



# Haverling

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

## AUDIT COMMITTEE AGENDA

<b>7.00 pm</b>	<b>Wednesday 1 March 2017</b>	<b>Town Hall, Main Road, Romford</b>
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Members 6: Quorum 3

**COUNCILLORS:**

**Conservative  
( 2)**

Viddy Persaud (Chairman)  
Frederick Thompson

**Residents'  
(1)**

Julie Wilkes (Vice-Chair)

**East Haverling Residents'  
(1)**

Clarence Barrett

**UKIP  
(1)**

David Johnson

**Independent  
Residents'  
(1)**

Graham Williamson

**For information about the meeting please contact:  
James Goodwin 01708 432432  
[james.goodwin@OneSource.co.uk](mailto: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 29 October 2016 and authorise the Chairman to sign them.

### **5 EXTERNAL AUDIT PLANS 2016/17: LONDON BOROUGH OF HAVERING AND HAVERING PENSION FUND (Pages 7 - 48)**

### **6 AUDIT COMMITTEE BRIEFING (Pages 49 - 64)**

### **7 2015/16 AUDIT REPORT OF GRANTS CLAIMS AND RETURNS (Pages 65 - 82)**

### **8 CLOSURE OF ACCOUNTS TIMETABLE 2016/17 (Pages 83 - 90)**

### **9 ACCOUNTING POLICIES 2016/17 (Pages 91 - 114)**

### **10 ANNUAL FRAUD PLAN UPDATE (Pages 115 - 126)**

### **11 INTERNAL ASSURANCE REPORT QTR.3 (Pages 127 - 156)**

### **12 URGENT BUSINESS**

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

**Andrew Beesley  
Committee Administration  
Manager**



**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Town Hall, Main Road, Romford  
29 November 2016 (7.00 - 8.00 pm)**

**Present:**

**COUNCILLORS:**

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

**East Havering  
Residents' Group** Clarence Barrett

**UKIP Group** David Johnson

**Independent Residents  
Group** Graham Williamson

Apologies were received for the absence of Councillor Julie Wilkes.

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

**15 MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 27 September 2016 were agreed as a correct record and signed by the Chairman.

**16 ANNUAL AUDIT LETTER**

The Committee received a copy of the Audit Letter issued by Ernst & Young following completion of the 2015/16 audit. They had issued unqualified opinions on both the Council's and Pension Fund's financial statements. The Audit Results Report had been issued on 26 September 2016 and the certificate of completion had been issued on 28 October 2016 once they had completed the WGA and Pension Fund work.

The External Auditors were required to consider whether the Council had put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This was known as the value for money conclusion. Ernst & Young had issued an unqualified value for money conclusion on 30 September 2016.

The Committee **noted** the contents of the letter.

## 17 LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING

Ernst & Young had circulated for the Committee's information their latest sector briefing. This included a section entitled 'What questions should the Audit Committee be asking itself?'

The suggested questions were as follows:

- What actions are being taken to consider the impact of the UK's decision to leave the European Union?
- Do we have appropriate governance arrangements in place to facilitate the delivery of the Sustainability and Transformation Plans?
- Are we ready for the changes to exit package calculations?
- If you are an administering authority has the impact of the proposed changes to the new pension investment scheme been considered and how the local authority will go about determining the value of their own investment?
- Did your local authority have a Barclays LOBO and if so have the impact of the changes made by Barclays been considered by your organisation?
- Has the authority got a plan in place to appoint an external auditor before December 2017?
- How thoroughly has the committee discussed the impact of culture on risk, risk management and the internal control environment?
- Are there systems in place to be able to calculate the gender pay gap, ensuring our organisation is prepared if this does become a requirement?

The Committee **noted** the contents of the sector briefing.

## 18 CLOSURE OF ACCOUNTS TIMETABLE

Officers advised the Committee of some of the challenges facing the Council in preparing the closure of accounts timetable. These included:

- Onesource were still in the process of finalising the restructure of finance which included changes in management arrangements and responsibilities, although the structure would be in place by January 2017;
- The Government proposals for assessing the value of all infrastructure assets for the 2016/17 accounts had been deferred until 2017/18. This provided an opportunity for the council to fine tune the valuations;
- This change would now be brought in to coincide with the early closure of accounts in 2017/18.

The Committee requested information on the process of assessing the valuation of infrastructure assets. Officers explained that the Council's own engineers were working with Jacobs to reach an agreed figure. Whilst the value of similar classes of road would be similar bridges were individual and unique structures which would have to be assessed individually. A national toolkit had been developed for use by all authorities to ensure a consistency of approach with regional values being adjusted.

The Committee **noted** the report and requested an update at the next meeting once the new management structure was in place and for a high-level timetable so they could assess how well the Council was progressing in meeting its targets.

## 19 NATIONAL SCHEME FOR AUDITOR APPOINTMENTS

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 were appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.

In July 2016 Public Sector Audit Appointments' (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 was sometimes referred to as the sector led body and PSAA had 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 was an independent, not-for-profit company limited by guarantee and established by the LGA.

PSAA was inviting the Council to opt in, along with all other authorities, so that PSAA could 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 were as follows:

- PSAA would ensure the appointment of a suitably qualified and registered auditor and expected to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- PSAA would 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 was expected that the large scale contracts procured through PSAA would 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 would be minimised through a smaller number of large contracts across the sector;
- There would be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an ‘auditor panel’; and
- A sustainable market for audit provision in the sector would be easier to ensure for the future.

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 were independent appointees, this excluded current and former elected members (or officers) and their close families and friends. This meant that elected members would 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 enabled the Council to join with other authorities to establish a joint auditor panel. Again this would 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.

Officers were unable to recommend either of these options. 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.

Having discussed the options the Committee **RECOMMENDED** to Council:

1. That it accepts Public Sector Audit Appointments 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 was currently proposed);
2. If (1) was agreed delegate to the Section 151 Officer authority to give notice to the PSSA that the invitation was accepted.

## 20 **INTERNAL ASSURANCE REPORT QTR. 2**

The Head of Assurance submitted the Quarter 2 progress report for the Committee’s attention. At the previous meeting in September the Head of Assurance had given a reasonable assurance that the internal control environment was operating adequately. Based upon the work undertaken in quarter 2 no material issues had arisen that would impact on that opinion.

At the September meeting the Head of Assurance had advised the Committee that as a result of the time taken to complete the restructure and the fact that the



restructure was not fully populated the service would be unable to deliver the entire work plan.

Officers had undertaken a review of the work plan and identified a number changes to take account of the number of days previously added to the plan and identifying a number of audits which could be moved back to early 2017/18 or where the number of hours allocated to the work could be reduced. The outcome of this review was that Havering audits would be reduced by 74 days and oneSource audits by 45 days.

The Committee **noted** the revisions to the work plan.

To make the restructure work more effectively a 'One Policy, Strategy and Procedure' approach was being adopted to achieve a consistency of approach across the three boroughs. Some of this work had started 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.

Previously the Havering reports had one of four opinions. Earlier this year the Internal Audit team at Havering had introduced the following revised levels of assurance:

- **Substantial Assurance** – There was a robust framework of controls and appropriate actions were being taken to manage risks within the areas reviewed. Controls were applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- **Moderate Assurance** – Whilst there was 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 were fundamental weaknesses in the internal control environment within the areas reviewed, and further action was required to manage risks to an acceptable level.

The Committee **noted** the revised level of Assurance and asked officers to review these on a regular basis.

Having considered the audit reports the Committee noted that the audit of the Direct payments system had only received a limited assurance. The Head of Assurance advised the Committee that a follow up report would be coming back to the Committee 6 months from the date of the audit opinion.

Details of the proactive audit and counter fraud work were provided to the Committee. The bulk of the Investigations Team's time had been focussed on the Tenancy Fraud Project which to date had resulted in net savings of £3.1m.

The Head of Assurance informed the Committee that he was reviewing the work of the Proactive Audit and Counter Fraud service with the intention of focussing resources in high risk areas and passing some of the low risk work back to managers and HR. The areas which were being considered for passing back to

management and HR included misuse of Internet. If this was acceptable to management the Policies, Protocols and Procedures would need to be revised.

Officers would be reviewing the Audit Charter and this would be submitted to the next meeting for approval. This would include details of the new levels of assurance.

The Committee **supported** the need to refocus resources towards tackling high risk areas.

Officers advised the Committee of issues that arose from claimants who had 'no recourse to public funds.' In certain circumstances the local authority had an obligation to provide support. The London Borough of Bexley had seen an increase in the number of claimants with a proportionately higher number of fraudulent claims. Conversely the London Borough of Newham had seen a decrease. The problem appeared to be a lack of understanding of the regulations by front-line staff and processes and training were being updated to tackle the issue.

The Committee **requested** an update for the next meeting on the number of claimants in the three boroughs and an estimate of the cost of the fraudulent claims.

## 21 **TREASURY MANAGEMENT UPDATE QTR 2**

The Chartered Institute of Public Finance and Accountancy's Treasury management Code required that Authorities report on the performance of the treasury management function to full Council at least twice a year (mid-year and year end.) Additionally this Committee receives a quarterly update.

Officers informed the Committee that the average level of funds available for investment purposes had increased marginally from £232m in quarter 1 to £235m in quarter 2,

During both quarter 1 and quarter 2 the investment performance had exceeded the budgeted rate of return despite the UK Bank Rate being reduced to 0.25%.

The Council had not borrowed any new money and had no intention to borrow in advance of need for the remainder of the year. Similarly there had been no debt rescheduling in the quarter. All the treasury and Prudential Limits had been adhered to

The Committee asked officers whether the Council had been exposed to any risk following Barclays Banks changes to their LOBOs. Officers gave members an assurance that the Council were not exposed to any risk having only a limited investment with Barclays Bank plc.

The Committee **noted** the report.

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**Chairman**

**AUDIT COMMITTEE**

**Subject Heading:**

**External Audit Plans 2016/17:  
London Borough of Havering and  
Havering Pension Fund**

**CMT Lead:**

Debbie Middleton

**Report Author and contact details:**

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Ernst and Young

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**Policy context:**

To consider the External Audit Plans for the London Borough of Havering and for the Pension Fund

**Financial summary:**

There are no direct financial implications to the report.

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

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

**SUMMARY**

The attached reports advise the Audit Committee of the proposed External Audit Plans for 2016/17.

The Council’s External Auditors, Ernst and Young (EY) will be at the meeting to present the reports.

**RECOMMENDATIONS**

1. To note the contents of the plans.
2. To raise any issues of concern and ask specific questions of officers or external auditors where required.

**REPORT DETAIL**

**1. Background**

Ernst and Young are the current External Auditors for the London Borough of Havering and for the Pension Fund.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

**Legal implications and risks:**

There are no apparent legal implications in noting the content of 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**

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# Havering Pension Fund

Year ending 31 March 2017

Audit Plan

February 2017

Ernst & Young LLP



Building a better  
working world

Audit Committee  
London Borough of Havering  
Town Hall  
Main Road  
Romford RM1 3BB

16 February 2017

Dear Committee Members

## Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 1 March 2017, and subsequently with the Pensions Committee 14 March 2017, and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Melissa Hargreaves  
Executive Director  
*For and on behalf of Ernst & Young LLP*



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://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 Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. 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.

## 1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Havering Pension Fund (the Pension Fund) give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017; and
- ▶ our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of the London Borough of Havering Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit focuses on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

We will provide an update to the Audit Committee and Pensions Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Pension Fund, identified through our knowledge of the Pension Fund's operations and discussion with those charged with governance and officers.

Significant risks (including fraud risks)	Our audit approach
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>▶ reviewing accounting estimates for evidence of management bias, and</li> <li>▶ evaluating the business rationale for significant unusual transactions.</li> </ul>
Other financial statements risks	Our audit approach
<p><b>London Collective Investment Vehicle (CIV)</b></p> <p>During the current year, the Fund's investment holdings in the London CIV have increased significantly and accordingly we have assessed the valuation of the London (CIV) investment to be an area of financial statement risk in the current year.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ testing the allocation of CIV assets and liabilities to Havering pension fund; and</li> <li>▶ testing the valuation of the investments attributable to Havering Pension Fund.</li> </ul>

### 2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified risks.

## 3. Our audit process and strategy

### 3.1 Objective and scope of our audit

Under the Code of Audit Practice (the 'Code') our principal objectives are to review, and report on, the Pension Fund's financial statements to:

- ▶ form an opinion on the financial statements under International Standards on Auditing (UK and Ireland); and
- ▶ form an opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of the London Borough of Havering Council.

### 3.2 Audit process overview

Our audit involves:

- ▶ identifying and understanding the key processes and internal controls;
- ▶ where relevant reviewing the work of your internal auditors;
- ▶ reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work; and
- ▶ substantive tests of detail of transactions and amounts.

#### Processes

Our intention is to undertake a fully substantive audit. We believe this to be the most efficient approach to gaining assurance over the transactions and balances reported in the Pension Fund's financial statements.

In addition to this, we will review the overall control environment established by the Pension Fund, and review the findings of independent ISAE 3402 assurance reports, for the custodian and fund managers, and assess if there are any issues reported that might impact on our testing strategy.

We will also undertake work in accordance with our IAS19 protocol to provide requested information to the auditors of admitted bodies, including the London Borough of Havering Council.

#### Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

#### Internal audit

As in the prior year we will review internal audit plans and the results of their work. We consider these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

## Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are;

Area	Specialists
Pensions liability	Hymans Robertson (the Pension Fund's Actuary) PwC review of the work of local government actuaries (including Hymans Robertson), commissioned by the National Audit Office. EY pensions team review of the work undertaken by PwC

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements

### 3.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks outlined in Section two, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ significant disclosures included in the financial statements;
- ▶ entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ auditor independence.

#### Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

### 3.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Pension Fund is £5.7 million based on 1% of net assets. We will communicate uncorrected audit misstatements greater than £286,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

### 3.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the National Audit Office Code.

The indicative fee scale for the audit of Havering Pension Fund is £21,000.

### 3.6 Your audit team

The engagement team is led by Melissa Hargreaves, who has significant experience of pension audits. Melissa is supported by Stephen Bladen who is responsible for the day-to-day direction of audit work and is the key point of contact for your finance and pension teams.

Debbie Hanson is the Executive Director leading our overall engagement with the London Borough of Havering and our relationship with the Audit Committee.

### 3.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit. The timetable includes the deliverables we have agreed to provide to the Pension Fund through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit of the Council and Pension Fund, we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Pension Fund and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Risk assessment and setting of scopes	January 2017	March 2017	Audit Plan
Testing routine processes and controls	January – February 2017	June 2017	Progress Report (We will report by exception if there are any significant matters arising at this stage of our audit).
Year-end audit	July – August 2017		
Completion of audit	August 2017	September 2017	Report to those charged with governance via the Audit Results Report Audit report , including our opinion on the financial statements Audit report on our opinion on the consistency of the financial statements within the Pension Fund annual report with the published financial statements.

## 4. Independence

### 4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

### 4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

#### *Self-interest threats*

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Pension Fund.



We are the appointed auditors for the London Borough of Havering Council; we have no other business relationship with the Pension Fund or Council. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Pension Fund has approved and that are in compliance with the PSAA Terms of Appointment.

At the time of writing, there are no planned non-audit fees.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Pension Fund. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

#### *Self-review threats*

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

#### *Management threats*

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

#### *Other threats*

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

#### *Overall Assessment*

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Melissa Hargreaves, the audit engagement Director and the audit engagement team have not been compromised.

### 4.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
Total Audit Fee – Code work	21,000	21,000	21,000
Non-audit work	0	0	0

*All fees exclude VAT.*

We base the agreed fee presented above on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ appropriate quality of documentation is provided by the Pension Fund; and
- ▶ the Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. We will discuss and agree any variation with the Pension Fund officers in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	▶ Audit Results Report
<p>Misstatements</p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	▶ Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	▶ Audit Results Report
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	▶ Audit Results Report
<p>External confirmations</p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	▶ Audit Results Report
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	▶ Audit Results Report

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> </ul>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p>Fee Information</p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>

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# London Borough of Havering

Year ending 31 March 2017

Audit Plan

February 2017

Ernst & Young LLP



Audit Committee  
London Borough of Havering  
Town Hall  
Main Road  
Romford RM1 3BB

15 February 2017

Dear Committee Members

## Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 1<sup>st</sup> March 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson  
*For and behalf of Ernst & Young LLP*  
Enc



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://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 Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. 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.

## 1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of the London Borough of Havering give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

### Changes in our audit scope

The London Borough of Havering will prepare Group Accounts for the first time in 2016/17, consolidating the transactions and balances of its wholly owned subsidiary company, Mercury Land Holdings.

We are currently assessing the significance of the component entity to the Group. Our planned involvement in the work of Mazars, as auditors to Mercury Land Holdings, will depend on this assessment. Appendix C provides an overview as to the nature of our planned involvement.

We will provide an update to the Audit Committee on the results of our work in this area in our report to those charged with governance scheduled for delivery in September 2017.

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
<b>Risk of fraud in revenue recognition</b>	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>▶ Reviewing accounting estimates for evidence of management bias, and</li> <li>▶ Evaluating the business rationale for significant unusual transactions</li> </ul>
<b>Other financial statement risks</b>	
<b>Group Accounts</b>	
<p>The Council set up a wholly owned subsidiary company, Mercury Land Holdings, in October 2015. The Council will prepare group accounts for the first time in 2016/17 in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). We consider there to be an increased risk that the financial statements do not meet the group accounting requirements defined by the Code.</p>	<p>We test whether the Council has:</p> <ul style="list-style-type: none"> <li>▶ Adopted and correctly applied accounting policies that comply with the requirements of the Code.</li> <li>▶ Correctly consolidated transactions and balances relating to Mercury Land Holdings into the Authority's group financial statements.</li> <li>▶ Made all appropriate disclosures in accordance with adopted accounting policies and requirements of the Code.</li> </ul> <p>We are responsible for the direction, supervision and performance of the group audit. We will therefore instruct the auditor of Mercury Land Holdings as part of our audit procedures. The nature of our involvement in that work will depend upon our assessment of the significance of Mercury Land Holdings to the Group. Further details are provided in Appendix C.</p>

CIPFA Code Changes

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with the CIPFA Service Reporting Code of Practice (SeRCOP). Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

Highways Network Assets deferral to 2017/18

CIPFA have issued an update to the 2016/17 Accounting Code. The removal of all references to the valuation and accounting requirements for the Highways Network Asset due to the deferral of its implementation announced in December 2016.

Our Approach will focus on:

- ▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code
- ▶ Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

- ▶ We will continue to consider the preparedness of the Council during 2016/17 and review any disclosures associated with this in the 2016/17 financial statements.

## 2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;

- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

### 3. Value for money risks

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. For 2016-17 this is based on the overall evaluation criterion:

*“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”*

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant risk which we view as relevant to our value for money conclusion. We will revisit the assessment throughout the audit process.

Significant value for money risks	Our audit approach
<p>Financial Resilience</p> <p>The impact of continuing reductions in funding from central government, together with significant cost pressures in areas such as Adult and Children’s services, is particularly challenging for the Council. With restrictions on annual Council Tax increases, the Council’s medium-term financial strategy identifies the need to identify and deliver significant savings from 2017/18 and future years.</p> <p>Sustainability and Transformation Plans (STPs) give councils and local NHS organisations the opportunity to work together to improve the way health and social care is designed and delivered.</p> <p>The North East London STP brings together the challenges and opportunities that face NHS and care services in North East London as they work together to</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Developing an understanding of how the Council identifies and quality assures its savings plans.</li> <li>▶ Reviewing the detail of key schemes for 2016/17 and 2017/18.</li> <li>▶ Assessing the linkage between the capital programme and revenue budgeting.</li> <li>▶ The arrangements at the Council, working with its STP partners, during 2016/17 for:                             <ul style="list-style-type: none"> <li>○ Defining the governance arrangements to support STP delivery.</li> <li>○ Engaging in the STP process.</li> <li>○ Working with the STP partners to progress</li> </ul> </li> </ul>

improve health and wellbeing within the funds available.

While the Council has a history of being well managed and aware of issues impacting the Borough area as a whole, we consider there is a significant risk in relation to the Council's ability to deal with the challenging health and social care environment and deliver the savings required.

the STP from high level planning to a more detailed delivery model.

- o Demonstrating how the STP will contribute to the financial sustainability of the Council in the context of the health economy.



## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements.
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require; and
- ▶ Give a separate opinion on the part of the Council's financial statements that relates to the accounts of the pension fund;

#### 2. Arrangements for securing economy, efficiency and effectiveness (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.

### 4.2 Audit process overview

#### Processes

Our intention is to undertake a fully substantive audit. We believe this to be the most efficient approach to gaining assurance over the transactions and balances reported in the Council's financial statements. We will also review the overall control environment established by the Council, and the evidence we obtain from this review will form the basis of our review of the Council's Annual Governance Statement.

#### Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries. We have requested data at Month 9 to support our early testing and will do so again at year end. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests.

- ▶ Give greater likelihood of identifying errors than random sampling techniques.

### Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

### Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	Hymans Robertson (the Council's Actuary) PwC review of the work of local government actuaries (including Hymans Robertson), commissioned by the NAO EY pensions team review of the PwC report
Property Valuation	Wilks Head and Eve (the Council's property valuers)
Financial instrument fair values	Arlingclose (the Council's treasury advisors)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

## 4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;

- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

#### Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement;
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

## 4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £11 million. This is calculated on the basis of 2% of the Council's gross expenditure. We will communicate uncorrected audit misstatements greater than £552,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## 4.5 How materiality is applied to the component locations

We determine component materiality as a percentage of Group materiality based on risk and relative size to the Group. We are currently assessing the risk and relative size of Mercury Land Holdings to the Group. We will confirm component materiality in our report to those charged with governance scheduled for delivery in September 2017.

## 4.6 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of the London Borough of Havering is £151,844.

## 4.7 Your audit team

The engagement team is led by Debbie Hanson. Debbie has significant local government experience, and is the engagement lead for a number of EY's government and public sector audits across the east of England. Debbie is supported by Stephen Bladen who is

responsible for the day-to-day direction of audit work and is the key point of contact for the Council's finance team.

## 4.8 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	April 2016		Audit Fee Letter
Risk assessment, setting of scopes, and testing routine processes and controls	January – February 2017	March 2017	Audit Plan
Early substantive testing	March – April 2017	June 2017	Progress report (we will report by exception if there are any significant matters arising at this stage of our audit).
Year-end audit	July – August 2017		
Completion of audit	September 2017	September 2017	Report to those charged with governance via the Audit Results Report  Audit report (including our opinion on the financial statements and overall value for money conclusion).  Audit completion certificate  Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2017	November / December 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

## 5. Independence

### 5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 ‘Communication of audit matters with those charged with governance’, requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

### 5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

#### *Self-interest threats*

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services on behalf of the Council and, where we do, we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

#### *Self-review threats*

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

#### *Management threats*

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

#### *Other threats*

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

#### *Overall Assessment*

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, the audit engagement Director and the audit engagement team have not been compromised.

### 5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
Opinion Audit and VFM Conclusion	To be confirmed <sup>1</sup>	151,844	151,844
Total Audit Fee – Code work	To be confirmed	151,844	151,844
Certification of claims and returns <sup>2</sup>	16,178	16,178	15,080

All fees exclude VAT.

<sup>1</sup> As noted elsewhere within our audit plan, the scope of our audit is likely to include an opinion on the group accounts prepared by the Council, and involvement in the work of the auditors for Mercury Land Holdings. This is likely to attract a variation to the scale fee set by PSAA. Once we have completed our planning work in relation to this, we will discuss this with the Council.

<sup>2</sup> Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	▶ Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	▶ Audit Results Report
Misstatements <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	▶ Audit Results Report
Fraud <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	▶ Audit Results Report
Related parties <ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:               <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul> </li> </ul>	▶ Audit Results Report
External confirmations <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	▶ Audit Results Report
Consideration of laws and regulations <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	▶ Audit Results Report



Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> </ul>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p>Fee Information</p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<p>Group audits</p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> </ul>
<p>Certification work</p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<ul style="list-style-type: none"> <li>▶ Certification Report</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>

## Appendix C Detailed scopes

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the auditors of significant components. The London Borough of Havering will prepare Group Accounts for the first time in 2016/17. The nature of our involvement in the work of component auditors will depend on our assessment of the significance of Mercury Land Holdings, the Council's wholly owned subsidiary, to the Group.

We will provide you with further details on the nature of our involvement in the work of the Mazars as auditor to Mercury Land Holdings in our report to those charged with governance scheduled for delivery in September 2017.

We have set out an overview of the possible options for our involvement in the work of Mazars below.

- ▶ Full scope: locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).
- ▶ Specific scope: locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.
- ▶ Limited Scope: limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.
- ▶ Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

EY | Assurance | Tax | Transactions | Advisory

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**AUDIT COMMITTEE**  
**1 March 2016**

**Subject Heading:**

**Audit Committee Briefing**

**CMT Lead:**

Debbie Middleton

**Report Author and contact details:**

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**Policy context:**

To consider the Auditor's Briefing

**Financial summary:**

There are no direct financial implications to the report.

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

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

**SUMMARY**

The attached report advises the Audit Committee of Ernst and Young's latest briefing.

The Council's External Auditors, Ernst and Young (EY) will be at the meeting to present the report.

**RECOMMENDATIONS**

1. To note the contents of the briefing.
2. To raise any issues of concern and ask specific questions of officers or external auditors where required.

**REPORT DETAIL**

**1. Background**

Ernst and Young are the current External Auditors for the London Borough of Havering and for the Pension Fund.

The auditors issue briefings to Audit Committees on a regular basis throughout the year. This report includes their latest briefing.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

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

**Legal implications and risks:**

There are no apparent legal implications in noting the content of 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**

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# Local government audit committee briefing

## Contents at a glance

### Government and economic news

### Accounting, auditing and governance

### Key questions for the audit committee

### Find out more

This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



## Government and economic news

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### EY item club winter forecast

In its latest forecast the EY Item Club cautions that, whilst it may look like the economy is taking the referendum in its stride, the impression could be deceptive. A timely reminder that trouble may lie ahead is provided by Sterling's recent performance.

The UK economy is forecast to undergo a gradual dip and recovery over the coming four years, with GDP growth slowing to 1.3% in 2017 and just 1.0% next year, before picking up to 1.4% in 2019 and 1.8% in 2020. The ability of the economy to deliver against this forecast is seen as highly dependent on its foreign trade performance, the expectation is that this will improve this year as consumer spending slows down.

In terms of inflation as measured by the Consumer Prices Index it is expected to rise in excess of 3% by the end of 2017, before falling back towards the Bank of England's 2.0% target in 2018. With the economy slowing down and wage inflation remaining subdued, the forecast is that base interest rates will be held at 0.25% by the Monetary Policy Committee until the spring of 2018.

Looking ahead, the UK's trade performance and output growth in 2019 and beyond will depend critically on the exit terms that can be agreed with the EU27 and other countries. Whilst there is greater clarity about the UK's negotiating position, elections coming up later this year in several European countries mean that the negotiating position of the EU27 will take longer to get a clear picture of. Additionally, the US election result complicates Britain's exit from the EU due to uncertainty over the US economic and foreign policy.

### Social Care Precept and New Homes Bonus

The 'Provisional local government finance settlement 2017/18' announced that an additional £900mn would be used to fund the social care system over the next two years. This will be made up of two parts:

- ▶ £240mn transfer from the new homes bonus
- ▶ £652mn from increasing the social care precept (£208mn in 2017/18 and £444mn in 2018/19)

#### New Homes Bonus

The consultation for the new homes bonus ended and the Government made a number of revisions to the grant. The transfer from the new homes bonus represents a change that ensures that councils will only receive funding for housing built above the national housing growth baseline of 0.4%. There will also be a movement to five year payments from 2017/18 and four year payments from 2018/19.

There are no proposals to withhold grants for those authorities without a local plan in 2017/18 but this will be revisited for 2018/19. The bonus will continue to be unringfenced as in previous years.

#### Social Care Precept

Councils will have the flexibility to increase the dedicated social care precept by up to 3% in 2017/18 and 2018/19 (this was previously capped at 2% for each of the three years 2017/18 to 2019/20). If this is chosen it will be equivalent to an increase of £1 a month on an average Band D Council Tax bill. However the social care precept would need to remain at 6% over the next three years, therefore if the increased 3% was taken in 2017/18 and 2018/19 it could not be increased again in the following year.



## Government and economic news

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Within the 'Provisional local government finance settlement 2017/18' It has been highlighted that increased funding is not the only way to improve social care but better integration of the health service and local government is needed. In Oxfordshire this has led to a 40% fall in delayed discharges in 6 months and in Northumberland increased work between the council and the health service has led to a 12% reduction in demand on residential care.

### Local Government Funding Settlement

The four year funding settlement has been agreed to by 97% of councils. This will mean councils will have £7.6bn in total dedicated social care funding over the four years up to 2019/20. In return they will have to publish efficiency plans online.

It is expected that top-tier authorities are likely to benefit most from the settlement as they have high-demand critical services and will therefore receive more funding. However district councils will see a greater squeeze on their budgets due to the reduction in the new homes bonus.

This comes as a step towards devolution. The introduction of fully retained business rates will also bring about more power for councils to serve their local communities. However this does open councils up to more risk. For this to be beneficial the economy will need to grow and more houses will need to be built. Councils therefore need to think about how they will ensure that this does not leave them in a worse position than through central government funding.

### Funding for new care model vanguards

In order to support and spread the work of new care model vanguard projects, NHS England has announced over £100mn of funding being made available. NHS England sees that the existing vanguards, partnerships of NHS, local government, voluntary, community and other organisations are improving the healthcare people receive, preventing ill health, and saving funds.

They are seen as key to the delivery of Sustainability and Transformation Plans (STPs) which are being developed across the country and, in addition to funding, the vanguards receive support to implement their plans from both NHS England and other national bodies. This includes how they harness new technology including apps and shared computer systems, and to develop their workforce so that it is focused around patients and their local populations. Vanguards are required to meet a number of conditions to obtain funding, including:

- ▶ Demonstrating clear improvements in quality and costs/savings
- ▶ Spreading their new care models, both within their STP and sharing with others (including producing guidance and materials for others to use)

The announcement highlights examples of areas the latest funding will be used on, and examples of work done to date. These include:

- ▶ **Fylde Coast Local Health Economy vanguard** – a new 'extensive care service' bringing together different health professionals offering targeted support for older patients with multiple conditions, this has contributed to significant reductions in areas such as non-elective admissions (25%) and A&E attendances (13%)
- ▶ **Mid Nottinghamshire Better Together vanguard** – joined-up community teams are working with patients and their families/carers, providing physical, mental and social care support to ensure people are wherever possible cared for at home. The vanguard has reported reductions in long term admissions to care homes and acute bed days, together with significant year-on-year reductions in avoidable patient attendances (20.5% for patients aged 80 years and above compared to 2015/16)





## Government and economic news

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- ▶ **East and North Hertfordshire Clinical Commissioning Group vanguard** – employing pharmacists to work with GPs, care home staff and other healthcare professionals to provide detailed medicine reviews for residents. Working with the care homes, the vanguard has already reviewed over 900 patients and the use of 8,000 medicines. Of these over 1,000 medicines have been stopped, including nearly 200 which could have increased the risk of falls. The estimated direct cost savings are in excess of £160,000

### Financial Sustainability of Schools

The Department of Education has predicted that mainstream schools will have to find savings of £3bn (8%) by 2019/20. This is expected to come from efficiencies from the following:

- ▶ £1.3bn from better procurement
- ▶ £1.7mn from using staff more efficiently

The Government has proposed to increase the schools budget over the next four years, and by 2019/20 the increase will be 7.7% compared to the 2015/16 level. However the increase in pupil number is expected to be 3.9% in the same period, once inflation is taken into account; this is a real time reduction in funding per pupil.

The Department continues to publish advice on financial management and efficiency savings.

The proportion of secondary schools overspending rose from 34% in 2010/11 to 59% in 2014/15. For academies this rose from 39% to 61%. The reasons for this are unclear, and the sustainability of this spending is unknown.

### Highway Network Assets

The depreciated replacement cost accounting for Highway Network Assets is expected to come into effect from 1 April 2017, but is subject to confirmation from CIPFA. EY has run a number of workshops for clients and there are a range of levels of confidence over the accounting treatment for the asset. It can however be seen that the levels of confidence have increased from this time last year.

The key question for councils to consider will be how can we demonstrate that their Highways Asset Management System is complete and that all assets exist.

By following the DREAM approach set out below we believe the task will run smoother.

**Document highways systems:** Almost all highways and engineering IT inventory information has not been subject to audit and lack detailed procedure manuals/notes. Full documentation of the key core data systems should be completed as one of the initial tasks that an authority carries out.

**Reports and reconciliations:** Assess the information requirements of the task and whether the existing systems can produce the required reports and reconciliations or will new reports and reconciliations be needed? Identify any corrective action required.

**Evidential based:** The quality of the inventory is key to the change. So as well as documentation of inventory systems, establish how you will evidentially prove that the inventory is complete and the named assets exist. This includes key asset dimensions. However, before engaging expensive external contractors to do this consider all the processes that you currently have in place that actually do this ranging from routine cyclical inspections to independent system reviews. Use this to identify areas where 'top-up' work is required.



## Government and economic news

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**Audit:** Early and regular engagement with both internal audit (IA) and external audit (EA) is a key determinant of successful implementation. IA can assist in establishing documentation procedures and can carry out system audits of those systems. Sharing your proposals with EA in advance will reduce the risk of abortive work. Decisions on what work you actually do are a matter for the authority, but the EA will provide comments on proposed approaches.

**Materiality:** This is a key concept both to the authority as the accounts are stated to include all material items and EA who audit to a calculated materiality level. Materiality has both quantitative and qualitative aspects. In simple terms the quantitative identifies the level at which consideration needs to be given to whether omission of an item or inclusion of an error requires correction. The qualitative level is where a professional judgement is made as to whether correction of that item would influence decisions of the users of the accounts.

As the Highway Network Asset is to be classed as a single asset the materiality is based upon the total value and not the constituent parts. Due to the importance of this amount discussions around the level at which the authority is considering setting it at should take place with your external audit team at an early stage to ensure that this will not lead to problems in the audit process.

For further information please consult with your audit team

### Sustainability and Transformation Plans

Sustainability and Transformation Plans (STP) have now been produced and are designed to articulate how individual organisations will play their part in delivering their locally agreed STP objectives, including sustainable financial balance across the health economy.

From April 2017, access to NHS transformation funding will be linked to effecting delivery of the STP. These include meeting control totals to reduce deficits and meeting certain performance requirements. STPs represent a shift in focus from the role of competition within the health system to one of collaboration – referred to as ‘place-based planning’. NHS organisations are telling us that the changing needs of their populations are best met through integrated models of care, with the delivery of care being best met by different areas of the NHS working in a co-ordinated way. The King’s Fund has argued that a place based approach to planning and delivering health and social care services is the right approach – and that this should also include collaborating with other services and sectors outside the NHS – with the aim of improving the health and wellbeing of local populations.

Development and delivery of STPs is a complex task, with large footprints, involving many different organisations, in an already stretched environment in terms of finances and capacity. There are further challenges with the need to address weaknesses in NHS incentives to work together and to avoid organisations focussing on individual goals rather than the effective implementation of STP objectives – for example, NHS Trusts are closely monitored on their own performance targets.

The Plans have been delivered in a relatively short timeframe and propose major changes to services. With the growing financial challenges in the system, the Plans are required to show how they will bring the NHS back into financial balance. Given the short timeframes, the submitted Plans will need further development and engagement before they can be effectively implemented.



## Government and economic news

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All parties to the STP will need to collaborate to ensure the plans take full account of the pressures faced by the individual parties. Whilst the process provides opportunities for areas with challenging finances to identify solutions, there will be difficult decisions to be made about the range, type and location of services that are delivered. Per the NHS Confederation, the important element of prevention requires a strong role from public health as well as wider Council services such as housing, leisure and recreation, planning and children's services.

The leadership of the STP is critical to the success of the plan. The role of the STP leaders needs to be clarified with many leads finding it difficult to manage their original responsibilities alongside their leadership role. There are plans for some leaders to share leading more formally in the future. However where there are a large number of organisations involved this may be more difficult to do.

### Priorities for social care in 2017

The Kings Fund has set out what it believes the five priorities should be for social care in the current year as follows:

- ▶ **Supporting new care models centred on the needs of patients** – Giving greater priority to public health and prevention, through partnerships between local government, the NHS, and other organisations, focused on both supporting people to remain in good health for as long as possible and engaging the public in tackling the causes of ill health. Additionally, they emphasise the need for continued support for vanguards both in delivering in their areas and spreading that good practice across the system
- ▶ **Strengthening and implementing sustainability and transformation plans** – The Kings Fund suggests that, to ensure that the service changes and the financial plans that underpin them are credible, all STPs need to be stress

tested. It also highlights that STPs have 'no basis in statute' and suggests that their governance is formalised to align their work with the responsibilities of the boards running NHS organisations

- ▶ **Improving productivity and delivering better value** – With the need for increasing productivity becoming more urgent as funding decreases and deficits amongst NHS providers increases, the fund suggests that the priority for every NHS organisation should be to support clinical teams to reduce unwarranted variations in care and to improve care. It sees the boards of NHS organisations as having a key role in leading this work, ensuring that developing the cultures in which improvement is supported and valued and making resources available to support implementation
- ▶ **Developing and strengthening leadership at all levels** – It is clear that clinical leaders have a crucial role, working with operational managers, to deliver high-quality care. This is where many of the productivity opportunities arising from changes in clinical practice can be realised. They argue that this requires leaders who are (in their words) 'comfortable with chaos' because they can work within fluid and often rapidly changing organisational arrangements and that the NHS can learn from local government
- ▶ **Securing adequate funding for health and social care** – They refer to the need for a debate about a new settlement for health and social care, building on the work of the Barker Commission, and going further than short-term interventions that have sought to shore up the system. They argue that an equitable and sustainable system would be one in which public funding is increased (paid for by increases in taxes and National Insurance and changes to some existing benefits), and a closer alignment between entitlements to social care and health care





# Accounting, auditing and governance

## PSAA Audit Services Procurement Strategy for the appointment of local auditors

The PSAA is entering into contracts with audit firms to make auditor appointments by 31 December 2017. There are a total of 493 eligible authorities who have been invited to opt in. These include local authorities, combined authorities, police and crime commissioners, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.

The timetable for the appointment is as follows:

Key milestone	Target date
Issue OJEU Contract Notice and Selection Questionnaire (SQ) available on request	16 February 2017
Deadline for eligible bodies to notify PSAA of their decision to opt-into the scheme for audits of 2018/19 accounts	9 March 2017
Deadline of submission of SQs	21 March 2017
Issue ITT to short-listed suppliers	6 April 2017
Deadline for submission of tenders	10 May 2017
PSAA board approves contract award	30 June 2017

The contract will be awarded for five years to suppliers but PSAA may extend this contract by two years. It is expected that opting-in will achieve lower audit fees than those authorities that choose to negotiate alone. Fees are expected to be published in March 2018.

## Report on the results of auditors work LG bodies 2015/16

In December 2016 PSAA published its first report on the results of auditors' work across 497 principal local government bodies, including 357 councils, 31 fire and rescue authorities, 76 police bodies and 33 other local government bodies, and 9,756 small bodies, with a turnover of less than £6.5mn, including 9637 parish councils. The results within the report cover audit work on the financial statements, the WGA return, arrangements to secure value for money and any exercise of the auditor's statutory reporting powers.

The timeliness and quality is broadly consistent with prior year, however the number of early unqualified opinions (issued by 31 July 2016) doubled compared to those issued in respect of 2014/15.

96% of auditors issued an opinion on the accounts by 30 September 2016 and for the third year in a row there were no qualified opinions on principal bodies. The proportion of qualifications on value for money arrangements increased from 4% to 6%.

With faster close in place from the 2017/18 financial year, there is a need for efficiencies from both local government bodies and their auditors in order to maintain the level of performance shown in this report. EY have produced an article on 'Accelerating your financial close arrangements', this can be found by following this link [http://www.ey.com/Publication/vwLUAssets/EY\\_-\\_Accelerating\\_your\\_financial\\_close\\_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf). The report provides suggestions such as reviewing the format of the accounts, reviewing the approach to estimates and managing members' expectations, amongst others.



## Key questions for the audit committee

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### **What questions should the Audit Committee be asking itself?**

Has the Authority made a decision on whether or not to opt into the PSAA sector-led arrangements for the local appointment of auditors from 2018-19? Has the authority decided whether they will use the revised flexibility on the social care precept for 2017/18 and 2018/19?

How confident is the authority about its preparation for the introduction of Highway Network Assets? Have there been discussions with the external audit team on the key issues and plans for implementation?

Has the authority engaged positively with health and other partners in the development of Sustainability and Transformation Plans?

Has the Authority put plans in place to meet the faster close requirements for 2017/18?





## Find out more

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### **EY Item Club winter forecast**

<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

### **Social Care, Precept and New Homes Bonus**

[http://www.publicfinance.co.uk/news/2016/12/council-tax-precept-and-new-homes-bonus-deployed-stem-social-care-crisis?utm\\_source=Adestra&utm\\_medium=email&utm\\_term](http://www.publicfinance.co.uk/news/2016/12/council-tax-precept-and-new-homes-bonus-deployed-stem-social-care-crisis?utm_source=Adestra&utm_medium=email&utm_term)

<https://www.gov.uk/government/news/dedicated-adult-social-care-funding-forms-key-part-of-continued-long-term-funding-certainty-for-councils>

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

### **Four year funding settlement**

<http://www.publicfinance.co.uk/news/2015/12/local-government-settlement-offers-councils-four-year-funding-deals>

### **Funding for new care model vanguards**

<https://www.england.nhs.uk/2016/12/vanguard-funding/>

### **Financial Sustainability of Schools**

<https://www.nao.org.uk/report/financial-sustainability-in-schools/>

### **Sustainability and Transformation Fund**

<https://www.kingsfund.org.uk/blog/2016/11/will-stps-deliver-changes-we-wish-see-our-health-and-care-services>

<https://www.england.nhs.uk/wp-content/uploads/2016/02/stp-footprints-march-2016.pdf>

<https://www.kingsfund.org.uk/projects/sustainability-and-transformation-plans>

### **Priorities for social care in 2017**

<https://www.kingsfund.org.uk/publications/priorities-nhs-social-care-2017>

### **PSAA Audit Services Procurement Strategy for the appointment of local auditors**

<http://www.psaa.co.uk/supporting-the-transition/appointing-person/procurement-strategy/>

### **Report on the results of auditors work LG bodies 2015/16**

<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

[http://www.ey.com/Publication/vwLUAssets/EY\\_-\\_Accelerating\\_your\\_financial\\_close\\_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf)





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ED None

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**AUDIT COMMITTEE**  
**1 March 2017**

**Subject Heading:**

**Grants report to Audit Committee**

**CMT Lead:**

**Debbie Middleton**

**Report Author and contact details:**

*Lilian Thomas*  
*Senior Accountant - Grants*  
*01708431057*  
[Lillian.thomas@onesource.co.uk](mailto:Lillian.thomas@onesource.co.uk)

**Policy context:**

The Audit Committee are required to review the outcomes of the Authority's grant claims process for audited grant claims relating to the financial year 2015/16

**Financial summary:**

**Core audit fees: £15,080**  
**Additional Audit fees: £6,490**

**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 2015/2016 audit process was completed by the LPAA's representative, Ernst and Young. (see appendix 1 for the Ernst and Young audit report)

## RECOMMENDATIONS

The Committee is recommended to:

1. note the report
2. consider the outcomes of the 2015/2016 grant claims process
3. raise any issues of concern with officers on specific grant claims
4. note the year-on-year grant claims performance (see paragraph.1)

## REPORT DETAIL

### **Overall summary of the 2015/2016 audited grant claims compared to 2014/2015.**

#### **Background**

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

#### **1. Performance - Certified Grants Process**

In 2014 the Secretary of State for Communities and Local Government delegated statutory functions from the Audit Commission to Public Sector Audit Appointments Ltd (PSAA), who is an independent company limited by guarantee incorporated by the Local Government Association. The company is responsible for appointing auditors to local government, police and local NHS bodies for setting audit fees and for making arrangements for the certification of the housing benefit subsidy claims.

- 1.1. There was 1 grant noted on the LPAA Index that required audit certification, in 2015/2016, as was certified by the appointed auditor in 2014/2015.
- 1.2. The 1 grant audited for 2015/2016, Housing and Council Tax Benefits has now been certified by Ernst and Young.
- 1.3. There are no amendments to the claim for 2015/2016, and there were none in 2014/2015.

- 1.4. The Housing and Council Tax Benefits claim for 2015/2016 was unqualified, (see appendix 1 for Ernst and Young audit report) however the return was qualified in 2014/2015. (see appendix 2 for 2014/15 PwC recommendation)
- 1.5. Of the 1 claim audited for 2015/2016 it achieved its Audit Commission/Grant Funding Body certification deadlines as did the claim for 2014/15, see table below.

	2015/2016		2014/2015	
	No.	%	No.	%
<b>Total Claims</b>	<b>1</b>	<b>100</b>	<b>1</b>	<b>100</b>
Submitted by due date	1	100	1	100
Amended claims	0	0	0	0
Qualified claims	0	0	0	0
Certified by deadline	1	100	1	100

1.6. Audit Recommendations

There are no audit recommendations reported by Ernst and Young as a result of the 2015/16 BEN01 – Housing and Council Tax Benefit audit process.

1.7. Audit Fees

The following table records audit fees paid each year:

Paid in 2013/14 re 2012/13 audits	Paid in 2014/15 re 2013/14 audits	Paid in 2015/16 re 2014/15 audits	Paid in 2016/17 re 2015/16 audit
£43,025	£22,565	£21,570	£15,080
No of Claims Audited 4	No of Claims Audited 2	No of Claims Audited 1	No of Claims Audited 1

The value of the Housing and Council Tax Benefit grant for 2015/16 is £96m. The audit fee is set by PSAA Ltd (see section 1) and the complexity

of the audit work is reflected in the fee which for 2015/16 is £15,080. The audit fee for the Housing Benefit grant for 2014/15, value £91m, was £21,570. This shows a decrease of 30% in costs.

- 1.8. Ernst and Young took over from PWC as the Council's appointed auditor for grant claims from April 2016, and carried out the audit to provide certification for the Housing and Council Tax Benefit Grant 2015/16.

## 2. External Compliance/Assurance Audit requirements for 2015/16

- 2.1. 3 Grant Funding Bodies published a requirement for grantees to engage an external auditor to report audit compliance or assurance for their 2015/16 funding.
- 2.2. The audit fees for these 3 grants were negotiated over and above the audit commission agreed audit fee.
- 2.3. Of the 3 grants audited for 2015/2016 all 3 achieved their Grant funding body reporting deadlines as did 5 grants for 2014/15, see table below.

	2015/2016		2014/2015	
	No.	%	No.	%
<b>Total Claims</b>	<b>3</b>	<b>100</b>	<b>5</b>	<b>100</b>
Submitted by due date	3	100	5	100
Amended claims	0	0	0	0
Qualified claims	0	0	1	20
Certified by deadline	3	100	5	100

The 3 grants that required audit compliance or assurance are:

- Teachers Pensions - Assurance required against £43m total contributory salary which includes £10.6m of teachers pensions contributions
- DCLG Pooling of Housing Capital Receipts – Certification of £8.5m Housing Capital receipts
- GLA Housing Compliance audit – Compliance re £0.5 mil spend re GLA grant funding



Audit requirements and outcome shown below:

- 2.3.1 Teachers Pensions 2015/16 - Teachers Pensions have required end of year certification assurance instead of a full audit and thus local authorities are required to engage an external auditor to provide that assurance. Grant Thornton were engaged to perform this service for 2015/16 at a cost to the Council of £3,350 plus vat.

Outcome

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

- 2.3.2. DCLG Pooling of Housing Capital Receipts 15/16 - For the 2015/16 return the DCLG required an external audit to be carried out so we engaged Grant Thornton to perform this service at a cost to the Council of £1,340 plus vat.

Outcome

The Pooling of Housing Capital Receipts 2015/16 was unqualified. There was one amendment but there was no monetary effect to the return.

- 2.3.3. GLA Housing Compliance Audit 2015/16 - Mazars were engaged to perform the compliance audit at an estimated cost to the HRA of £1,800 plus vat.

Outcome

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

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

Paid in 2014/15 re 2013/14 audits	Paid in 2015/16 re 2014/15 audits	Paid in 2016/17 re 2015/16 audits	Total Additional Audit Fees to date
£18,500	£24,436	£6,490	£49,246
No of Claims Audited 2	No of Claims Audited 5	No of Claims Audited 3	

The audit fee for the additional 3 grants outside the LPAA remit for 2015/16 is £6,490. The additional cost of £6,490 is to be funded from the appropriate service. The audit fee for the 5 grants audited for 2014/15 was £24,436 .This shows a decrease of 73%. Total additional audit fees for years 2014/2016 are £49,246.

When engaging an auditor for the additional requirements in 2015/16 we looked to achieve value for money. We liaised with partner boroughs and bearing the complexity and value of the grant in mind, together procured audit services at competitive costs whilst aiming to retain auditor expertise.

### **3. In Year Achievements**

- Service and Finance staff who work with grants were invited to attend grants workshops which took place in March 2016 and also in September 2016. These workshops were well attended and feedback was very positive.
- Both service and finance staff are being supported by one to one grants training upon request.

### **4. Future Planned Developments**

- The grants role will be changing to fit with to the oneSource restructure so no further grants training has been arranged at present.

## **IMPLICATIONS AND RISKS**

### **Financial Implications and risks:**

The number of grants which require external audit has been steadily reducing in recent years. In 2015/2016 specific grant claims requiring external audit totalled £96m and those that required compliance/assurance audit totalled £51m. Poor performance in submitting claims puts income at risk and can affect the Council's reputation with funding bodies. Additional audit fees may also be incurred where working papers or procedures fail to meet the required standards.

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

These outcomes are mitigated by having in place, a robust system of training, support and review. This ensures that all grant claims are robustly examined

before submission and that any queries are taken back through a consistent route. The good standard of working papers provided continues to contribute to the grants audit process.

For 2016/17 the PSAA has set the cost of the statutory audit which is £16,178 being an increase of 7% on the 2015/16 fee. Using the same percentage increase the estimated cost of additional audit fees, not covered as part of the statutory audit totalled £6,950. The number of grant funding bodies requiring external audit certification is more difficult to predict under the current arrangements and the Council may therefore be exposed to the risk of incurring additional audit fees.

The statutory audit fee is met by a corporate budget and for 2015/16 is reported as part of the revenue monitor process. Any surplus is transferred into the strategic reserve. Audit costs incurred from additional assurance/compliance requirements are met by the individual service budgets.

### **Legal implications and risks**

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

### **Human Resources implications and risks**

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

### **Equalities and Social Inclusion implications**

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

**BACKGROUND PAPERS**

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# Certification of claims annual report 2015-16

London Borough of Havering

February 2017

Ernst & Young LLP



The Members of the Audit Committee  
London Borough of Havering  
Town Hall  
Main Road  
Romford RM1 3BB

01 February 2017

Email: [dhanson@uk.ey.com](mailto:dhanson@uk.ey.com)

Dear Members

## Certification of claims annual report 2015-16 London Borough of Havering

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on the London Borough of Havering's 2015-16 claims.

### Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2015-16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this claim we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

### Summary

Section 1 of this report outlines the results of our 2015-16 certification work and highlights the main issues.

We checked and certified the housing benefits subsidy claim with a total value of £96,376,077. We met the certification deadline of 30 November 2016. No qualification letter was required and no amendment to the claim was needed. This is an improvement over 2014-15 when the previous auditors issued a qualification letter.

Fees for certification and other returns work are summarised in section 2. Fees for the certification of 2015-16 housing benefit subsidy claims were published by the PSAA in March 2015 and are available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).



We welcome the opportunity to discuss the contents of this report with you at the March 2017 Audit Committee.

Yours faithfully

Debbie Hanson  
Executive Director  
Ernst & Young LLP  
Enc

## Contents

1. Housing benefits subsidy claim .....	1
2. 2015-16 certification fees .....	2
3. Looking forward .....	3



## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£96,376,077
Amended/Not amended	Not amended
Qualification letter	No
Fee - 2015-16	£15,080
Fee - 2014-15	£21,570

Local government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The housing benefit claim is a high value and complicated claim and many benefit claims subject to audit are amended or qualified, or both, as a result of errors identified. The absence of errors identified in relation to Havering's 2015-16 claim therefore represents good performance.

## 2. 2015-16 certification fees

The Public Sector Audit Appointments Ltd (PSAA) determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the PSAA in March 2015 and are available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	15,080	15,080	21,570

### 3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016-17 is £16,178. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2016-17. Indicative fees for 2016-17 housing benefit subsidy certification work are based on final 2014-15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:  
<http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees and inform the Head of Strategic Finance and Property. We are not proposing a variation to the 2015-16 indicative fee.

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

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Claim/Return (deadline)	Auditor Comments (Pricewaterhouse Coopers LLP)	Recommendation	Management Response	Responsibility (Implementation Date)
<p>Housing and Council Tax Benefits Subsidy (BEN01) (30/11/2016)</p>	<p>The Authority claim required no amendments to the original claim form as submitted to the DWP in April 2015 and 3 qualification letter matters. These matters were not significant and related to roundings between the benefit system and the claim form, an overpayment of benefit of £50 in one case and an underpayment of benefit of £174 in another.</p> <p>There were no control issues as were none in 2013/14</p>	<p>None</p>	<p>The Authority continues its programme of training and development of officers, along with the monitoring and monthly random sampling of assessment to ensure we minimise the possibility of errors occurring in the future.</p>	<p><b>Responsible Officer:</b> Sarah Bryant, Director of Exchequer and Transactional Services/Chris Henry, Council Tax and Benefits Manager</p> <p><b>Timescale:</b> On-Going</p>



**AUDIT COMMITTEE**

<b>Subject Heading:</b>	Closure of Accounts Timetable 2016/17
<b>CMT Lead:</b>	Debbie Middleton
<b>Report Author and contact details:</b>	Contact: Hussein Ahmed Designation: Acting Chief Accountant Telephone: 020 3373 1702 E-mail address: <a href="mailto:Hussein.Alanezi@oneSource.co.uk">Hussein.Alanezi@oneSource.co.uk</a>
<b>Policy context:</b>	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2016/17.
<b>Financial summary:</b>	There are no direct financial implications to the report.

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

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

**SUMMARY**

This report advises the Audit Committee of the progress to date in preparing for the closure of the 2016/17 Accounts.

**RECOMMENDATIONS**

The Committee is asked to note the report and the actions taken to date to prepare for the 2016/17 closure of accounts.

**REPORT DETAIL**

**1. Background**

The Council successfully closed its accounts and prepared its Financial Statements for 2015/16 by the statutory deadline of 30<sup>th</sup> June 2016.

There are relatively few technical changes required in 2016/17 under the Code of Practice but, locally, the timetable for the closure of the accounts has been brought forward in preparing for earlier statutory deadlines from 2017/18.

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

The main risk areas relate to the need to embed the oneSource Finance and other services structures.

**2. Preparing for Earlier Closedown**

2.1 The statutory deadline for having the draft accounts available for audit is being brought forward. Furthermore, the amount of time available to auditors to complete their assurance work is also being reduced by a third. These changes are summarised in the table below.

	<b>FY 2016/17</b>	<b>FY 2017/18</b>
<b>Draft Accounts prepared by</b>	30 <sup>th</sup> June 2017	31 <sup>st</sup> May 2018
<b>Accounts Audited by</b>	30 <sup>th</sup> September 2017	31 <sup>st</sup> July 2018

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



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

## 2.2 Progress in 2015/16

Preparations for earlier closure were commenced in 2015/16 by bringing forward timetable deadlines for Services. With exceptions, Services achieved the earlier deadlines; in particular, schools data was consolidated into the accounts ahead of the timetable, and the Pension Fund accounts were available by the end of May.

As reported to Audit Committee on 22 June 2016, this gain was lost due to

- the launch of the finance transformation review in April 2016 which led to resources being re-directed to that process at key points in the closedown programme, and
- a delay in the Capital closedown programme as a consequence of additional testing requirements associated with an upgrade in the Asset Register and staff vacancies in the capital accounting team. Capital remains the most complex year end procedure and has a major impact on the financial statements.

## **3. Transformation and oneSource**

3.1 In addition to bringing forward the timetable, there are a number of further risks arising from the need to embed recent Service reviews.

### 3.2 Finance

3.2.1 Finance has undergone a major restructure involving staff from Bexley, Havering and Newham Councils. The new structure was completed in December 2016 and went live on 9<sup>th</sup> January 2017. Interim arrangements are being implemented to cover posts currently not filled. Closure of the 2016/17 accounts is being managed by the interim oneSource Chief Accountant (Hussein Alanezi) across the three authorities reporting to the Head of Finance (Financial Control and Corporate Business Systems) (Radwan Ahmed), and handover arrangements are in place to support the preparation of the 2016/17 accounts.

The auditors, Ernst and Young, are aware of the changes in management structure, and will be meeting with both the outgoing Head of Corporate Finance, and Head of Finance as part of handover arrangements.

### 3.3 Revenues and Transactional

#### 3.3.1 Collection Fund

The Collection Fund impacts on all of the prime statements. In 2015/16 there was a delay in receiving NNDR data and if other deadlines can be met

for 2016/17, any delay in the availability of Collection Fund data will could have a detrimental impact on the critical path.

#### **4. Other Issues**

##### **4.1 Auditors**

The auditors, Ernst and Young are also the auditors for Newham (but not for Bexley) and are aware of the staffing changes that have been implemented. Ernst and Young will be asked to harmonise audit processes across Havering and Newham where possible, particularly since both Councils now operate the same instance of 1Oracle, and share support staff for common transactional services.

##### **4.2. Highways Infrastructure**

It had been intended that, from 1<sup>st</sup> April 2016, local authorities would be required to include Highways Infrastructure on their balance sheets at an estimate of the current cost, as opposed to the depreciated balance of past expenditure as at present. This has now been deferred pending confirmation by CIPFA LASAAC, but is anticipated to be in financial year 2017/18.

The change will have a very major impact on the value of net assets reported for all authorities, but will have no impact on usable resources or the council tax requirement. Infrastructure assets have now been valued on the required basis and the related data has been used to provide the Government with information required in Whole of Government Accounts.

##### **4.3. Changes to the Code: "Telling the Story"**

The 'Telling the Story' review introduces a new note to the Code, the expenditure and funding analysis, which aims to provides a direct and accessible reconciliation between the way local authorities are funded and prepare their budget and the comprehensive income and expenditure statement. Local authorities are now required to report their comprehensive income and expenditure statement on the same basis as they are organised rather than in accordance with the Service Reporting Code of Practice (SeRCOP). This will include the restatement of prior year figures for the purposes of comparison.

##### **4.4 Group Accounts**

With the setting up of Havering's wholly owned subsidiary - Mercury Land Holdings Ltd - it will be necessary to complete group accounts for 2016/17. This should not be a major issue for 2016/17 due to limited operations. However, as Mercury Land Holdings expands its activities it will become a significant consolidation risk in the future. Additional allocation has been built into the timetable to allow necessary review process for the group consolidation activity.

#### **5. Progress to Date**

## Audit Committee, 1 March 2017

- 5.1 The closedown planning process began in earnest in November 2016. The process is being monitored routinely by Financial Control & Corporate Business Systems staff, and regular reports will be made to both the Strategic Leadership Team and Audit Committee.
- 5.2 The finalised timetable for the year end closure of accounts is on the intranet and its implementation is being monitored, with current tasks on schedule. Regular meetings have been scheduled until June 2017. The timetable has been aligned with Newham's and Bexley's timetables where possible, and this will be further developed for 2017/18.

The key deadlines include the following:

<u>Deadline</u>	<u>Task</u>
Wed 12/04/2017	Final deadline for Services journals including schools consolidation, and capital
Wed 12/04/2017	oneSource Outturn sign off – Jane West / Deborah Hindson / Debbie Middleton / Alison Griffin
Fri 21/04/2017	Final Benefits and Collection Fund Journals Capital Expenditure and financing agreed (including schools)
Fri 28/04/2017	Input final journals
Tue 02/05/2017	Open CP for Outturn
Fri 05/05/2017	Provisional outturn to Director of Finance for review
Tue 23/05/2017	CMT Business Meeting - Capital Outturn Report, Final confirmatory Outturn Report
Thu 25/05/2017	Draft Statement of Accounts signed by Section 151 Officer

- 5.3 Ernst and Young are scheduled to carry out walk through tests on various processes during their interim audit in February 2017, and will undertake transaction testing for periods 1-9. A verbal update will be provided to the Committee on any issues arising from the interim audit.

## 6. **Progress against matters raised by the external auditors in their Annual Audit Letter**

Ernst and Young presented their Annual Audit Letter to Audit Committee on 29 November 2016. The purpose of the Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from their work which they considered should be brought to the attention of the Council.

The issues identified as requiring attention included:

- The valuation of investment property and property, plant and equipment  
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, which 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 had been understated by £44 million. The accounts were amended to reflect this updated valuation.

- **The medium term financial plan and key assumptions**

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, but would need to consider its approach towards the identification of savings in 2019/20 and beyond. This is being addressed as part of the budget strategy for 2017/18 and beyond.

- **Written Instructions to Valuers**

The Council used an internal valuer to undertake the valuation of certain property assets in 2015/16, but did not issue formal instructions. This has been addressed in closing the 2016/17 accounts to ensure that valuation work is undertaken in accordance with relevant guidance and statutory requirements.

- **Social Care System Reconciliations**

When testing expenditure, the auditors noted that the transactions recorded in adult social care system were not reconciled to the general ledger. They 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.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

Risks to the closedown process are as identified in the body of this report. A risk log has been prepared for submission to the oneSource Finance Management team.

The main risk for 2016/17 closedown arises from the bedding in of the new oneSource structures. These risks will be mitigated by the project management approach to the closedown process ensuring that tasks are assigned to individuals/teams with a clear understanding of deadlines and requirements and are adequately resourced.

**Legal implications and risks:**

Section 21 of the Local Government Act 2003 requires that accounting practices including the Statement of Accounts be undertaken in accordance with proper practices set out in relevant regulations. The Local Authority must also have regard to the code of Practice on Local Authority Accounting for 2016/17 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1<sup>st</sup> April 2016.

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

**Human Resources implications and risks:**

None arising directly from this report.

**Equalities implications and risks:**

None arising directly from this report.

**BACKGROUND PAPERS**

None in this report.

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**AUDIT COMMITTEE**  
**1 March 2017**

<b>Subject Heading:</b>	Accounting Policies 2016/17
<b>CMT Lead:</b>	Debbie Middleton
<b>Report Author and contact details:</b>	Contact: Hussein Alanezi Designation: Interim Chief Accountant Telephone: 020 3373 1702 E-mail address: <a href="mailto:Hussein.Alanezi@oneSource.co.uk">Hussein.Alanezi@oneSource.co.uk</a>
<b>Policy context:</b>	This report advises the Audit Committee of amendments required to the accounting policies adopted for preparation of the accounts for the financial year 2016/17
<b>Financial summary:</b>	There are no direct financial implications to the report.

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

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

**SUMMARY**

This report summarises the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2016/17 are prepared in accordance with accounting regulations. Any further changes to accounting regulations may require the policies to be changed further, however none are anticipated at this stage. Any significant changes will be highlighted to the committee in the Statement of Accounts report in September 2017.

- The report presents the accounting policies applicable to the financial year 2016/17 and will be reflected in the published statement of accounts.

- The CIPFA Better Governance Forum has produced a tool-kit for local authority Audit Committees that recommends Members review accounting policies on an annual basis

Appendix A includes the revised accounting policies for 2016/17.

## **RECOMMENDATIONS**

The Committee is asked to note and comment on the accounting policies applicable to financial year 2016/17.

## **REPORT DETAIL**

### **1. Introduction**

- 1.1 This report sets out the revised accounting policies that will be applied during the financial year 2016/17 in preparation of the Council's financial statements. The full policies are shown in appendix A to this report and will be included in the Statement of Accounts. The policies are prepared under the International Financial Reporting Standards (IFRS). Members of the Audit Committee are invited to note these policies and make comment. Reviewing of accounting policies by Members ensures that the Council and Audit Committee follows the CIPFA Better Governance Forum toolkit for local authority Audit Committees.
- 1.2 Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.
- 1.3 The draft audited Statement of Accounts for 2016/17 will be presented to the September 2017 Audit Committee for approval. The accounting policies statement will be included within the accounts and any changes made during the course of the closedown programme and/or audit will be highlighted and explained by officers.

### **2. Purpose of Accounting Policies**

- 2.1 The Code of Practice for Local Authority Accounting defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting



measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves".

2.2 The application of accounting policies supports the implementation of the main accounting concepts of best practice. These ensure financial reports:

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

2.3 The accounting policies currently adopted by the Council are in line with the concepts set out in 2.2.

### **3. Contents of Accounting Policies**

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

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

- **Accruals of Income and Expenditure** – The Council raises accruals to comply with the concept of accounting to measure when payments or receipts are due rather than where cash is transferred to settle the liability
- **Pensions** – This note describes the three pension schemes Council employees contribute to (teachers, health workers and Local Government Pension Scheme). The policy includes detail on the investment valuation basis used and the calculations made of future liability.
- **Value Added Tax** - As the vast majority of VAT paid by the Council is recoverable from H.M. Revenue & Customs, recoverable VAT is excluded from the cost of services within the accounts.

#### **4. Changes in Accounting Policies for 2016/17**

- 4.1** The application of most accounting policies is consistently applied from year to year. Changes are required when new accounting regulations are introduced or updated or if there is a significant change within the financial activities of the Council.
- 4.2** We must follow the requirements of International Accounting Standard 8 when selecting or changing accounting policies, adopting the accounting treatment and disclosing changes in accounting policies, estimation techniques and correcting errors.
- 4.3** There is a requirement to disclose the expected impact of new standards; they will only result in a change in accounting policy if they are required by the Code and will result in the financial statements providing reliable and more relevant information.
- 4.4** It is for an authority to decide the accounting policies that are most appropriate to its particular circumstances. Best practice requires councils to regularly review the accounting policies adopted to ensure they remain appropriate and give due weight to the impact of a change in accounting policy to ensure comparability between accounting periods.
- 4.5** There are no significant amendments proposed in the draft Code of Practice on Local Authority in the United Kingdom 2016/17. The proposed accounting policies for 2016/17 are reflected in **Appendix A** and are consistent with these adopted in 2015/16.
- 4.6** There are some minor changes proposed to Havering's accounting policies for the 2016/17 accounts. The proposed amendments are listed below:

##### **ii. Accruals of Income and Expenditure**

expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made. Outstanding creditors are written out of the accounts if they have not been billed for by the supplier after a period of one year, however a sample of outstanding balances will be sampled and adjusted for if required;

##### **vi. Council Tax and Non-Domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Central Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and Central Government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

**Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

**xiv. Interests in Companies**

The Authority has material interests in companies that have the nature of subsidiaries that require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

**xxvii. Fair Value Measurement**

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [*other financial instruments as applicable*] at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

Policy ii is amended from two years to one year to reflect best practice and also includes discretion following an analytical review for any goods receipts that haven't been invoiced to be cancelled. Policies vi and xxvii are new policies to explain procedures already in place and have no additional implications on Havering's existing practices. Policy xiv reflects the accounting treatment required for the Council's subsidiary company, Mercury Land Holdings Limited.

- 4.7** The proposed accounting policies for 2016/17 are reflected in **Appendix A** and assume the changes in 4.6 are adopted.

## **5 External Audit Consultation**

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

**IMPLICATIONS AND RISKS**

**Financial Implications and risks:**

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

**Legal Implications and risks:**

Section 21 of the Local Government Act 2003 enables the Secretary of State to make regulations requiring accounting practices including the Statement of Accounts to be undertaken in accordance with proper practices. Regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 requires the Authority to have regard to the Code of Practice on Local Authority Accounting for 2016/17 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1<sup>st</sup> April 2011.

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

**Human Resources Implications and risks:**

None arising directly.

**Equalities and Social Inclusion Implications and risks:**

None arising directly

**BACKGROUND PAPERS**

Chartered Institute of Public Finance and Accountancy “Code of Practice on Local Authority Accounting in the United Kingdom – Guidance notes for practitioners, 2016/17 Accounts”.

## **Appendix A**

### **London Borough of Havering**

#### **Statement of Accounting Policies for the financial year 2016/17**

## **Notes to the Core Financial Statements**

### **1. Accounting Policies**

#### **Going Concern**

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

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

#### **i. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by 30 June 2016, which the Accounts and Audit (England) Regulations 2015 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* and the *Service Reporting Code of Practice 2016/17*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

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

#### **ii. Accruals of Income and Expenditure**

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

- revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made. Outstanding creditors are written out of the accounts if they have not been billed for by the supplier after a period of one year, however a sample of outstanding balances will be sampled and adjusted for if required;
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected; and
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de minimis for 2016/17 remains at £50,000.

### **iii. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in one month or less from the date of acquisition or notice accounts of no more than 3 months and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

### **iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **v. Charges to Revenue for Non-Current Assets**

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

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated



gains in the Revaluation Reserve against which the losses can be written off; and

- amortisation of intangible non-current assets attributable to the service.

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

#### **vi. Council Tax and Non-Domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Central Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and Central Government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

#### **Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

#### **vii. Employee Benefits**

##### **Benefits Payable During Employment**

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

##### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Authority to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

### **Post-Employment Benefits**

Employees of the Authority are members of three separate pension schemes:

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

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

#### *The Local Government Pension Scheme*

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

- The liabilities of the London Borough of Havering Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% based on the indicative rate of return on high quality corporate bonds.
- The assets of the London Borough of Havering Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price;
  - unquoted securities – professional estimate;
  - unitised securities – current bid price; and

- property – market value.

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

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

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

#### *Discretionary Benefits*

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

**viii. Events After the Reporting Period**

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

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

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

**ix. Financial Instruments**

**Financial Liabilities**

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

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

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

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

**Loans and Receivables**

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

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

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

**x. Foreign Currency Translation**

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

**xi. Government Grants and Contributions**

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

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

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

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

All Town and Country Planning Act 1990 (as amended) Section 106 contributions, because of their complex nature and numerous legal conditions, are only recognised through the Comprehensive Income and Expenditure Statement once they have been spent. Only then are we certain all conditions have been met and there is no return obligation.

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

**Non Ring-fenced Grants**

These are allocated by Central Government directly to local authorities as additional revenue funding. They are

not ring-fenced and are credited to the Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

**Business Improvement Districts**

The Authority is the billing authority for the London Riverside Business Improvement District (BID) managed by Ferry Lane Action Group, which provides a cleaner, safer, more secure business environment and promotes the interests of the business community within the BID. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) on the balance sheet.

**xii. Heritage Assets**

The Authority's Heritage Assets are split into two categories

- Civic Regalia; and
- Heritage Buildings.

**Civic Regalia**

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

**Heritage Buildings**

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

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

**xiii. Intangible Assets**

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held

by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

**xiv. Interests in Companies and Other Entities**

The Authority has material interests in companies that have the nature of subsidiaries that require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

**xv. Inventories**

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

**xvi. Investment Property**

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**xvii. Interest in Joint Committee**

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

**xviii. Leases**

All current leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease, but convey a right to use an asset in return for payment, are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

**The Authority as Lessee**

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

**The Authority as Lessor**

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

**xix. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA SeRCOP 2016/17. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation; and
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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



**xx. Property, Plant and Equipment**

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

**Recognition**

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

**Measurement**

Assets are initially measured at cost, comprising:

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

Finance costs are excluded in valuations for all assets.

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

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);

## **Audit Committee, 1<sup>st</sup> March 2017**

- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Where decreases in value are identified, they are accounted for as follows:

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

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

### **Impairment**

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

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

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

## **Depreciation**

Depreciation is provided for on all property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is not charged in the year of acquisition but is charged in full during the year of disposal.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over a five year period unless a suitably qualified officer determines a more appropriate period; and
- infrastructure – straight-line allocation over 20 years.

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

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

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

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

- capital expenditure of less than £300,000 per scheme; and
- assets valued at less than £3,000,000.

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

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

## **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

## **xxii. Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

### **Contingent Liabilities**

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

**Contingent Assets**

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

**xxiii. Reserves**

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

**xxiv. Revenue Expenditure Funded from Capital under Statute**

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

**xxv. Schools**

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Schools' transactions, cash flows and balances are therefore recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

**xxvi. VAT**

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

**xxvii. Fair Value Measurement**

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [*other financial instruments as applicable*] at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a

liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

**AUDIT COMMITTEE**

**1 March 2017**

**Subject Heading:**

Annual Fraud Plan 2017/2018

**Report Author and contact details:**

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( Proactive Audit and Counter Fraud)

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**Policy context:**

To advise the Committee of the proposed plan of Counter Fraud Activity by the Council's Corporate Fraud team

**Financial summary:**

This report details information on the Council's Annual Fraud Plan, designed to aid prevention and minimise loss through fraud

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

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

**SUMMARY**

This report advises the Committee of the proposed Annual Fraud Plan of the Corporate Fraud Team for 2017/18.

**RECOMMENDATIONS**

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of the officers where required with regards to the Annual Fraud Plan of the Corporate Fraud Team for 2017/18.

## **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 annual fraud plan to serve the Council, management are supported in the effective identification and efficient management of fraud 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 investigations undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting recommendations, the managers are obliged to consider financial risks and costs associated with the implications of the recommendations. Failures to accept recommendations may result in financial losses for the Council.

Fraud and corruption will often lead to financial loss to the authority. By maintaining robust anti fraud and corruption arrangements and a clear strategy in this area, the risk of such losses will be reduced. Arrangements must be sufficient to ensure that controls are implemented, based on risk, to prevent, deter and detect fraud. The work of the fraud service often identifies losses which may be recouped by the Council.

### **Legal implications and risks:**

None arising directly from this report.

### **Human Resources implications and risks:**

The report details fraud awareness training to be given to staff across the Council. This will be provided by the Assurance teams and will consist of online mandatory training and bespoke training provided as requested. There is an expectation that Managers will engage with the Assurance team regarding their staff completing the training and that if staff fail to complete any training they are asked to undertake that management will deal with it in the appropriate manner, in line with HR policies regarding management instructions.

### **Equalities implications and risks:**

None arising directly from this report.



## **1. Introduction**

The counter fraud section has a work plan annually which details the broad areas of work that will take place. The plan has to be responsive to demand as it is not possible to predict precisely the areas that will require investigation. In developing the plan consideration is given to the national fraud picture both in terms of estimated fraud losses, the areas of emerging fraud risks and the local control environment.

The counter fraud team carries out investigations to a criminal standard with the aim of applying a suitable sanction and enabling the council to recover any losses. The audit service also has a role to play in assisting in providing assurance over the control framework and may carry out specific pieces of work that support the counter fraud agenda.

## **2. Emerging fraud trends**

Historically, the Audit Commission produced more detailed work covering local government in their publications around Protecting the Public Purse. Unfortunately the Audit Commission team has been disbanded and the survey used to populate Protecting the Public Purse is no more. However CIPFA has published a document called CIPFA Fraud and Corruption Tracker, based on survey responses from a large number of local authorities.

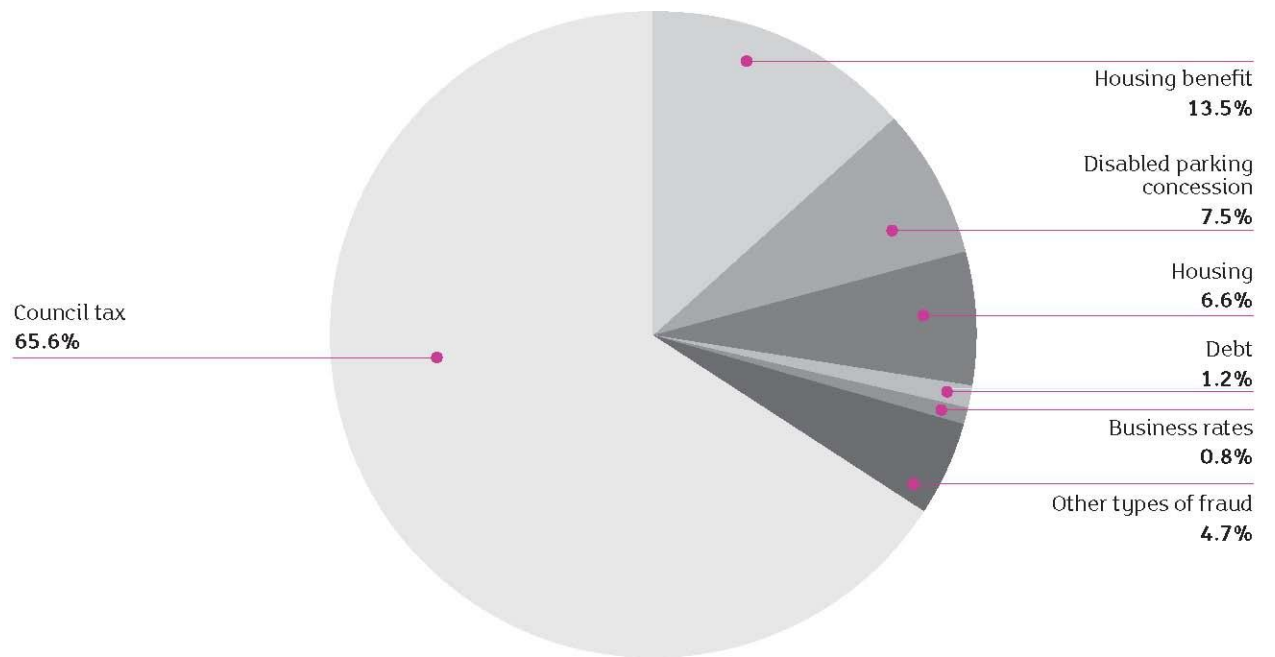
The largest type of fraud according to value is Housing related. This is evident with the Borough and the Housing Tenancy Counter Fraud project is delivering real results in this area.

The largest source of fraud in pure numbers of attempt relates to Council Tax discounts and Housing Benefits. As Members are aware in recent years, councils have shifted their focus from benefit fraud to non-benefit fraud due to the transfer of all benefit investigation from councils to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions.

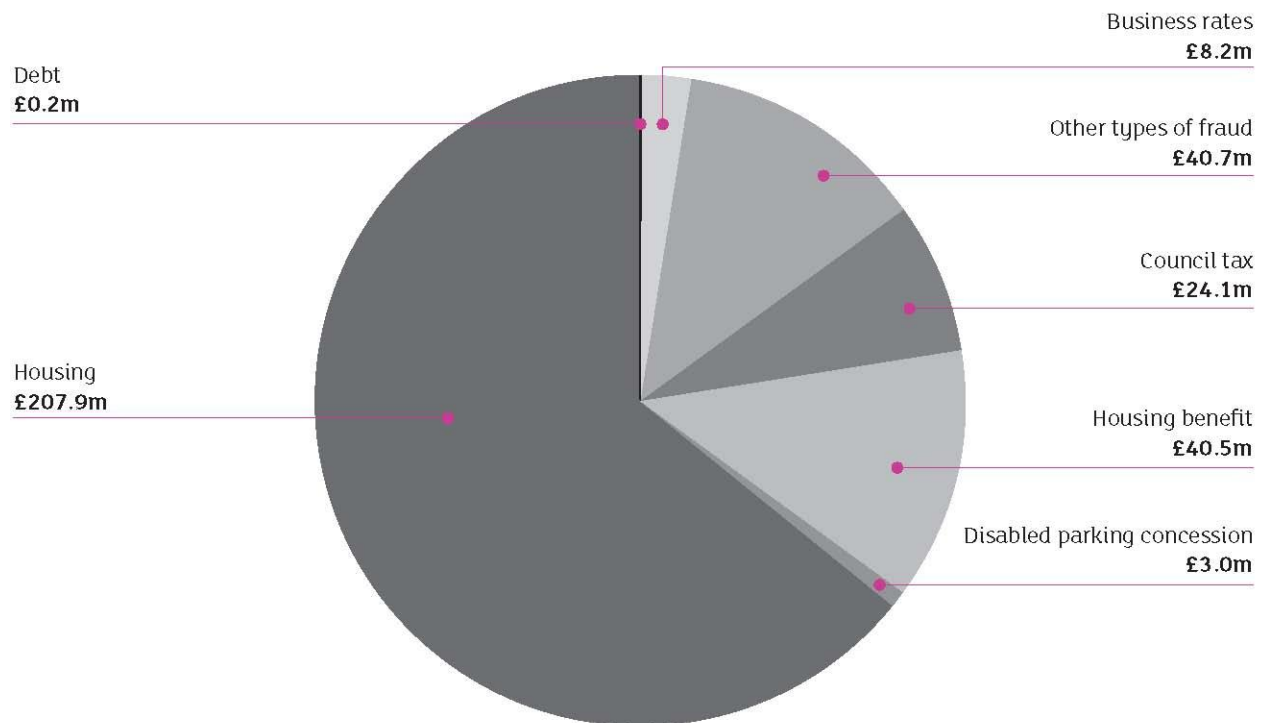
## **3. CIPFA Recommendations and Findings**

Based on responses to the 2016 survey the tables below show CIPFA's findings and advice to Local Authorities in combating and preventing Fraud.

**Detected fraud type by volume**



**Estimated value of fraud detected**



The table below lists the types of fraud reported in the survey, and extrapolated figure estimating the number of cases across the UK based on the cases reported in the survey and an estimate of the cost incurred in 2015/16. They give an estimated value per case.

Types of fraud	Fraud cases	% of the total	Value £m	% of the total value	Average £'000
Council Tax	57,681	65.70	24.1	7.40	0.42
Housing Benefit	11,902	13.50	40.5	12.5	3.41
Disabled Parking Concession	6,578	7.50	3.0	0.90	0.45
Housing	5,823	6.60	207.9	64.1	35.71
Debt	1,053	1.20	0.2	0.10	0.23
Business Rates	706	0.80	8.2	2.50	11.55
Welfare Assistance	616	0.70	0.1	0.02	0.12
Procurement	613	0.70	6.2	1.92	10.19
Insurance Claim	382	0.43	5.3	1.62	13.76
Adult Social Care	323	0.37	2.9	0.90	9.09
No Recourse to Public Funds	251	0.29	8.7	2.67	34.51
Mandate	216	0.25	7.2	2.22	33.31
School	182	0.21	0.9	0.26	4.71
Payroll	163	0.19	0.3	0.10	1.98
Recruitment	143	0.16	0.7	0.23	5.21
Pensions	89	0.10	0.6	0.18	6.42
Economic and Voluntary Sector	61	0.07	1.5	0.47	25.10
Expenses	50	0.06	0.5	0.15	9.78
Children's Social Care	29	0.03	0.3	0.09	9.86
Manipulation of Data	24	0.03	na	na	na
Investments	1	0.00	0.2	0.07	221.00
Other	983	1.12	5.3	1.65	5.44

Source: CIPFA 2016

CIPFA recommends the following:

Public sector organisations should carry out fraud assessments regularly and have access to appropriately qualified counter fraud resources to help mitigate the risks and effectively counter any fraud activity.

All organisations should undertake an assessment of their current counter fraud arrangements.

In line with the Fighting Fraud and Corruption Locally Board suggestion, local authorities should examine and devise a standard and common methodology for measuring fraud and corruption. Once it has been agreed, local authorities should use the measure to estimate levels of fraud and corruption.

It is as important to prevent fraud that has no direct financial interest, such as data manipulation and recruitment, as it is high value fraud

Organisations should develop joint working arrangements where they can with other counter fraud professionals and organisations.

Public bodies should continue to raise fraud awareness in the procurement process, not only in the tendering process but also in the contract monitoring element

Authorities should ensure that anti-fraud measures within their own insurance claims processes are fit for purpose and that there is a clear route for investigations into alleged frauds to be undertaken.

A copy of the CIPFA document is attached at Appendix 2 for reference

#### **4. The 2017/18 plan**

We are now in year 3 of the Fraud Team being a oneSource shared service and the Fraud Plan for 2016/17 saw a new partner join the team in the form of London Borough of Bexley.

This will bring extra resources into the team and the added benefit of sharing best practice across all the partners building on the experience of sharing across Newham and Havering we have built up over the past year

The plan for 2017/18 at Appendix 1 encompasses the three themes taken from the government's fraud strategy Fighting Fraud Locally and takes account of the estimated fraud losses and emerging fraud trend. The three themes are:

- *Acknowledge - Assessing and understanding fraud risks, committing support and resource to tackling fraud, maintain a robust anti-fraud response.*
- *Prevent - Making better use of information technology, enhancing fraud controls and process, developing a more effective anti-fraud culture.*
- *Pursue - Prioritising fraud recovery and the use of civil sanctions, collaborating across local authorities and with local law enforcement agencies.*

Counter fraud resources will be stretched again in 2017/18 although we have now recruited to the agreed establishment and have been utilising temporary workers where necessary. The sections resources are organised to enable data matching and data analysis to take place to try to detect frauds at the earliest stage possible. This year will see us uploading data sets from Havering's data warehouse onto a system known as IDIS and performing matching exercises from this data to offer a level of assurance as well as an investigative pool of work.

Most of the resources are devoted to carrying out investigations to a criminal standard. The team also has capacity for financial investigations which are undertaken in accordance with the Proceeds of Crime Act and can enable the council to claw back funds from criminals in certain circumstances.

As well as the table at Appendix A the Authority will also be embarking on some work directed from the Government on Procurement Risk

The Home Secretary has written to Councils and Police forces to share conclusions from a recent pilot programme to explore the threat from Serious and Organised Crime to publicly procured services in Local Government. This work has clearly highlighted just how attractive public procurement can be to organised criminals and the need for action to address this.

They have shared resources that can help to reduce the vulnerabilities identified in the pilot:

- A Serious and Organised Crime Checklist - this enables local authorities to quickly assess their serious and organised crime risks within their organisation;
- A Serious and Organised Crime Audit - a more developed methodology that allows local authority internal audit teams to scrutinise business operations to establish where there may be vulnerabilities; and
- Non-involvement with Serious and Organised Crime Statement – for use in Invitation to Tenders and Official Journal notices, in which bids are sought for public contracts as part of the public procurement process.

Work will be carried out to assess vulnerabilities in the system and make recommendations where necessary.

Fraud risk	Counter fraud plan 2017/18	Theme
All fraud risks	<ul style="list-style-type: none"> <li>• Robust anti fraud and corruptions policies that are reviewed annually</li> </ul>	Acknowledge/ Prevent/Pursue
	<ul style="list-style-type: none"> <li>• Provide support to HR and the whistle blowing policy reviews</li> </ul>	Acknowledge
	<ul style="list-style-type: none"> <li>• Regular staff updates to remind them of the policies</li> </ul>	Acknowledge
	<ul style="list-style-type: none"> <li>• Publicity of successful cases to act as a deterrent</li> </ul>	Acknowledge/ Prevent
	<ul style="list-style-type: none"> <li>• Fraud awareness training is available to all staff via breeze.</li> </ul>	Acknowledge/ Prevent
	<ul style="list-style-type: none"> <li>• Additional fraud awareness modules are available for benefits staff.</li> </ul>	Acknowledge/ Prevent
	<ul style="list-style-type: none"> <li>• Face to face training can be provided which includes document authentication training.</li> </ul>	Acknowledge/ Prevent
	<ul style="list-style-type: none"> <li>• Governance training covering topics such as declarations of interest, gifts and hospitality and IT security are available and reviewed annually.</li> </ul>	Acknowledge/ Prevent
	<ul style="list-style-type: none"> <li>• The intranet is regularly updated and contains policies, hints and tips and details of fraud loss estimates to help managers deal with the risk of fraud.</li> </ul>	Acknowledge/ Prevent/Pursue
	<ul style="list-style-type: none"> <li>• Investment in the fraud hub to help prevent and detect fraud.</li> </ul>	Prevent/Pursue
<ul style="list-style-type: none"> <li>• Investment in additional investigative tools to improve efficiency in some areas such as bank account analysis.</li> </ul>	Pursue	
<ul style="list-style-type: none"> <li>• Employee vetting / identity checking.</li> </ul>	Prevent	
<ul style="list-style-type: none"> <li>• Consider the use of POCA for all suitable cases</li> </ul>	Pursue	

Council tax discounts	<ul style="list-style-type: none"> <li>• Work with the service to investigate cases generated from their data matching.</li> <li>• Data matching as part of NFI</li> <li>• Data matching using IDIS</li> <li>• Investigate any good quality referrals</li> </ul>	<p>Pursue</p> <p>Pursue</p>
Business rates	<ul style="list-style-type: none"> <li>• Data matching as part of NFI</li> <li>• Data matching using IDIS</li> <li>• Investigate any cases that come out of Audit</li> <li>• Investigate any good quality referrals</li> </ul>	<p>Pursue</p> <p>Acknowledge/ Prevent/Pursue</p>
Right to buy	<ul style="list-style-type: none"> <li>• Investigate cases referred by RTB team and the public</li> <li>• Use POCA if appropriate.</li> <li>• Generate publicity to act as a deterrent.</li> <li>• Continue to assist the front line in deterring and refusing applications</li> </ul>	<p>Acknowledge / Prevent</p> <p>Pursue</p> <p>Pursue</p> <p>Pursue</p> <p>Acknowledge/ Prevent/Pursue</p>
Abuse of position	<ul style="list-style-type: none"> <li>• Fraud awareness training</li> <li>• Investigate cases</li> <li>• Regular publicity of successful cases</li> <li>• Promote whistle blowing alongside HR.</li> <li>• Ensure adequate governance training is provided.</li> </ul>	<p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent/Pursue</p> <p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent</p>
Social care fraud - Direct Payments	<ul style="list-style-type: none"> <li>• Encourage the use of ID3 Global and the Hub to verify who is controlling service user's funds.</li> <li>• Data matching as part of NFI.</li> <li>• Data matching using IDIS</li> <li>• Identify and promote opportunities for using the fraud hub to prevent and detect fraud.</li> <li>• Provide advice and investigation of cases.</li> </ul>	<p>Acknowledge/ Prevent</p> <p>Pursue</p> <p>Prevent/Pursue</p> <p>Prevent/Pursue</p>
Social Care Fraud – No recourse to public funds	<ul style="list-style-type: none"> <li>• To support the service in undertaking Hub and ID3 Global checks on current claims and investigate any cases found</li> <li>• To provide fraud awareness training to staff</li> <li>• To oversee an awareness campaign in conjunction with</li> </ul>	<p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent</p> <p>Acknowledge/ Prevent</p>

	<p>Internal Communications</p> <ul style="list-style-type: none"> <li>• To provide advice on and investigate any new claims that appear fraudulent</li> <li>• To work with the service by offering to have a dedicated officer available on site on specified days</li> </ul>	<p>Prevent/Pursue</p> <p>Prevent/Pursue</p>
Payroll, pensions and expenses	<ul style="list-style-type: none"> <li>• Data matching as part of NFI.</li> <li>• Investigating cases.</li> <li>• Joint working with the Asylum and Immigration service.</li> <li>• Supporting the service to use ID3 Global to maximum benefit.</li> <li>• Document authentication training for staff handling documents.</li> <li>• Developing a Chip Scan verification programme for all existing staff</li> </ul>	<p>Pursue</p> <p>Pursue</p> <p>Pursue</p>
Employee Applications	<ul style="list-style-type: none"> <li>• Document authentication training for staff handling documents</li> <li>• Investigating cases.</li> <li>• Supporting the service to use ID3 Global to maximum benefit.</li> <li>• Providing a Chip Scan to both internal HR and the agencies and providing guidance on how to use it</li> </ul>	<p>Acknowledge/Prevent</p> <p>Pursue</p> <p>Prevent/Pursue</p>
Disabled parking blue badges	<ul style="list-style-type: none"> <li>• Data matching as part of NFI</li> </ul>	<p>Pursue</p>
Housing tenancy fraud	<ul style="list-style-type: none"> <li>• Data matching as part of NFI and locally commissioned exercises.</li> <li>• Investigating cases.</li> <li>• Using POCA as appropriate.</li> <li>• Working with the Tenancy audit team to recover properties.</li> <li>• Generating publicity as a deterrent.</li> <li>• Work with the service to continue the use of the fraud hub</li> <li>• Develop an SLA and work with registered social landlords to assist with tenancy fraud</li> </ul>	<p>Pursue</p> <p>Pursue</p> <p>Pursue</p> <p>Pursue</p> <p>Acknowledge/Prevent/Pursue</p> <p>Prevent/Pursue</p> <p>Acknowledge/Pursue</p>



False insurance claims	<ul style="list-style-type: none"> <li>• Fraud awareness training</li> <li>• Investigate cases identified in conjunction with the relevant insurers and claims handlers</li> <li>• Regular publicity of successful cases</li> <li>• Encourage the use of ID3 Global and The Hub within the insurance team to help identify an individual's true circumstances</li> </ul>	Prevent Pursue
Debt Avoidance	<ul style="list-style-type: none"> <li>• Investigate cases that may be as a result of any fraud linked to the avoidance of a debt to the organisation including, but not limited to: council tax liabilities rent arrears; false declarations; false instruments of payment or documentation</li> </ul>	Acknowledge /Pursue

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**AUDIT COMMITTEE**

**1 March 2017**

<b>Subject Heading:</b>	Head of Assurance Quarter Three Progress Report: 3 <sup>rd</sup> October to 31 <sup>st</sup> December 2016
<b>CMT Lead:</b>	Jane West Managing Director oneSource
<b>Report Author and contact details:</b>	David Hogan, Head of Assurance. Tel: 0203 0454943 E-mail: david.hogan@bexley.gov.uk
<b>Policy context:</b>	To inform the Committee of progress on the assurance work undertaken in Quarter Three of 2016/17.
<b>Financial summary:</b>	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 3<sup>rd</sup> October to 31<sup>st</sup> December 2016.

**RECOMMENDATIONS**

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

**REPORT DETAIL**

This progress report contains an update to the Committee regarding 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 three.

**Section 3 Appendices:** Provide supporting detail for members' information

**Appendix A:** Detail of Quarter Three Internal Audit Work  
(3<sup>rd</sup> October to 31<sup>st</sup> December 2016)

**Appendix B:** Summary of Limited Assurance 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 The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) or guidance.
- 1.1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a simple framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:
- First line – operational management controls
  - Second line – monitoring controls, e.g. the system's owner
  - Third line – independent assurance. (Internal audit forms the Council's third line of defence)
- 1.1.3 An independent internal audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Committee and senior management on the riskier and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.
- 1.1.4 The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the annual governance statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.
- 1.1.5 Members of the Assurance Service have been involved in work with the new Section 151 Officer, Monitoring Officer and new Director of Finance for oneSource to refresh the Governance Group arrangements and the approach to collating evidence for the Annual Governance Statement. They have also been working with senior management to update Risk Registers, and to integrate Audit and Counter Fraud Plans with those. Horizon scanning work has already taken place with other Heads of Audit and through the Croydon Framework to identify common risk and audit themes. Updated Risk Registers and Audit Plans for 2017/18 will be presented to the Audit Committee in May and will and will reflect the new approach.
- 1.1.6 Members will be aware that the full range of Assurance Services, Internal Audit, Counter Fraud, Risk Management & Insurance are now delivered by a shared service with LB Bexley and LB Newham under the oneSource banner. The new structure will deliver additional resilience, financial savings and efficiencies required in challenging financial times. This will be achieved by sharing management posts, removing management duplication, and by improving the effectiveness and efficiency of processes.
- 1.1.7 A recruitment campaign is underway to recruit staff with the required skills to fill vacancies. Members were previously advised that this will be a transitional year

## **Audit Committee, 1 March 2017**

whilst the service develops a consistent approach, in line with the principles in the business case that will ensure duplication is removed and partners receive the same service standard. A number of other authorities have requested meetings to discuss the model and any controlled expansion of the arrangements would benefit the member boroughs.

1.1.8 This composite report brings together all aspects of internal audit and anti-fraud work undertaken in quarter three, 2016/17, in support of the Audit Committee's role.

1.1.9 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.

### **1.2 Level of Assurance**

1.2.1 At the November Committee meeting, Members received the Head of Assurance's opinion based upon the work undertaken in quarter two 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 have been four Limited Assurance reports issued this quarter. These are summarised in Appendix B.

**Section 2. Executive Summary of work undertaken in quarter three, 2016/17**

- 2.1.1 There have been 16 reports issued in quarter three. One of these was Substantial Assurance, 11 were Moderate Assurance and four Limited Assurance. All limited assurance reports were in respect of schools' triennial reviews.
- 2.2.1 Proactive Audit Work Plan for quarter three is shown within Appendix A.
- 2.3.1 During the quarter the investigations team:
- have recovered two properties with a notional value of £36,000;
  - had seven Right to Buy applications withdrawn, with a notional value of £608,928
- 2.3.2 The total net savings for the project from Oct 2015 to Dec 2016 is £3,113,313, after investigation costs.
- 2.4.1 Members will be pleased to note that oneSource Assurance Services have been shortlisted for the Innovation in Internal Audit Public Finance award.
- 2.4.2 The team submitted an application highlighting work on the schools' audit programme. The team developed an app based programme to enable them to navigate round schools (using a tablet) in a more effective and efficient way, whilst considering the work they do on a risk basis – in short it has enabled auditors to 'do more with less'. Working in this way is a change to how the team had traditionally audited schools and has also helped to promote the oneSource vision 'To be the one source of innovative support and affordable quality to public services'.
- 2.4.3 The winner in this category will be an individual or an organisational scheme that convinces the judges they have identified and supported the management and mitigation of organisational risk, and demonstrated outstanding levels of technical expertise. They will also have successfully improved organisational processes, systems and policies, whilst simultaneously supporting excellence in corporate governance.



**Appendix A: Quarter Three Internal Audit Work  
(5<sup>th</sup> October 2016 to 31<sup>st</sup> December 2016)**

**1.1 Risk Based Systems and School Audits**

1.1.1 As at 31<sup>st</sup> December 2016, 16 assignments had been completed in the previous quarter. As outlined at the last Audit Committee meeting, a list of all audits completed during the quarter is detailed below with associated audit opinion (assurance level). Where there is a limited assurance a summary of the audit report is included in Appendix B. For moderate and substantial assurance levels further information can be made available on request.

Report	Assurance	Recommendations				Ref
		High	Med	Low	Total	
<b>System / Computer Audits</b>						
Catering	Moderate	0	6	0	6	N/A
NEPRO	Moderate	0	4	0	4	N/A
Schools Capital	Moderate	1	0	0	1	N/A
SWIFT	Substantial	0	0	0	0	N/A
Cheque Processing	Moderate	0	2	0	2	N/A
Pool Car	Moderate	1	0	0	1	N/A
NNDR Valuation & Liability (oneSource audit covering LB Newham and LB Havering)	Moderate (overall)	3	3	0	6	N/A
<b>School Audits</b>						
Newtons Primary	Moderate	3	7	1	11	N/A
Mead Primary	Limited	3	13	2	18	B (1)
Parsonage Farm Primary	Moderate	1	5	9	15	N/A
Royal Liberty Secondary	Moderate	1	4	4	9	N/A
St Ursulas Junior	Moderate	0	4	3	7	N/A
Gaynes Secondary	Moderate	0	9	1	10	N/A
Sanders Secondary	Limited	6	17	2	25	B (2)
Broadford Primary	Limited	4	7	1	10	B (3)
Wykeham Primary	Limited	13	12	0	25	B (4)
<b>Total</b>		<b>36</b>	<b>93</b>	<b>23</b>	<b>150</b>	

<b>Key to Assurance Levels</b>	
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.

## Audit Committee, 1 March 2017

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.
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1.1.2 Management summaries for the four limited assurance school reports are included under Appendix B: Summary of Limited Assurance Audit Reports.

### 1.2 Key Performance Indicators

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

Performance Indicator	Quarter 3 Target	Quarter 3 Actual	Quarter 3 Variance
Percentage of Audit Plan Delivered	72%	68%	-4%
Number of Briefs Issued	33	30	-3
Number of Draft Reports Issued	21	12	-9
Number of Final Reports Issued	19	9	-9

1.2.2 The Service was restructured during 2016, with the aim of maximizing the use of audit resources – balancing the provision of an effective internal audit service with what the Council can afford. The restructure has inevitably had some impact on the delivery of the Plan during the year, due to the organisational change.

### 1.3 Outstanding Audit Recommendations Update

1.3.1 Internal audit follow up all recommendations with management when the deadlines for implementation pass. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations in systems where limited assurance was given is verified through a follow up audit review.

1.3.2 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.

1.3.3 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.

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

**1.4 Outstanding Audit Recommendations**

<b>1.4 Outstanding Audit Recommendations</b>			<b>No. of Recommendations in the Original Report</b>			<b>Position as at 02/01/17</b>		
<b>Audit Year</b>	<b>Area Reviewed</b>	<b>Director / HoS Responsible</b>	<b>Assurance Level</b>	<b>H</b>	<b>M</b>	<b>L</b>	<b>Complete</b>	<b>In Progress</b>
<b>15/16</b>	Service Manager	Exchequer & Transactional Services	Substantial	2	4	1	5	2
<b>15/16</b>	Offsite Storage	ICT Services	Limited	3	3	0	0	6
<b>2015/16 Totals</b>				<b>5</b>	<b>12</b>	<b>1</b>	<b>8</b>	<b>10</b>

**2.1 Proactive Audit and Counter Fraud**

2.1.1 Proactive work undertaken during quarter three is shown below:

<b>Description</b>	<b>Risks</b>	<b>Quarter 3 Status</b>
Whistleblowing	All whistleblowing referrals.	Ongoing
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation.	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.

<b>Caseload Quarter 3 2016/17</b>						
<b>Cases at start of period</b>	<b>Referrals received</b>	<b>Referred To Criminal Fraud Team</b>	<b>Referred to HR</b>	<b>Audit Investigations</b>		
				<b>Not Proven Cases</b>	<b>Successful Cases</b>	<b>Cases at end of period</b>
12	7	0	0	4	8	7

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

<b>Source and Number of Referrals Quarter 3 2016/17</b>	
<b>Number of Referrals/ Type</b>	<b>IA Reports Qtr. 3</b>
External Organisations / Members of the Public	0
Internal Departments	7
<b>Total</b>	<b>7</b>

## **Audit Committee, 1 March 2017**

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

<b>Reports by Category</b>		
<b>Audit Investigation Category</b>	<b>Cases Qtr. 2</b>	<b>Cases Qtr. 3</b>
Breach of Code of Conduct	1	1
Breach of Council Procedures	2	0
Falsification of records	0	1
Miscellaneous	5	1
Misuse of Council Time	2	3
Procurement	1	1
Theft	3	0
<b>Total</b>	<b>14</b>	<b>7</b>

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

<b>Case Outcomes</b>	
<b>Outcome</b>	<b>Qtr. 3</b>
Management Action Plan	6
Insufficient Evidence	3
Resignation	1
Disciplinary	1
Not Applicable	1
<b>Total</b>	<b>12</b>

## **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 identifiable savings or losses identified during quarter three of 2016.

## **2.4 Audit Investigation Recommendations**

2.4.1 In 2015/16 there were 27 'Recommendations Not Yet Due' carried forward. Eight recommendations had been made as at the end of September 2016 and 34 recommendations were made during Quarter three.

<b>Quarter 3: Audit Investigation Recommendations</b>	
Total Recommendations as at Quarter 3	69
Recommendations Implemented	53

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Recommendations Not Yet Due	3
Recommendations Rejected	3
Recommendations Slipped	10
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 during quarter two.

<b>Housing Investigations – Visiting Team</b>				
<b>Quarter Three</b>	<b>Tenancy Audit Visits</b>	<b>Tenancy Audits (Checks) completed</b>	<b>Referrals from Audit to Fraud</b>	<b>closed</b>
<b>Oct</b>	2016	653	5	648
<b>Nov</b>	1587	416	10	406
<b>Dec</b>	807	172	3	169
<b>YTD*</b>	14,351	4,207	137	4,070

<b>Investigation Team</b>							
<b>Quarter Three</b>	<b>Cases Under Investigation (open cases)</b>	<b>NFA'D</b>	<b>Notice to Quit Served</b>	<b>Possession Order Granted</b>	<b>Total Properties Recovered</b>	<b>Cases referred for HB Fraud</b>	<b>RTB cancelled through audits</b>
<b>Oct</b>	161	10	0	0	1	0	3
<b>Nov</b>	172	7	4	0	1	1	3
<b>Dec</b>	180	0	0	0	0	0	1
<b>YTD*</b>	N/A	122	18	4	17	6	18

\*April 2016 to December 2016

2.5.2 Outcomes for the quarter include the following;

- Two properties were recovered with a notional value of £36,000; and
- 7 Right to Buy applications were withdrawn, with a notional value of £608,928.
- The total net savings for the project from Oct 2015 to Dec 2016 is £3,113,313, after investigation costs.

**Appendix B: Summary of Limited Assurance Audit Reports**

<b>Mead Primary School</b>	<b>Schedule B (1)</b>
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**1.1 Outline of Audit**

- 1.1.1 The audit of Mead Primary School was undertaken as part of the rolling triennial programme of school audits as set out in the Council's 2016/2017 audit plan.
- 1.1.2 Mead Primary School was last audited in December 2015 when the completion of the Audit Health Check resulted in an opinion of Full Assurance on the system of internal control being given. The opinion reflected the fact that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- 1.1.3 The December 2015 report made two recommendations, comprising of one medium and one low priority recommendation. Progress to implement these recommendations has been reviewed as part of this audit.

**1.2 Objectives and Scope**

- 1.2.1 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.

**1.3 Summary of Audit Findings**

- 1.3.1 This review found that both recommendations raised in December 2015 have been fully implemented.
- 1.3.2 Mead Primary School and Broadford Primary School federated under one Governing Body from 1st July 2016.
- 1.3.3 A review of the Scheme of Delegation / Delegated Authority document against the Finance Policy & Procedures found inconsistencies in the authorised approvers listed.
- 1.3.4 Meetings are being minuted; however key decisions made are not being formally documented within the minutes.



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- 1.3.5 Declarations of pecuniary interests for Governors are held at the corresponding school. A centralised process for managing and retaining declarations needs to be established.
- 1.3.6 A review of the declarations of pecuniary interests found inconsistencies in the information recorded on Governors declaration forms compared to the information published on the school website.
- 1.3.7 Budget monitoring meetings have historically been held, with clear documentary evidence in support of the meetings. Since the beginning of the financial year, whilst meetings / discussions regarding the budget have been held, these have not been formally documented. There is a lack of documentary evidence to support these discussions including explanations and planned action in relation to variances in the original budget.
- 1.3.8 Due to the lack of formal budget monitoring meetings and documentation, the Governing Body is not being provided with documentation in relation to budget monitoring, for review. It is acknowledged that the Chair of Governors for Mead now Co-Chair of the new federated Governing Body has been involved in the informal budget monitoring discussions.
- 1.3.9 Income collected by the Breakfast Club is passed over to the office for banking. A manual ledger is maintained, which is signed by the office staff when receiving cash. However, the staff member from the Breakfast Club does not sign the ledger to verify the amount collected and transferred to the office.
- 1.3.10 There is only one set of keys to the safe, which are held by one member of staff and taken off site outside of working hours. In the event that this individual is unexpectedly absent from work, the keys are collected from the individual at home, which is reliant on the individual being available.
- 1.3.11 Information in regards to how school trips are costed, including which costs are being passed onto parents is not documented as part of the school trip. In order to clearly identify which costs are paid by parents and which costs are paid by the school, this information should be retained on file.
- 1.3.12 Evidence of orders being raised retrospectively was found during procurement testing. In order to ensure that budget monitoring can be effectively completed, it is essential to ensure funds are committed against the budget at the earliest opportunity.
- 1.3.13 Procurement testing identified an invoice that was received in January 2016, setting out the need for the invoice to be paid within 30 days. A cheque was not raised until March, almost two months after the invoice was received. Whilst no late payment fine was incurred, it is necessary to ensure swift payment of invoices for efficient budget management.
- 1.3.14 Adequate checks are being undertaken on individuals that would be deemed to be self employed. However, during testing it was noted that a tax reference number provided by one individual did not appear to follow the standard format. Subsequent checks have confirmed that the incorrect reference number was inadvertently provided. This issue has now been resolved.

- 1.3.15 Payroll reports are subject to monthly checks by the School Business Manager. However, the payroll entry for the School Business Manager is not independently verified to ensure it is correct and an adequate level of segregation of duties is in place.
- 1.3.16 Testing was undertaken to ensure all staff and Governors have been subject to a DBS check within the last three years, in line with the Council's requirements. Testing found that six members of staff have DBS checks that have exceeded the three year renewal period. In three cases the renewal was instigated prior to the expiry date and the delays are outside the control of the school. In the remaining three cases, renewals were not instigated prior to the expiry date.
- 1.3.17 The inventory was checked in May 2016; however the outcome of the check has not been reported to the Governing Body. Testing undertaken on the inventory found that whilst items on the inventory could be located within the school, from a sample of items held in the Computer Store three could not be located on the inventory. Due to the large quantity of IT assets within the store, a further review of the inventory should be undertaken to ensure all assets are adequately recorded.
- 1.3.18 The Scheme of Delegation sets out that the ICT Technician and the Finance & Admin Assistant are responsible for the disposal of school assets; however, testing found that the Head Teacher signs the disposal form. Whilst it would be expected that the Head Teacher approves the disposal of school assets, this is not reflected in the policy. Additionally, it was noted that financial limits have not been determined for the approval to dispose of assets.
- 1.3.19 The disposal of school assets is formally documented. The form sets out the reason for disposal. A review of disposal forms found that in most cases, the reason for disposal was that the item was obsolete. However, there is a need to determine the value of items being disposed of, particularly where the disposal is due to the item being uneconomical to repair. Whilst financial limits for approvers to authorise the disposal of school assets needs to be determined, the current value of assets recommended for disposal would need to be included on the form.
- 1.3.20 Responsibility for approving the loan of school equipment has not been formally agreed and documented.
- 1.3.21 Equipment loaned to staff is formally documented; however, the loan is not signed by an appropriately authorised individual to evidence approval of the loan.

#### **1.4 Assurance level and recommendations**

- 1.4.1 A Limited Assurance has been given on the system of internal control.
- 1.4.2 This audit makes three high priority, thirteen medium and two low priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to the need for:

##### High

- Formal budget monitoring meetings to be implemented;

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- All staff and Governors to be subject to a DBS check every three years in line with the Councils expectations; and
- A review of the inventory to be undertaken to ensure all assets are recorded and outcome of the inventory check to be reported to Governors.

### Medium

- Authorised signatories and financial limits set out within the Scheme of Delegation / Delegated Authority document and the Finance Policy & Procedures document to align;
- Minutes to clearly show actions / decisions being made;
- Review and amendment of the information recorded on the schools website in regards to Governor declarations to be completed;
- Budget monitoring documents to be submitted to Governors in advance of the meetings;
- Breakfast Club staff passing cash over to the office, to physically sign the manual ledger;
- All costs relating to a proposed school trip to be identified and documented at the planning stage;
- Action to be taken to address and reduce the raising of orders retrospectively;
- Invoices to be paid in a timely manner;
- Payroll details of the person checking the payroll report to be subject to independent verification;
- A review of the authorised approvers for the disposal of equipment to be carried out, including the need for financial limits for approvers to be determined;
- The cost of items being disposed of to be determined and recorded on the disposal form; and
- Responsibility for the approval of equipment on loan to be documented;
- Loans of equipment to be signed by an appropriate approver.

### Low

- A new process for maintaining a shared register of interests for the federated Governing Body to be established; and
- The school should identify alternative arrangements to ensure access to the safe to another member of staff, including access to the safe keys.

<b>Sanders School</b>	<b>Schedule B (2)</b>
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## **2.1 Outline of Audit**

- 2.1.1 The audit of Sanders School was undertaken as part of the rolling triennial programme of school audits as set out in the Council's 2016/2017 audit plan.
- 2.1.2 Sanders School was last audited in June 2013 when the completion of the Triennial Audit resulted in an opinion of Substantial Assurance on the system of internal control being given. The opinion reflected the fact that whilst there was basically a sound system of control in place, within the areas reviewed, there were limitations that may put some of the system objectives at risk, and/or there was evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- 2.1.3 The June 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.

## **2.2 Objectives & Scope**

- 2.2.1 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.

## **2.3 Summary of Audit Findings**

- 2.3.1 This review found that six of the ten recommendations raised in June 2013 report have been fully implemented.
- 2.3.2 The four outstanding recommendations relate to the need for:
- Checks to be carried on staff using their own car for work purposes (high);
  - The inventory to include all portable / desirable equipment (medium);
  - Inventory checks to be reported to the Governing Body (low); and
  - Action to address the raising of retrospective orders (medium).

These recommendations have been re-iterated in this report.

- 2.4.1 There have been a number of significant staffing changes within the Finance Department. At the time of the audit the School Business Manager, appointed in April 2016, was temporarily covering the day to day running of the department, until the end of the summer term at which point a Senior Finance Officer would be recruited.

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- 2.4.2 As a result of these changes, a number of key documents requested during the audit could not be located. Whilst it is acknowledged that these documents may exist, this report aims to address weaknesses in the control environment identified during the review and so incorporates recommendations regarding missing documents where applicable.
- 2.4.3 There are discrepancies between the authorised signatories and financial limits set out within the Scheme of Delegation / Delegated Authority document and Finance Policy & Procedures document.
- 2.4.4 Information relating to Governor pecuniary interests and attendance at meetings has not been published on the schools website in accordance with legislative requirements.
- 2.4.5 Governors are not provided with documentation (e.g. budget monitoring documents) in advance of the meetings, limiting the time available for information provided to be reviewed and challenged.
- 2.4.6 A review of the Schools Improvement Plan, Asset Management Plan and Health & Safety Plan found that:
- Financial / resource requirements to achieve objectives have not been included / documented;
  - There are no clear links between the plans and the budget;
  - Plans have not been formally approved by Governors.
- 2.4.7 Appropriate checks to verify staffs entitlement to use their car for work purposes have not been completed.
- 2.4.8 The Schools documented Emergency Plan could not be located during the review; as a result there is a lack of documented arrangements in place.
- 2.4.9 Evidence to support the completion of formal budget monitoring is not retained on file.
- 2.4.10 Financial thresholds above which a refund will be given have not been set out within the Charging and Remissions policy.
- 2.4.11 Costs in relation to school trips', including how these costs are passed onto parents is not retained on file. Additionally, profit and loss summaries are not produced at the end of each school trip in order to consider whether the trip resulted in a profit or a loss being made.
- 2.4.12 Petty cash vouchers are not being approved prior to funds being reimbursed to claimants.
- 2.4.13 Orders are being raised on the system after the invoice has been received which impacts on the accuracy of the budget monitoring process.
- 2.4.14 The audited School Fund Account has not been reported to the Governing Body.
- 2.4.15 Bank reconciliations have not been completed on a regular basis.

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- 2.4.16 Discrepancies were noted in those users with access to the finance system, against the approved users set out in the Finance Policy & Procedures document.
- 2.4.17 Payments are being made to individuals that would be deemed to be self employed, without the appropriate checks being completed.
- 2.4.18 Detailed checks are not being carried out on all members of staff to ensure that they are being paid correctly.
- 2.4.19 Payroll details of the person checking the payroll report are not being independently verified.
- 2.4.20 Pay rates are not used to populate time sheets to ensure the accuracy of checks on payroll reports.
- 2.4.21 Timecards are not being approved by an appropriately authorised signatory.
- 2.4.22 Appropriate mechanisms to store Items of equipment securely and keep a record of the item, prior to their distribution and inclusion to the inventory have not been established.
- 2.4.23 An incident of newly purchased iPads going missing does not appear to have been appropriately investigated, reported to the police or formally reported to Governors.
- 2.4.24 Regular checks of the full inventory are not being completed and reported to Governors.
- 2.4.25 The Equipment on Loan register does not include the make / model of the items being loaned.

### **2.4 Assurance level and recommendations**

- 2.4.1 A Limited Assurance has been given on the system of internal control.
- 2.4.2 This audit makes six high priority, seventeen medium and two low priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to the need for:

#### High

- Authorised signatories and financial limits set out within both the Scheme of Delegation / Delegated Authority and Finance Policy & Procedures to align;
- Appropriate checks to be undertaken to ensure staff using their car for work purposes, are legally entitled to do so;
- Emergency Planning and Business Continuity arrangements to be formally documented;
- Checks to be carried out on self-employed individuals in advance of them being engaged by the school;
- The details, including serial number, or Items of equipment purchased to be clearly documented and items stored securely until such time that the item is added to the inventory and allocated a location; and

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- The circumstances regarding the missing iPads, the absence of investigation into the potential theft and lack of reporting to the police to be formally reported to Governors for recording in the meeting minutes.

### Medium

- Governor's pecuniary interests and attendance at meetings to be published on the Schools website;
- Governors to be provided with documentation (e.g. budget monitoring) in advance of a meeting;
- Costs to deliver objectives with strategic plans to be incorporated into the budget setting process and approved by Governors;
- Budget monitoring to be adequately documented retained on file;
- Appropriate documentary evidence to be retained on file for each school trip that evidences clear planning and understanding of school trip costs and how they are passed onto parents, as well as a completed and signed profit and loss summary, presented to Governors;
- Petty cash vouchers to be approved in advance of the reimbursement being issued;
- Action to be taken to reduce the raising of orders retrospectively;
- The School Fund Account to be audited annually in the Autumn Term in line with the Finance Policy & Procedures;
- Bank reconciliations to be completed on a regular basis and submitted to the Council's LMS Team;
- A copy of the current Bank Mandate to retained on file at the School;
- Approved users of the finance system to be amended in the Finance Policy and Procedures document to reflect authorised users;
- Detailed payroll checks to be carried out on all members of staff to ensure that they are being paid correctly;
- Payroll details of the person checking the payroll report to be subject to independent verification;
- Pay rates to be obtained and used to populate time sheets and ensure the accuracy of checks on payroll reports;
- Timecards to be approved by an appropriately authorised signatory;
- A full inventory check to be carried out annually and reported to governors; and
- The Equipment on Loan Register to include the make / model of the item being loaned.

### Low

- The Charging and Remissions Policy to include a financial threshold above which refunds will be given; and
- The audited School Fund Account to be reported to the Governing Body.

<b>Broadford Primary</b>	<b>Schedule B (3)</b>
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### **3.1 Outline of Audit**

- 3.1.1 The audit of Broadford 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.
- 3.1.2 Broadford Primary School was last audited in October 2013 when the completion of the Triennial Audit resulted in an opinion of Substantial Assurance on the system of internal control being given. This reflects the fact that while there is a basically sound system, there are limitations that may put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- 3.1.3 The January 2014 report made eight recommendations, comprising of four medium and four low priority recommendations. Progress to implement these recommendations has been reviewed as part of this audit.

### **3.2 Objectives and Scope**

- 3.2.1 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.

### **3.3 Summary of Audit Findings**

- 3.3.1 This review found that seven of the eight recommendations raised in the January 2014 report have been fully implemented.
- 3.3.2 The one outstanding recommendation related to planning for future premises related work to ensure that sufficient arrangements can be made to ring fence required budget. This has been reiterated within recommendations of this report.
- 3.3.3 Information relating the Governor pecuniary interests and attendance at meetings has not been published on the schools website as per legislative requirements.
- 3.3.4 Strategic plans for the school have not been put in place for 2016/17. This includes the School Improvement Plan, Asset Management Plan and Health and Safety Plan.



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- 3.3.5 There was no formal agreement regarding the requirements to have alternative accommodation in the event of an emergency at the time of the audit. Due to the two schools now being federated no further action is required.
- 3.3.6 The school do not have a grab bag/ emergency pack containing all the required information in the event of a school evacuation.
- 3.3.7 Although budget monitoring is being carried out regularly the reasons for variances and action to be taken was not documented.
- 3.3.8 It was unclear from available paperwork when the school's Charging and Remissions Policy had last been reviewed. The policy also did not contain a threshold for which refunds would be offered to parents in the event of schools trips making a profit.
- 3.3.9 Procurement testing found a number of orders had been raised retrospectively following receipt of an invoice. Lack of commitment to the budget when raising orders could affect the school's ability to appropriately monitor the current spend against the budget.
- 3.3.10 Multiple purchases were discovered during procurement testing that related to staff events paid for through the schools delegated fund.
- 3.3.11 Checks are not being carried out against self-employed individuals to confirm their employment status prior to the school using their services.

### **3.4 Assurance level and recommendations**

- 3.4.1 A Limited Assurance has been given on the system of internal control.
- 3.4.2 This audit makes four high priority, seven medium and one low priority recommendations that aim to mitigate the risks within the above audit findings.

#### High

- A documented School Improvement Plan should be produced that sets out academic objectives. The plan should ensure that for each objective, the expected outcome, measurable indicators, expected timescales and any financial or resource costs have been identified. Once produced the plan should be presented to Governors for formal approval;
- A documented Asset Management Plan should be produced that sets out premises related works. The plan should ensure that for each task, the expected completion timescale and financial costs have been identified. Once produced the plan should be presented to Governors for formal approval;
- Spend from the delegated fund should be linked to the education of the pupils and ensure that the principles of public service, in relation to the use of public funds, can be demonstrated; and
- Checks should be carried out on self-employed individuals in advance of them being engaged by the school. These checks should include:
  - Self-Employment Checklists;
  - HMRC ESI Online Tool Checks; and

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- Decisions sheet. Decision sheets should then be approved by an appropriately authorised signatory;

### Medium

- Governors' pecuniary interests should be published on the School's website in accordance with statutory requirements and should include any additional Governor roles;
- Governors' attendance at meetings should be published on the School's website in accordance with statutory requirements;
- An emergency grab bag should be set up and responsibility assigned.
- As part of the budget monitoring process explanations should be documented for any variances between budget and spend. An action plan should be put in place to reduce these variances.
- The Charging Policy should be reviewed / approved annually by Governors;
- VAT should be reclaimed wherever possible when administering Petty Cash and Charge Card payments; and
- Action should be taken to address and reduce the raising of orders retrospectively. Staff and Governors should be made suitably aware of the role they play in the budget monitoring process and therefore should ensure that any verbal approval to purchase goods / services are notified to support staff, in order for an order to be raised.

### Low

- The Charging Policy should include a financial threshold above which refunds will be given.

<b>Wykeham Primary</b>	<b>Schedule B (4)</b>
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#### **4.1 Outline of Audit**

- 4.1.1 The audit of Wykeham Primary was undertaken as part of the rolling triennial programme of school audits as set out in the Council's 2016/2017 audit plan.
- 4.1.2 Wykeham Primary School was last audited in July 2013 when the completion of the Triennial Audit resulted in an opinion of Substantial Assurance on the system of internal control being given. The opinion reflected the fact that whilst there was basically a sound system of control in place, within the areas reviewed, there were limitations that may put some of the system objectives at risk, and/or there was evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- 4.1.3 The July 2013 report made ten recommendations, comprising of one high, seven medium and two low priority recommendations. Progress to implement these recommendations has been reviewed as part of this audit.

#### **4.2 Objectives and Scope**

- 4.2.1 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.

#### **4.3 Summary of audit findings**

- 4.3.1 Clerking of committee meetings has been inconsistent due to regular changes in the clerk. From April 2017 the school will be purchasing the full clerk package from Havering Governor Services.
- 4.3.2 Pecuniary interest forms could not be located for staff/ governors who had completed them prior to September 2016.
- 4.3.3 Governor information included on the schools website does not fulfil requirements from DfE.
- 4.3.4 The School Improvement Plan does not include any estimated costs for delivery so there appears to be no links to the budget.
- 4.3.5 The school does not have an Asset Management Plan detailing all building improvements to be completed; this will be developed once the site survey results are received.

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- 4.3.6 Checks have not been completed for those staff that use their car for work purposes.
- 4.3.7 The Emergency Plan appears to be last reviewed in September 2015, due to staff changes this now needs amending.
- 4.3.8 Budget monitoring has not been completed in detail since September 2015.
- 4.3.9 Access to the keys for the safe is not restricted. The keys are held in a small jar in an unlocked cupboard.
- 4.3.10 An income and expenditure summary for the previous residential trip could not be located during the visit, this should be completed for future trips.
- 4.3.11 Lettings agreements were kept for all but one current letting; however none contained an approving signature from someone within the school.
- 4.3.12 No documentation relating to insurance, DBS details or health and safety reports could be located for all current lettings.
- 4.3.13 No VAT is currently being reclaimed for petty cash purchases. Due to the level of use of the petty cash account this could have a potentially significant effect.
- 4.3.14 Petty cash is used so frequently it is being reconciled multiple times per month.
- 4.3.15 At the time of the visit there were no agreed procurement processes in place throughout the school.
- 4.3.16 A sample test of ten purchases found that in five cases the order had been raised after the invoice had been received.
- 4.3.17 Due to delays in raising orders there were multiple instances of invoices being paid late.
- 4.3.18 During the visit it was not possible to locate quotes/ tenders for any of the current contracts the school has in place.
- 4.3.19 A file pertaining to the school fund was located but didn't appear to have been reviewed since 2013. It was not possible to evidence that any reconciliation of the account had been completed in the interim period.
- 4.3.20 The school fund did not appear to have been audited in previous years.
- 4.3.21 A copy of the bank mandate could not be located during the audit visit. Due to changes in the authorised signatories the details on the mandate are due to change.
- 4.3.22 The current Finance Policy includes the access rights for the FMS system, however due to multiple staffing changes since the policy was agreed in March 2016 this information is no longer accurate.

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4.3.23 Access to the keys for the personnel files is not restricted. A spare key is held in an unlocked drawer in the HR office.

4.3.24 Two personnel files were found to contain no documentation.

4.3.25 Payroll checks have not been completed by staff within the school since September 2016.

4.3.26 Pay rates for additional hours have not been included on the completed timesheets. This would allow for more accurate checks to be carried out against the payroll reports.

4.3.27 There is currently no accessible inventory of equipment within the school.

4.3.28 It could not be evidenced that any regular checks have been completed for the inventory of equipment.

4.3.29 Due to a lack of inventory it is unclear as to whether any equipment has been disposed of, or whether the correct procedures were followed.

4.3.30 There is no formal record of equipment that has been loaned to staff.

4.3.31 Throughout the audit visit there were multiple instances of documents not being able to be located; this is reflected in the detailed findings below.

### **4.4 Assurance level and recommendations**

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

4.4.2 This audit makes thirteen high priority and twelve medium priority recommendations that aim to mitigate the risks within the above audit findings. Recommendations relate to the need for:

#### High

- Checks should be undertaken on all staff to ensure that those that drive for business use have the relevant insurance and driving documentation.
- The budget should be subject to regular monitoring in order to identify and address potential overspends / discrepancies.
- Keys should be held in a safe and secure location.
- A clearly defined procurement process to be developed and followed by all staff when purchasing goods/ services.
- Quotes / tenders should be obtained for all contracts in excess of thresholds.
- The School Fund Account should be regularly reconciled.
- The School Fund Account should be subject to independent audit on a regular basis.
- Efforts should be made to find the missing personnel files, or to re-gather the information to be held by the school
- Access to personnel information should be adequately restricted.
- Payroll should be checked on a monthly basis.
- A process should be designed to monitor and maintain an effective control of inventory.

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- A review of the inventory should be completed annually.
- A record of equipment on loan should be maintained which includes:
  - Make
  - Model
  - Serial number
  - Loanee details
  - Approving signature
  - Verifying signature upon return
  - Terms and conditions of use

### Medium

- All Governors / Staff with responsibility for financial decisions and / or involvement in a financial process should complete a declaration of pecuniary interest annually.
- Governor's attendance at meetings should be published on the Schools website in accordance with statutory requirements.
- The financial / resource costs required to deliver the objective should be documented within the School Improvement Plan and incorporated into the budget.
- Once the outcome of the site survey are received by the school, a formal Asset Management Plan should be developed that includes all planned works, the expected timescale for delivery and an estimate cost.
- The Emergency / Business Continuity Plan should be updated to include clear roles, responsibilities and action to be taken.
- An income and expense 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 approver and submitted to Governors for information purposes.
- Agreements, signed by both a representative of the school and the lettee, should be in place for all lets.
- Evidence that all lets have appropriate insurance cover (Public Liability in excess of £5m) should be retained by the school.
- Evidence that DBS have been completed (where applicable) should be obtained and recorded.
- Action should be taken to address and reduce the raising of orders retrospectively. Staff and Governors should be made suitably aware of the role they play in the budget monitoring process and therefore should ensure that any verbal approval to purchase goods / services are notified to support staff, in order for an order to be raised.
- A copy of the bank mandate should be requested from the bank and maintained on file by the school.
- The Finance Policy should be amended to reflect the current agreed access rights to FMS.

**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.**

<b>Audit Year</b>	<b>Area Reviewed</b>	<b>Director / HoS Responsible</b>	<b>Recommendation</b>	<b>Status</b>
15/16	Service Manager	Exchequer & Transactional Services	Training to be undertaken by those staff responsible for creating performance reports.	Complete
			Reports to be 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

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