disaster recovery planning and other stakeholders meet regularly. Information supplied by ICT indicated that the DR plan is discussed at the monthly oneSource Performance Management meeting and that any actions are noted and followed

up at the next meeting, where necessary. ICT also indicated that it has traditionally been difficult to engage with customers and obtain their buy-in with the DR plan and/or testing. However, at the time of the audit, documentation and/or minutes of the oneSource Performance Management meetings were not supplied us. We were, therefore, unable to establish how frequently these officers attended these meetings.

2.3.4 The effective deployment of the DR plan requires that all officers with key roles and responsibilities within the plan are fully aware of their roles in the event of a disaster occurring. Enquiries were made with officers listed with Gold, Silver and Bronze roles in the DR Plan to ascertain whether they were individually aware of their responsibilities under the plan; further, to check that their contact details had been documented correctly in the plan and to confirm that excessive dependence had not been placed on any one officer. Detailed below are the issues identified:

- It was noted that the bronze, silver and gold co-ordinators did not have a deputy co-ordinator assigned to act in their absence in the DR plan;
- 13 officers were requested to provide information detailing whether they were aware of their roles and responsibilities as part of the DR plan. Two officers indicated that they were not aware of their roles, three officers indicated that they were partially aware of their roles, one officer was no longer employed by the oneSource partners and no responses were received from five officers.

2.3.5 Officers involved in disaster recovery duties should receive sufficient training to ensure that they are capable in performing the roles under pressurised situations. 13 officers with key DR roles were requested to provide information confirming whether they had received training on disaster recovery. Three officers indicated that they had not received training on disaster recovery, one officer reported that they had been provided with material but had not received formal training, one officer no longer worked for the organisation and responses were not received from five officers.

2.3.6 Information was sought from the officer responsible for disaster recovery and other key officers involved in executing the DR plan, in order to establish how frequently the DR plan is tested, which officers are involved in testing the plan and how test results are acted upon and communicated to senior management. Detailed below are the issues noted:

- 13 officers were requested to provide information detailing whether they had been involved or taken part in testing the DR plan in the last two years. Seven officers indicated that they had not been involved in testing the plan, one officer was no longer employed by the oneSource partners and no responses were received from five officers;
- As the DR plan is not tested periodically, test results are not communicated to ICT's SMT and the councils' CLT. Neither are assurances provided that backups can be successfully restored following a major incident.

2.3.7 Examination of the disaster recovery plan identified that it did not detail certain key parameters such as how systems interface with other systems. It indicated who the owner is for some systems and the purpose of the system but it did not cover all the systems listed. The DR plan also did not detail how often particular systems are run and whether they are dependent on critical timescales.

2.3.8 An examination was therefore performed to assess whether contractual arrangements between third party organisations and the council sufficiently fulfilled all the relevant criteria:

- The third party agreement supplied to audit indicated that the first 5 day test of the plan within the first 12 months was offered free as part of the contract. However, subsequent testing of the plan would be chargeable at £700 per day;
- The contract provided for audit examination did not detail any penalties on behalf of the 3rd party for any failure to adhere to their contractual obligations; and
- The contract examined had not been signed and dated by both parties with the relevant authority. The contract had only been signed and dated by an officer from the council and not by an officer from the 3rd party organisation

2.4 Audit Opinion

2.4.1 A **Substantial** Assurance has been given on the system of internal control.

2.4.2 The audit makes six high priority and eight medium priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to:

High

- The latest version of the DR plan should be circulated to all officers that should have a copy of the plan;
- Minutes of the oneSource Performance Management meetings should be documented, retained and disseminated to all connected parties in line with best practice;
- An exercise should be performed to ensure that all officers with key roles and responsibilities as part of the DR plan are made aware of their roles in the event of a disaster;
- Formal training should be arranged for all officers involved in disaster recovery to ensure that in the event of a disaster they are aware of their roles and responsibilities and perform them in a synchronised chronological order;
- The DR plan should be tested periodically, if not annually at least every two years and results of the tests should be formally communicated to ICT's SMT and CLT and any remedial action required should be performed as necessary; and
- All officers identified with key roles to play within the plan should also be involved in testing the plan.

Medium

- Minutes of meetings of the ICT (SMT) should be documented and retained clearly showing where key decisions have been agreed and action taken where relevant;
- Brief details of the plan should be circulated to Corporate Leadership Team (CLT) for information/approval;
- Bronze, silver and gold co-ordinators should all have a deputy co-ordinator assigned to act in their absence within the plan;

- The plan should also be updated and officers no longer employed should be removed from the plan;
- Consideration should be given to incorporating details of which systems interface with each other, the owner and the systems usage for all systems and whether they are dependent on critical timescales. This information can be incorporated in the DR plan supporting documentation referred to as "DR Scenarios - Priority Systems";
- Consideration should be given to including periodic testing of the plan in agreements with the third party organisations;
- There should be clearly documented penalties where a 3rd party organisation fails to adhere to their contractual obligations; and
- Contracts should always be signed and dated by the relevant authorised officers from both organisations.

Talent Link Application	Schedule B (3)
-------------------------	----------------

3.1 Introduction

3.1.1 Lumesse TalentLink is an e-recruitment system used by both Havering and Newham councils for the recruitment of all staff except agency workers.

3.2 Objectives and Scope

3.2.1 To establish whether there is an adequate control environment within Talent Link, application controls (conforming to confidentiality, data integrity and availability) are working as expected, and that they are appropriate to enable the achievement of the system's objectives.

3.3 Summary of Audit Findings

3.3.1 The embedded password rules do not support strong passwords.

3.3.2 There is currently no internal oversight or monitoring of the administrators' activity.

3.3.3 There is no escrow agreement in place for this contract, and it is unclear whether this had been considered.

3.3.4 A report on user activity (audit trail), could not be run.

3.3.5 There are no arrangements in place, to review records, after transactions have been completed, to ensure that they are accurate.

3.4 Audit Opinion

3.4.1 A **Substantial** Assurance has been given on the system of internal control.

3.4.2 The audit makes five medium priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to:

- Changing the password convention should be explored;
- Protocols for the Global System Administrator (GSA) and Local System Administrators (LSAs), when carrying out support activity should be established;
- The need for an escrow agreement should be considered to ascertain whether it would be necessary to have one in place;
- If there is capability for the GSA or LSAs to generate a bespoke report to monitor user activity, this should be raised as a support call with Lumesse for guidance on how this could be done; and
- Records should be reviewed and any anomalies identified. These should then be analysed and procedural weaknesses cited in user group meetings. The GSA should ascertain through networking what management information is available to support monitoring responsibilities.

Service Manager Follow Up	Schedule B (4)
----------------------------------	-----------------------

4.1 Background

- 4.1.1 An audit of Service Manager was undertaken in September 2015 as part of the Council's 2016/2017 audit plan.
- 4.1.2 The review resulted in a Limited Assurance on the system of internal control being given. The opinion reflected the fact that limitations in the systems of control are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
- 4.1.3 The report made seven recommendations, comprising of two high, four medium and one low priority recommendations.
- 4.1.4 All recommendations were accepted by management and were due to be implemented by May 2016.
- 4.1.5 This review aims to assess progress made to implement the recommendations raised in the November 2015 report.

4.2 Progress on Implementation

- 4.2.1 This review found that five of the seven recommendations have been fully implemented with the remaining two partially complete.
- 4.2.2 Customers were to be made aware of the need to include the call reference as part of the initial contact with Shared Services. The automated email that is sent to customers who place a call now includes the need for them to quote the call reference when contacting Shared Services with regard to that issue.
- 4.2.3 At the time of the audit 'How To' guides were being created. These have now been completed and are available to all staff using Service Manager.
- 4.2.4 When the severity of calls were changed the customer wasn't made aware of this change. This change in severity has a direct impact on the delivery timescales. A standard email template to be sent to the customer was designed to include a change in severity; the use of this template went live in March 2016.
- 4.2.5 Training for staff designing reports has been completed; reports have now been designed within the system.
- 4.2.6 Reports have been written that will give each service area access to information relating to calls managed and completed. These reports can be interrogated further to provide more detail and allow managers to scrutinise performance and service delivery. Reports will be made available to each individual service once the data has been verified.
- 4.2.7 Spot checks on calls will be carried out when reports are made available to individual services.

4.2.8 Each severity has an expected delivery timescale; at the time of the audit there was not an expected delivery time for calls that were severity 6. This therefore meant that there was not an expectation to record this call resulting in these calls not being reported on. The expected delivery timescale for severity 6 calls is now two months.

4.3 Conclusion

4.3.1 Five of the Seven recommendations have now been implemented with the remaining two partially completed. Action has been taken to address key weaknesses within the Service Manager process and therefore the audit assurance has increased to **Substantial Assurance** which means that there is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.

4.3.2 There are no plans to carry out a further follow up review on this area and the two remaining partially completed recommendations will be monitored through our quarterly recommendations reporting process.

PARIS Follow Up	Schedule B (5)
------------------------	-----------------------

5.1 Introduction

5.1.1 As part of the Internal Audit Plan, we have a commitment to conduct follow ups of our previous limited assurance audit reports. This follow up is to assess the actions taken to implement the recommendations arising from a previous audit of the Paris (Cash Receipting) application in January 2015.

5.2 Progress on Implementation

5.2.1 From discussions and information provided by the Senior Team Lead - Systems & Reconciliations, we collated the actions that have been taken since our recommendations were made. Testing was carried out to confirm that the actions have been undertaken and that controls are being operated effectively.

5.2.2 Four recommendations were followed-up from the previous audit report; detailed below is the current status of the recommendations.

Priority	Number of Recommendations	Fully Implemented	Partly Implemented	Not Implemented
High	3	1	1	1
Medium	1	1	-	-

5.2.3 Summary of high priority recommendations not yet implemented:

It is recommended that 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 at the beginning of July 2016, a quote had been received from the software supplier. The council has also requested some dates from the provider on when the restore can be tested.

5.3 Conclusion

5.3.1 For the area under review, it is Audit's conclusion that the revised audit opinion is a Substantial Assurance.

Dame Tipping Primary School	Schedule B (6)
------------------------------------	-----------------------

6.1 Introduction

- 6.1.1 The audit of Dame Tipping Primary School was undertaken as part of the rolling programme of triennial school audits as set out in the Council's 2016/2017 audit plan.
- 6.1.2 Dame Tipping Primary School was last audited in May 2013 when the completion of the Triennial Audit resulted in **Substantial Assurance** on the system of internal control being 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.
- 6.1.3 The May 2013 report made six recommendations, comprising of three medium and three low priority recommendations.
- 6.1.4 Dame Tipping Primary School was also traded an Audit Health Check in February 2015 which resulted in a Substantial Assurance.
- 6.1.5 The February 2015 report made nine recommendations, comprising two high, four medium and three low priority recommendations. Progress to implement all previous recommendations has been reviewed as part of this audit.

6.2 Scope and Objectives

- 6.2.1 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:
- Leadership and Management;
 - Strategic Planning & Risk Management;
 - Financial Management;
 - Income;
 - Expenditure;
 - Account Management;
 - HR & Payroll; and
 - Asset Control & Data Security.

6.3 Summary of Audit Findings

- 6.3.1 This review found that five of the six recommendations raised in January 2014 report have been fully implemented.
- 6.3.2 The one outstanding recommendation related to raising orders on the system before invoices are received. This recommendation has been reiterated as part of this report.

Audit Committee, 29 November 2016

- 6.3.3 This review found that all nine of the recommendations raised in February 2015 had been fully implemented.
- 6.3.4 The Scheme of Delegation did not accurately match when compared to the Bank Mandate and Finance Policy.
- 6.3.5 The School Information Regulations states that information relating to governor pecuniary interests and attendance at meetings is to be published on the school website of maintained schools.
- 6.3.6 No checks have been carried out to ensure staff that use their car for work purposes have the relevant documentation. Templates have been provided to the school following the audit visit.
- 6.3.7 The Emergency Plan relating to the school includes responsibilities directed at the ex-Deputy Head Teacher.
- 6.3.8 Accruals entered onto the system at the year-end had not been approved prior to being entered.
- 6.3.9 The school Charging Policy did not contain a threshold for which refunds would be offered to parents in the event of schools trips making a profit.
- 6.3.10 Summary income and expenditure reports had not been completed for school trips to allow for an accurate review of the cost to the school and whether a profit/ loss was made.
- 6.3.11 The Finance Policy included procurement thresholds that are no longer relevant. Current thresholds were supplied to the school following the visit.
- 6.3.12 Procurement testing found that invoices are not signed by an authorised signatory to signify that the invoice is permitted for payment.
- 6.3.13 Hourly rates for additional hours timesheets should be included on the timesheet to enable accuracy checks to be carried out against payroll reports. The hourly rates are available from the LBH Payroll team.
- 6.3.14 Two Governors did not have a DBS that was specific to their role as a governor.
- 6.3.15 When equipment loaned to staff is returned to the school there is no verification on the register from an independent person to show that the items have been received back into the school.

6.4 Assurance Level and Recommendations

- 6.4.1 A **Moderate Assurance** has been given on the system of internal control.
- 6.4.2 This audit makes two high, five medium and five low priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to the need for:

High

Audit Committee, 29 November 2016

- To ensure that members of staff who use their own car on school business are legally entitled to do so, checks on individuals documentation should be carried out.
- All staff and Governors should be subject to a DBS check every three years in line with the Councils expectations.

Medium

- The Scheme of Delegation/ Delegated Authority should align with the following documents:
 - Finance Policy and Procedures
 - Bank Mandate
- Governor pecuniary interests should be published on the school website in accordance with statutory requirements and should include any additional governor roles.
- A profit and loss summary should be completed at the end of each school trip. The summary should be signed by the person completing the reconciliation, signed by an appropriate signatory.
- Key documents (orders, invoices, cheque slips / Bacs reports) should be authorised in accordance with the delegated authority.
- The return of equipment on loan should be independent verified (by signature).

Low

- The Emergency / Business Continuity Plan should be updated to include clear roles, responsibilities and action to be taken.
- Accruals should be approved by the Head Teacher prior to processing.
- The Charging Policy should include a financial threshold above which refunds will be given.
- The school should adopt the financial thresholds provided by the Council in regard to procurement processes.
- Rates should be available and used to populate time sheets to ensure the accuracy of checks on payroll reports.

Langtons Infant School	Schedule B (7)
-------------------------------	-----------------------

7.1 Introduction

- 7.1.1 The audit of Langtons Infant School was undertaken as part of the rolling programme of triennial programme of school audits as set out in the Council's 2016/2017 audit plan.
- 7.1.2 Langtons Infant School was last audited in July 2012 when the completion of the Triennial Audit resulted in Substantial Assurance on the system of internal control being given. The opinion reflected the fact that there is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- 7.1.3 The July 2012 report made five recommendations, comprising of one high, two medium and two low priority recommendations. Progress to implement these recommendations has been reviewed as part of this audit.
- 7.1.4 Langtons Infant School also traded an Audit Health Check in December 2014 which resulted in a Substantial Assurance.
- 7.1.5 The December 2014 report made five recommendations, comprising one medium and four low priority recommendations. Progress to implement all previous recommendations has been reviewed as part of this audit.

7.2 Objectives & 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:
- Leadership and Management;
 - Strategic Planning & Risk Management;
 - Financial Management;
 - Income;
 - Expenditure;
 - Account Management;
 - HR & Payroll; and
 - Asset Control & Data Security.

7.3 Summary of Audit Findings

- 7.3.1 This review found that four of the five recommendations raised in July 2012 report have been fully implemented.
- 7.3.2 The one outstanding high recommendation related to checks being carried out to ensure staff using their car for work purposes have the relevant documentation.
- 7.3.3 This review found that three of the five recommendations raised in December 2014 had been fully implemented. The outstanding recommendations included

one medium recommendation which also related to the checking of documentation relating to staff using their own car for business use.

- 7.3.4 The final outstanding low recommendation related to the need to complete a DBS check for all governors. These recommendations have been reiterated as part of this review.
- 7.3.5 The School Improvement Plan did not contain estimated costs to complete the objectives identified. Identifying the expected cost of delivery will enable the school to adequately budget for the expenditure.
- 7.3.6 The Asset Management Plan (AMP) did not contain estimated costs to complete the objectives identified. Identifying the expected cost of delivery will enable the school to adequately budget for the expenditure.
- 7.3.7 The AMP did not include completion dates for work to be carried out by. It was therefore unclear as to what work was being prioritised within the current plan. Planning expected delivery will also enable the school to consider which works are needed and the costs involved when completing the school budget.
- 7.3.8 The Health and Safety Plan did not contain estimated costs to complete the objectives identified.
- 7.3.9 Driving disclaimers had not been completed for any staff members. Completion of the disclaimer allows the school to keep a record of who has declared that they do/ do not drive. The school need only then complete full checks for those staff declaring to drive.
- 7.3.10 The school have set a deficit budget of £81,000. The school have put plans in place to reduce this budget and submitted this to the borough LMS team.
- 7.3.11 All income and expenditure relating to school trips is currently processed through the school fund account.
- 7.3.12 One Governor did not have a DBS that was specific to their role as a governor.

7.4 Assurance Level and Recommendations

- 7.4.1 A **Substantial Assurance** has been given on the system of internal control.
- 7.4.2 This audit makes one high and five medium priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to the need for:

High

- All staff and Governors should be subject to a DBS check every three years in line with the Councils expectations.

Medium

- The financial / resource costs required to deliver the objective should be documented within the School Improvement Plan and incorporated into the budget.

Audit Committee, 29 November 2016

- Works should be supported by an expected completion date, documented within the Asset Management Plan.
- The costs required to deliver works should be documented within the Asset Management Plan and incorporated into the budget.
- Works should be supported by an expected completion date, documented within the Health and Safety Plan.
- All staff should complete the Driving Disclaimer.

Marshalls Park School	Schedule B (8)
------------------------------	-----------------------

8.1 Introduction

- 8.1.1 The audit of Marshalls Park School was undertaken as part of the rolling programme of triennial school audits as set out in the Council's 2016/2017 audit plan.
- 8.1.2 Marshalls Park School was last audited in February 2013 when the completion of the Triennial Audit resulted in **Substantial Assurance** on the system of internal control being given. The opinion reflected the fact that there is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- 8.1.3 The February 2013 report made ten recommendations, comprising of two high, five medium and three low priority recommendations. Progress to implement these recommendations has been reviewed as part of this audit.

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:
- Leadership and Management;
 - Strategic Planning & Risk Management;
 - Financial Management;
 - Income;
 - Expenditure;
 - Account Management;
 - HR & Payroll; and
 - Asset Control & Data Security.

8.3 Summary of Audit Findings

- 8.3.1 This review found that seven of the ten recommendations raised in the February 2013 report have been fully implemented.
- 8.3.2 The three outstanding recommendations have been reiterated as part of this report and related to:
- The annual stock check to be signed off and presented to governors (Medium);
 - Orders to be raised on SIMS before invoices are received (Medium); and
 - Timesheets to be authorised in line with delegated authority (Medium).
- 8.3.3 The School Information Regulations states that information relating to governor pecuniary interests and attendance at meetings is to be published on the school website of maintained schools.

Audit Committee, 29 November 2016

- 8.3.4 The School Improvement Plan was finalised during the audit visit. This had not therefore been seen or approved by the Governing Body at the time, but is expected to be taken to the next Governing Body meeting.
- 8.3.5 The School Improvement Plan does not have estimated costs relating to achieving the objectives within the plan.
- 8.3.6 The Health and Safety action plan does not include estimated costs relating to achieving the objectives within the plan.
- 8.3.7 Adequate arrangements have been agreed and confirmed to relocate pupils to an alternative short term location.
- 8.3.8 The school have a deficit budget of £90,000. The school have put plans in place to reduce this budget and submitted this to the borough LMS team.
- 8.3.9 Orders were being raised on the system after receipt of an invoice. This process should be completed in advance of invoices being received to commit spend within the system and allow for more accurate budget monitoring.
- 8.3.10 The schools bank mandate does not accurately match to the Scheme of Delegation detailed within the Finance Policy.
- 8.3.11 The payroll reports are checked for accuracy by the School Business Manager. A secondary check on the SBM salary is currently not being completed.
- 8.3.12 Hourly rates for additional hours should be included on the timesheet to enable accuracy checks to be carried out against payroll reports. The hourly rates are available from the LBH Payroll Team.
- 8.3.13 Of eight additional hours timesheets, three were found to have been authorised by staff who were not included on the delegated authority list.
- 8.3.14 The schools inventory has not been adequately maintained.

8.4 Audit Opinion

- 8.4.1 A **Moderate Assurance** has been given on the system of internal control.
- 8.4.2 This audit makes two high priority, eight medium and one low priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to the need for:

High

- Action should be taken to address and reduce the raising of orders retrospectively;
- Inventory processes and responsibilities to be implemented.

Medium

- Governors pecuniary interests and governor attendance at meetings to be published on the School's website;

Audit Committee, 29 November 2016

- The financial / resource costs required to deliver the School Improvement Plan objectives to be documented within the plan;
- The costs required to deliver works identified through Health and Safety to be documented within the plan and incorporated into the budget;
- Action should be taken to determine a location to safely house staff and pupils in the event of the school buildings needing to be closed.
- Payroll details of the person checking the payroll report should be subject to independent verification;
- Staff timesheets should be retained and kept with the monthly timecard to which they relate.
- Rates should be available and used to populate time sheets to ensure the accuracy of checks on payroll reports;
- Time sheets should be approved in accordance with the delegated authority.

Low

- The bank mandate should be amended to reflect the authorised signatories set out in the delegated authority.

Royal Liberty School	Schedule B (9)
-----------------------------	-----------------------

9.1 Introduction

- 9.1.1 The audit of Royal Liberty School was undertaken as part of the rolling programme of triennial school audits as set out in the Council's 2016/2017 audit plan.
- 9.1.2 Royal Liberty School was last audited in February 2015 when the completion of the audit Health Check resulted in Substantial Assurance on the system of internal control being given. The opinion reflected the fact that there is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- 9.1.3 The February 2015 report made five recommendations, comprising of four medium and one low priority recommendations. Progress to implement these recommendations has been reviewed as part of this 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:
- Leadership and Management;
 - Strategic Planning & Risk Management;
 - Financial Management;
 - Income;
 - Expenditure;
 - Account Management;
 - HR & Payroll; and
 - Asset Control & Data Security.

9.3 Summary of Audit Findings

- 9.3.1 This review found that all of the five recommendations raised in February 2015 report have been fully implemented.
- 9.3.2 The Terms of Reference for the Full Governing Body could not be located.
- 9.3.3 Information relating the Governor pecuniary interests and attendance at meetings has not been published on the schools website as per legislative requirements.
- 9.3.4 Strategic plans for the school have not been formally approved by the Governing Body. (SIP & Asset Management Plan).
- 9.3.5 There is no Health & Safety Plan in place. The school were unaware of this requirement and therefore a recommendation is not being raised. However, a member of staff from the Health & Safety team will be contacting the School Business Manager to clarify what is required.

Audit Committee, 29 November 2016

- 9.3.6 Checks on documents for members of staff using their vehicle on school business are not being carried out.
- 9.3.7 Budget monitoring documents are not being retained.
- 9.3.8 The Charging Policy is not being reviewed by Governors annually.
- 9.3.9 The end of trip profit and loss summary is not being presented to Governors.
- 9.3.10 Approval of Petty cash vouchers does not align with the Finance Policy & Procedures Scheme of Delegation.
- 9.3.11 Users of the SIMS System do not align with the Finance Policy & Procedures.
- 9.3.12 Evidence obtained from the bank regarding the de-activation of a charge card had not been retained on file.
- 9.3.13 Spot checks are not carried out on the member of staff who undertakes the monthly payroll checks to ensure that their pay is correct.
- 9.3.14 Rates of pay are not available to check ensuring that members of staff claiming additional payments are receiving the correct pay.

9.4 Audit Opinion

- 9.4.1 A Moderate Assurance has been given on the system of internal control.
- 9.4.2 This audit makes one high, four medium and four low priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to the need for:

High

- To ensure that members of staff who use their own car on school business are legally entitled to do so, checks on individuals documentation should be carried out.

Medium

- Governor's Pecuniary Interests and attendance at meetings should be published on the Schools website in accordance with statutory requirements and should include any additional Governor roles;
- The School Improvement Plan and the Asset Management Plan should be presented to the Governing Body for formal approval;
- Payroll details of the person checking the payroll report should be subject to independent verification.
- Pay rates should be available and used to populate time sheets to ensure the accuracy of checks on payroll reports.

Low

- The Terms of Reference for the Governing Body should be located;
- The Charging Policy should be reviewed / approved annually by Governors, in line with the Borough's Financial Regulations document.

Audit Committee, 29 November 2016

- The Finance Policy & Procedures should be amended to reflect approvers of Petty Cash vouchers and approved users of the FMS system.
- The profit and loss summary should be presented to Governors for information purposes.

Appendix C: List of High Risk Recommendations and status

Of the five high priority recommendations due, one has been completed and four remain in progress.

Audit Year	Area Reviewed	Director / HoS Responsible	Recommendation	Status
15/16	Service Manager	Exchequer & Transactional Services	Training to be undertaken by those staff responsible for creating performance reports.	Complete
			Reports to created/ extracted that accurately reflect the performance against agreed objectives.	In Progress
15/16	Offsite Storage	ICT Services / Finance	Market testing for offsite storage should be carried out as soon as possible, to identify whether value for money is being achieved.	In Progress
			Officers should ask Iron Mountain for a copy of their disaster recovery plan and enquire whether it has been tested recently.	In Progress
			Officers should satisfy themselves that the current security arrangements are robust.	In Progress

Audit Committee 29 November 2016	REPORT

Subject Heading:

Treasury Management Update Quarter 2
2016/17

CMT Lead:

Deborah Middleton
Interim Chief Financial Officer

Report Author and contact details:

Mark White
Capital Strategy Manager
01708 433624

Policy context:

The code of practice on treasury management 2009 recommends treasury activities to be reported to a scrutiny committee on a quarterly basis

Financial summary:

There are no direct financial implications from 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
- People will be safe, in their homes and in the community
- Residents will be proud to live in Havering

SUMMARY

The Chartered Institute of Public Finance and Accountancy’s Treasury Management Code (CIPFA’s TM Code) requires that Authorities report on the performance of the treasury management function to full Council at least twice

yearly (mid-year and at year end). This report provides an additional quarterly update to be reviewed by the Audit Committee.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

RECOMMENDATIONS

- To note the treasury management activities detailed in the report

REPORT DETAIL

Investments

The average level of funds available for investment purposes has increased marginally from £232m in quarter 1 to £235 in quarter 2.

A full breakdown of the Authority's deposits can be found as appendix A.

Investment performance for quarter ending 30 June 2016

Benchmark	Benchmark Return 3 month LIBOR	Budgeted Rate of Return	Actual Rate of Return	Investment Interest Earned
Quarter 1	0.56%	0.60%	0.77%	£446,490
Quarter 2	0.43%	0.60%	0.76%	£900,201

During the August MPC meeting the UK Bank Rate was reduced to 0.25% and because of this short-term money market rates have dropped even further with some institutions not interested in taking on deposits. This can be seen by the reduction of 3 month LIBOR which in Quarter 2 is down to 0.43%.

As illustrated in the table above, the Authority outperformed the benchmark in the second quarter by 33bp. This was achieved by trying to lock into longer term deposits to negate the effect of a falling 3 month LIBOR whilst maintaining security on its deposits.

The Authority has also outperformed its budgeted rate of return by 16bp which in addition to a higher cash position has led to excess interest earned to date of

£338k. Because of the expectations that 3 month LIBOR will drop further and as maturing deposits are replaced with lower rates the excess interest has not been declared within the Council's overall revenue position and will be kept under review as the year progresses.

2. New borrowing:

Affordability and the “cost of carry” remained important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead, referred to as internally borrowing.

Because of the above no long term borrowing was undertaken during the quarter and its anticipated there will not be a requirement to commit to any long term borrowing for the remainder of the year however this will be continuously reviewed as capital spending is monitored.

The Council has also not borrowed in advance of need during the 2nd quarter of 2016/17 and has no intention to borrow in advance of need for the remainder of the year.

3. Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates following increases in PWLB new borrowing rates in October 2010. The possibility of debt rescheduling is regularly discussed with our treasury advisers and is a regular agenda item at the quarterly treasury meeting held between the treasury department, the S151 officer and the lead Member.

The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority’s portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

4. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council’s approved Treasury and Prudential Indicators (affordability limits) were included and approved by full Council as part of the Treasury Management Strategy Statement (TMSS) in February.

During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

4.1 Interest Rate Exposures

This indicator is set to control the Authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure*	100%	100%	100%
Actual	99.8%		
Upper limit on variable interest rate exposure	25%	25%	25%
Actual	0.2%		

*Fixed rate borrowing are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local Authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure.

4.2 Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual
Under 12 months	40%	0%	3%
12 months and within 24 months	40%	0%	0%
24 months and within 5 years	60%	0%	0%
5 years and within 10 years	75%	0%	0%
10 years and above	100%	25%	97%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

4.3 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum for investments greater than 1 year invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£75m	£50m	£50m
Actual	£28.8m	£28.8m	£23.8m

4.4 Liquidity Treasury Indicator

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments overnight and within a rolling three month period without additional borrowing.

	Target	Actual
Total cash available by the next working day	£5m	£4m*
Total cash available within 3 months	£30m	£100m

*The level of instant access cash dipped below the voluntary target on the 30th September due to a large pay run clashing with the monthly salary outgoings. The figure was immediately replenished on the following working day

4.5 Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Long Term Debt	£210m	£210m	£210m
CFR	£235m	£270m	£306m

Total debt is expected to remain below the CFR during the year.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

4.6 Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	£377.8m	£397.0m	£397.0m
Other long-term liabilities	£2.0m	£2.0m	£2.0m
Total	£379.8m	£399.0m	£399.0m
Long Term Debt	£210.0m	£210.0m	£210.0m
Headroom	£169.8m	£189.0m	£189.0m

4.7 Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	£404.8m	£436.7m	£437.0m
Other long-term liabilities	£2.0m	£2.0m	£2.0m
Total Debt	£406.8m	£438.7m	£439.0m
Long Term Debt	£210.0m	£210.0m	£210.0m
Headroom	£196.8m	£228.7m	£229.0m

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications from this report.

Legal implications and risks:

There are no apparent legal implications or risks from noting this Report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report

BACKGROUND PAPERS

None

Appendix A

Detail of Deposits as at 30th September 2016

Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
Fixed Term Deposit	3213	05/02/16	03/02/17	Lloyds Bank plc	1.0500%	-3,000,000.00
Certificate of Deposit	3219	10/03/16	12/12/16	Rabobank Nederland	0.7400%	-3,000,000.00
Fixed Term Deposit	3223A	31/03/16	31/03/17	United Overseas Bank Limited	0.8200%	-5,000,000.00
Fixed Term Deposit	3222	01/04/16	31/03/17	Bank of Montreal	0.8000%	-5,000,000.00
Fixed Term Deposit	3220	04/04/16	04/10/16	Close Brothers	0.6700%	-5,000,000.00
Fixed Term Deposit	3223B	01/04/16	31/03/17	United Overseas Bank Limited	0.8200%	-3,000,000.00
Fixed Term Deposit	3224	01/04/16	03/10/16	Commonwealth Bank of Australia	0.6500%	-5,000,000.00
Fixed Term Deposit	3226	06/04/16	06/10/16	Commonwealth Bank of Australia	0.6500%	-5,000,000.00
Fixed Term Deposit	3227	07/04/16	06/04/17	Bank of Montreal	0.7700%	-4,000,000.00
Fixed Term Deposit	3229	11/04/16	10/04/17	Oversea-Chinese Banking Corp	0.7800%	-5,000,000.00
Fixed Term Deposit	3232	15/04/16	16/01/17	Lloyds Bank plc	0.9000%	-5,000,000.00
Fixed Term Deposit	3234	03/05/16	03/11/16	Spelthorne Borough Council	0.5500%	-5,000,000.00
Certificate of Deposit	3236	03/05/16	02/05/17	Rabobank Nederland	0.8050%	-5,000,000.00
Fixed Term Deposit	3238	16/05/16	15/05/17	Nationwide Building Society	0.7100%	-3,000,000.00
Fixed Term Deposit	3239	16/05/16	15/05/17	Oversea-Chinese Banking Corp	0.8000%	-4,000,000.00
Fixed Term Deposit	3240	16/05/16	16/11/16	National Australia Bank Ltd	0.6200%	-5,000,000.00
Fixed Term Deposit	3241	19/05/16	12/10/16	Highland Council	0.5200%	-5,000,000.00
Fixed Term Deposit	3233	19/04/16	19/10/16	Close Brothers	0.6700%	-5,000,000.00
Fixed Term Deposit	3242	01/06/16	30/11/16	Nationwide Building Society	0.7100%	-3,000,000.00
Fixed Term Deposit	3246	11/07/16	11/01/17	Leeds Building Society	0.4400%	-5,000,000.00
Fixed Term Deposit	3247	15/07/16	14/07/17	Lloyds Bank plc	1.0500%	-4,000,000.00
Fixed Term Deposit	3249	22/07/16	24/07/17	Lloyds Bank plc	1.0500%	-5,000,000.00
Fixed Term Deposit	3175	09/10/15	10/10/16	Lloyds Bank plc	1.0500%	-3,000,000.00
Certificate of Deposit	3188	15/10/15	13/10/16	Rabobank Nederland	0.7000%	-5,000,000.00
Fixed Term Deposit	3185	06/11/15	04/11/16	Eastleigh Borough Council	0.5600%	-5,000,000.00
Fixed Term Deposit	3190	03/11/15	01/11/16	Lancashire County Council	0.6500%	-5,000,000.00
Fixed Term Deposit	3194	04/11/15	05/11/18	Lancashire County Council	1.3000%	-5,000,000.00
Fixed Term Deposit	3192	02/11/15	01/11/16	Toronto-Dominion Bank	0.8900%	-5,000,000.00
Fixed Term Deposit	3193	04/11/15	02/11/16	Toronto-Dominion Bank	0.8900%	-3,000,000.00
Fixed Term Deposit	3197	15/12/15	13/12/16	Toronto-Dominion Bank	0.9900%	-5,000,000.00
Fixed Term Deposit	3199	29/02/16	26/02/21	Newcastle upon Tyne City Council	1.8000%	-5,000,000.00
Fixed Term Deposit	3202	26/04/16	26/04/21	London Borough of Islington	1.7500%	-5,000,000.00
Fixed Term Deposit	3211	29/01/16	27/01/17	Oversea-Chinese Banking Corp	0.8000%	-5,000,000.00
Fixed Term Deposit	3244	01/07/16	07/10/16	Goldman Sachs International	0.4400%	-3,000,000.00
Certificate of Deposit	3245	05/07/16	05/10/16	Svenska Handelsbanken	0.6000%	-3,000,000.00
Fixed Term Deposit	3250	01/08/16	31/07/17	Australia and New Zealand Banking Group	0.5300%	-3,000,000.00
Fixed Term Deposit	3251	01/08/16	01/02/17	Nationwide Building Society	0.5000%	-5,000,000.00
Fixed Term Deposit	3252	16/08/16	24/11/16	Goldman Sachs International	0.4200%	-7,000,000.00
Fixed Term Deposit	3253	24/08/16	30/11/16	Goldman Sachs International	0.4300%	-5,000,000.00

Fixed Term Deposit	3145	19/06/15	19/06/18	Lancashire County Council	1.2000%	-5,000,000.00
Fixed Term Deposit	3256	07/09/16	06/09/17	DBS Bank Ltd	0.5000%	-2,000,000.00
Fixed Term Deposit	3257	07/09/16	07/03/17	Commonwealth Bank of Australia	0.4000%	-5,000,000.00
Fixed Term Deposit	3258	19/09/16	20/03/17	Nationwide Building Society	0.4300%	-5,000,000.00
						-198,000,000.00
90 Day Notice Account	3186	30/09/15		Santander UK plc	0.6500%	-20,044,960.74
Instant Access Call Account	2500	28/03/13		National Westminster Bank plc	0.2500%	-633,845.43
Instant Access Call Account	2800	28/03/13		Barclays Bank plc	0.4000%	-3,422,860.55
						-24,101,666.72
Covered Bond	3178	14/10/15	12/04/18	Yorkshire Building Society	1.3000%	-5,000,000.00
Floating Rate Covered Bond	3255	31/08/16	08/07/19	Santander UK plc	0.6490%	-1,006,116.20
Floating Rate Covered Bond	3254	31/08/16	29/05/18	Santander UK plc	0.5622%	-2,802,186.77
						-8,808,302.97
						-223,909,969.69

This page is intentionally left blank