



# Havering

L O N D O N   B O R O U G H

## AUDIT COMMITTEE AGENDA

<b>7.00 pm</b>	<b>Wednesday 24 April 2019</b>	<b>Committee Room 3b, Town Hall, Main Road, Romford</b>
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Members 6: Quorum 3

### COUNCILLORS:

**Conservative  
Group  
(3)**

Matt Sutton (Vice-Chair)  
Viddy Persaud  
Roger Ramsey

**Residents'  
Group  
(1)**

Gerry O'Sullivan

**Upminster &  
Cranham Residents'  
Group  
(1)**

Gillian Ford

**North Havering  
Residents Group  
(1)**

Martin Goode  
(Chairman)

**For information about the meeting please contact:  
Victoria Freeman 01708 433862  
victoria.freeman@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.

**DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF**



## **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 30 January 2019 and authorise the Chairman to sign them.

### **5 HAVERING PENSION FUND - AUDIT PLANNING REPORT** (Pages 7 - 42)

Report attached

### **6 GRANT CERTIFICATION REPORT** (Pages 43 - 50)

Report attached

### **7 ANNUAL AUDIT REPORT - 2018/19** (Pages 51 - 58)

Report attached

### **8 DRAFT ANNUAL GOVERNANCE STATEMENT 2018/19** (Pages 59 - 74)

Report attached

### **9 HEAD OF ASSURANCE - PROGRESS REPORT QUARTER FOUR 2018/19** (Pages 75 - 86)

Report attached

### **10 INTERNAL AUDIT PLAN - 2019/20** (Pages 87 - 108)

Report attached

**11 REVISED RISK MANAGEMENT STRATEGY** (Pages 109 - 130)

Report attached

**Andrew Beesley**  
**Head of Democratic Services**

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**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Town Hall, Main Road, Romford  
30 January 2019 (7.00 - 7.50 pm)**

**Present:**

**COUNCILLORS:**

**Conservative Group** Viddy Persaud and Roger Ramsey

**Residents' Group** Gerry O'Sullivan

**Upminster & Cranham  
Residents' Group** <sup>+</sup>John Tyler

**North Havering  
Residents Group** Martin Goode (in the Chair)

An apology for absence was received from Councillor Clarence Barrett. <sup>+</sup>Councillor John Tyler substituted for Councillor Clarence Barrett.

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

**14 MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on the 27 November 2018 were agreed as a correct record and signed by the Chairman.

**15 LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING**

Members received the Local Government Audit Committee briefing document for Quarter 4, December 2018.

**RESOLVED:**

**That the contents of the briefing document, be noted.**

**16 EXTERNAL AUDIT PLAN 2018-19**

The Committee received a report which advised of the proposed External Audit Plan for 2018/19.

The Council's external auditor's Ernst & Young presented their provisional audit plan for 2018/19. The purpose of the report was to provide the Committee with a basis to review its proposed audit approach and scope for the 2018/19 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 Ltd, auditing

standards and other professional requirements. It was also to ensure that the external auditor's audit was aligned with the Committee's service expectations.

The plan summarised the external auditor's initial assessment of the key risks driving the development of an effective audit for the Council, and outlined their planned audit strategy in response to those risks.

Materiality for both the Council and Group had been set at £8.8 million, which represented 1.8% of the prior years gross expenditure on provision of services.

The audit risks and areas of focus for the 2018/19 audit strategy were:

- Misstatements due to fraud or error
- Incorrect capitalisation of revenue expenditure
- Valuation of land and buildings
- Group Financial Statements
- IAS 19 pensions valuation and disclosures

The Council entered into joint venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close and 12 housing estates within the borough. The Council would need to consider whether any transactions should be consolidated within its group financial statements, having regard to both the specific nature or circumstances of the joint venture (qualitative criteria) and the relative size of the joint venture to the group (quantitative criteria). If they were consolidated, this would be the first year of consolidation for the joint ventures, therefore there would be a risk that the financial statements may not be prepared accurately.

The duty to prescribe fees was a statutory function delegated to Public Sector Audit Appointments Ltd (PSSA) by the Secretary of State for Communities and Local Government. The proposed final fee for 2017/18 included a proposed variation of £4,800 to the PSAA scale fee of £116,920, which related to the work undertaken in testing the consolidation of Mercury Land Holdings into the Council's group financial statements.

**RESOLVED:**

**That the contents of the plan, be noted.**

**17 CLOSURE OF ACCOUNTS TIMETABLE**

The Committee received a report which advised Members of the progress to date in preparing for the closure of the 2018/19 Accounts.

The Council had successfully closed its accounts and prepared its Financial Statements for 2017/18 by the statutory deadline. The priority for the closure programme was to ensure that all key activities had been captured in the timetable, and that roles and responsibilities had been identified and understood.

As part of the quicker closedown preparation process, Havering had introduced a period 9 closedown in order to provide an opportunity for a trial run on an accelerated timetable. The closedown planning process began in November 2018



and a number of risk areas that could cause delays or problems with the audit were identified. These risks had been reviewed and a plan to mitigate the risks included. Officers were confident that the key deadlines as outlined in the report would be met.

**RESOLVED:**

**That the report, be noted.**

**18 ACCOUNTING POLICIES 2018-19**

The Committee received a report which summarised the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2018/19 were prepared in accordance with accounting regulations.

The revised accounting policies for 2018/19 were shown in Appendix A to the report and would be included in the Statement of Accounts.

There were several changes proposed to Havering's accounting policies for the 2018/19 accounts, driven by the adoption of two new standards:

- International Financial Reporting Standards (IFRS) 9 – Financial Instruments, which replaced International Accounting Standards (IAS) 39 – Financial Instruments.
- International Financial Reporting Standards (IFRS) 15 – Revenue from Contracts with Customers, which replaced International Accounting Standards (IAS) – Revenue.

Members discussed the measurement of particular specialist assets such as schools who are able to convert to academy status and transfer the asset for nil value. Members sought clarification on the relevance of their inclusion in the financial statements as the land and buildings were not readily marketable. It was explained that the inclusion was in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, however a footnote would be included in the financial statements to indicate those assets that had converted to academy status and an explanation would be included in the covering annual report which set out the council's position.

**RESOLVED:**

**That the Committee noted and commented on the accounting policies applicable to financial year 2018/19.**

**19 TREASURY MANAGEMENT STRATEGY STATEMENT**

Members received a report which fulfilled the Authority's legal obligation under the Local Government Act 2003 and covered:

- The Borrowing and Investment Strategies
- Treasury Management Indicators

- Prudential Indicators
- A minimum Revenue Provision policy

Members noted that Cabinet would be requested to approve the following at its meeting on the 13 February 2019:

- The Treasury Management Strategy Statement (TMSS) 2019/20
- The Treasury Management and Prudential Indicators
- The Annual Minimum Revenue Provision (MRP) Statement for 2019/20 and
- Recommend the TMSS and MRP statements 2019/20 to Council for approval.

**RESOLVED:**

**That the report, be noted.**

**20 GOVERNANCE UPDATE**

The Committee received a report which advised on the progress against significant governance issues as reported in the 2017/18 Annual Governance Statement (AGS).

The Council had an officer Governance and Assurance Board which met at least quarterly to oversee the process to produce the AGS annually and as a standing meeting item monitored and updated the action plan to address significant governance issues raised. The 2017/18 AGS was reported to the Committee in July 2018 and accompanied the Annual Statement of Accounts presented for sign-off on 31 July 2018.

**RESOLVED:**

- i) **That the report, be noted.**
- ii) **That the Committee raised any concerns and asked specific questions of officers where required.**

**21 HEAD OF ASSURANCE - PROGRESS REPORT QUARTER THREE 2018/19**

The Committee received a report which advised on the work undertaken by the Assurance Service between October and December 2018.

Members noted the details of the final reports issued in quarter three, as outlined in the report. It was noted that there were no school audits issued during this period.

Four reports had been issued during 2018/19 up until December 2018, all of which received medium assurance. There were eleven recommendations brought forward from previous quarters which received a recommendation of high risk. As of 30<sup>th</sup> November 2018, all high risk recommendations due had been implemented. The remaining five high risk recommendations were not due to be implemented until quarter four.

**RESOLVED:**

- i) That the report, be noted.
- ii) That the Committee raised any concerns and asked specific questions of officers where required.

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**Chairman**

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## AUDIT COMMITTEE

### 24 APRIL 2019

<b>Subject Heading:</b>	Havering Pension Fund Audit Planning Report
<b>CMT Lead:</b>	Jane West, Chief Operating Officer
<b>Report Author:</b>	Debbie Hanson, Ernst & Young LLP
<b>Policy context:</b>	<b>The information presented details the provisional audit plan 2018/19 for the Havering Pension Fund</b>
<b>Financial summary:</b>	<b>No financial implications of the covering report itself.</b>

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

Communities making Havering	<input type="checkbox"/>
Places making Havering	<input type="checkbox"/>
Opportunities making Havering	<input type="checkbox"/>
Connections making Havering	<input checked="" type="checkbox"/>

<h3>SUMMARY</h3>
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The attached report gives full details of the 2018/19 Provisional Audit Plan for the Havering Pension Fund.

## **RECOMMENDATIONS**

1. That the notes the 2018/19 Provisional Audit Plan and takes any action it considers appropriate.

## **REPORT DETAIL**

The attached document, compiled by Ernst & Young LLP, sets out how that company intends to carry out its responsibilities as auditor of the Council's pension fund. The document aims to provide the Audit Committee with a basis with which to review Ernst & Young's proposed audit approach and scope for the 2018/19 audit. This is in accordance with the requirements of the Local Audit and Accountability Act 2014, the 2015 Code of Audit Practice of the National Audit Office the Statement of Responsibilities issued by Public Sector Appointment (PSAA) Ltd, auditing standards and other professional requirements.

The Provisional Plan summarises Ernst & Young's initial assessment of the key risks driving the development of an effective audit for the Pension Fund and outlines the planned audit strategy in response to those risks. Ernst & Young will provide an updated plan should there be any changes following the completion of planning procedures.

## **IMPLICATIONS AND RISKS**

**Financial implications and risks:** None of this covering report.

**Legal implications and risks:** None of this covering report.

**Human Resources implications and risks:** None of this covering report.

**Equalities implications and risks:** None of this covering report.

## **BACKGROUND PAPERS**

None.



# Havering Pension Fund

## Audit planning report

Year ended 31 March 2019

April 2019



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

12 April 2019

Dear Audit Committee and Pensions Committee Members

2018/19 Provisional Audit Plan

We are pleased to attach our Provisional 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 2018/19 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 Committees' service expectations.

This Provisional Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks. This is an Provisional Plan as we have not yet completed all our planning procedures. We will provide an updated plan if there are any changes following the completion of these procedures.

This report is intended solely for the information and use of the Audit Committee, Pensions Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 24 April 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson

For and on behalf of Ernst & Young LLP

Enc



# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee, Pensions Committee and management of Havering Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Havering Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, Pensions Committee and management of Havering Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





01

# Overview of our 2018/19 audit strategy





## Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to Fraud or Error	Fraud Risk	No change in risk or focus	<p>As identified in ISA 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 would otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>We have identified the posting of journals related to the valuation of investment assets as a specific area where misstatements due to fraud and error may arise.</p>
Valuation of Complex Investments	Significant Risk	No change in risk or focus (but risk separately identified this year)	<p>The Fund's investments include pooled property fund investments.</p> <p>The Fund will make judgements when valuing those investments where prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year-end. Such variations could have a material impact on the financial statements.</p> <p>As these investments are more complex to value, we have identified the Fund's investments in pooled property funds as a significant risk.</p>

## Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Application of new accounting standard	Inherent risk	<b>New inherent risk</b>	For 2018/19 the Fund needs to adopt the new accounting standard relating to financial instruments (IFRS 9). The Fund needs to assess and evaluate the implications of the new standard on the way it classifies and accounts for its financial instruments and make appropriate disclosures in its 2018/19 accounts.

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.

## Overview of our 2018/19 audit strategy

### Materiality

Planning  
materiality

£7.0m

We have set materiality at £7.0 million, which represents 1% of the prior year's net assets of the scheme available to fund benefits. We outline our approach to materiality in Section 3.

Performance  
materiality

£5.3m

We have set performance materiality at £5.3 million, which represents 75% of materiality.

Audit  
differences

£353k

We will report all uncorrected misstatements relating to the primary statements (Pension Fund Account and Net Asset Statement ) greater than £353k. We will communicate other misstatements identified to the extent that they merit the attention of the Audit Committee.

# Overview of our 2018/19 audit strategy

## Audit scope

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 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- Our audit 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.

We will form an opinion on the financial statements under International Standards on Auditing (UK & Ireland).

Our audit includes:

- 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.

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

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



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02

## Audit risks





## Audit risks

### Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error\*

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

We have identified the posting of journals related to the valuation of investment assets as a specific area where misstatements due to fraud and error may arise.

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place 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.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Assess the nature of any significantly unusual transactions identified.

We will undertake additional procedures to address the specific risks we have identified relating to incorrect posting of journals relating to investment assets, which include:

- ▶ Reviewing reconciliations to the fund manager, custodian and valuer reports and investigating any reconciling differences.
- ▶ Agreeing the reconciliation of holdings included in the Net Assets Statement to the source reports.



## Our response to significant risks (continued)

### Valuation of Complex investments

### Financial statement impact

Misstatements that occur in relation to the valuation of pooled property fund investments could affect the Net Assets of the Fund.

The values of these investments at 31 March 2018 was £40,796,000

### What is the risk?

The Fund's investments include The Fund's investments include pooled property fund investments, which are more complex to value.

The Fund will make judgements when valuing those investments where prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Performing analytical procedures and checking the valuation output for reasonableness against our own expectations.
- ▶ Review the basis of valuation of the investments and assess the appropriateness of the valuation methods used.
- ▶ Perform tests of valuation by obtaining the latest available audited accounts and agreeing the net asset value per the confirmation received to the audited accounts provided
- ▶ Where the audited accounts do not have the same year end as the Fund we will perform other procedures to obtain assurance that the movement to 31 March 2019 is reasonable.

We will also consider engaging our own internal valuation specialists to support our work in this area.



## Audit risks

### Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><b><u>Application of new accounting standard</u></b></p> <p>IFRS 9 (financial instruments) is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"><li>▶ How financial assets are classified and measured;</li><li>▶ How the impairment of financial assets are calculated; and</li><li>▶ The disclosure requirements for financial assets.</li></ul> <p>There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>▶ Assess the Fund's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;</li><li>▶ Consider the Fund's classification and valuation of financial instrument assets;</li><li>▶ Review the Fund's new expected credit loss model impairment calculations for assets; and</li><li>▶ Check the Fund's additional disclosures.</li></ul>



03

## Audit materiality



## Materiality

### Materiality

For planning purposes, we have set materiality for 2018/19 at £7.1m. This represents 1% of the Fund's prior year net assets. We will reassess this throughout the audit. In an audit of a pension fund we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from pension liabilities. In determining materiality we have recognised the Pension Fund as a major local audit based on its size, its overall risk profile and public interest.

We include further details on materiality at Appendix D.

### Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £5.3m which represents 75% of planning materiality.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Net Assets Statement and the Pension Fund Account. Other uncorrected misstatements, such as reclassifications, misstatements in disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

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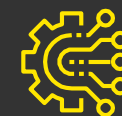
We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.





# 04

## Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers the financial statement audit.

Our objective is 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.

As well as the financial statement risks outlined in Section 2, we 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.

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.

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.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

#### Processes

Our initial assessment of the key processes across the Pension Fund has identified that we will be taking a fully substantive audit approach at year end.

As investments are managed by contracted fund managers and overseen by the appointed custodian, we will also 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.

#### 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.





05

Audit team





## Audit team

### Audit Team

Debbie Hanson will lead the engagement team. Debbie is an associate partner who is also the engagement partner for 4 other local government pension funds, including two other London pension fund audits. Debbie is supported by Stephen Bladen, a senior manager with significant pension fund audit experience. Stephen will be the key point of contact for the Pensions Manager.

### 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
Investment Valuation	The Pension Fund's custodian and fund managers EY Valuation Specialists (if required)
Actuarial present value of promised retirement benefits.	EY Pensions Advisory PwC (as Consulting Actuary to Public Sector Audit Appointments Limited) Hymans Robertson (Havering Pension Fund actuary)

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 business 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.





06

## Audit timeline







## Audit timeline

# Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Planning: Risk assessment and setting of scope Walkthrough of key systems and processes	March 2019	April 2019	Audit Planning Report
Interim audit testing and IAS19 work	April 2019		
Year end audit	May and June 2019		
Audit Completion procedures	July 2019	July 2019	Audit Results Report Audit opinion and completion certificate



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Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 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 upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of 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
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>The overall assessment of threats and safeguards;</p> <p>Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, 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 services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

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, analysed in appropriate categories, are disclosed.

## 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 the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

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

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Pension Fund. Examples include 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 you.

We are the appointed auditors for the London Borough of Havering; 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 you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing there are no 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 you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

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

## Other communications

### EY Transparency Report 2017

Ernst & Young (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 in place 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 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>





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Appendices





## Appendix A

### 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 financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee - Code work	16,170	16,170	21,000
Total fees	16,170	16,170	21,000

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All fees exclude VAT

The agreed fee presented 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 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. This will be discussed with the Pension Fund 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 C




# Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.




		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report - April 2019
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 - July 2019

## Appendix C

# Required communications with the Audit Committee (continued)





		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<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>	Audit results report - July 2019
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report - July 2019
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 - July 2019
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:</li> <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 - July 2019

## Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner'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>	<p>Audit planning report - April 2019</p> <p>Audit results report - July 2019</p>
Internal 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 - July 2019
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 - July 2019
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report - July 2019

## Appendix C

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Management representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - July 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - July 2019
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - July 2019
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report - April 2019 Audit results report - July 2019

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.



## Appendix D

# Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

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 of the circumstances that may ultimately influence our judgement about materiality. 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 accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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## AUDIT COMMITTEE

24 APRIL 2019

**Subject Heading:**

**Grants report to Audit Committee**

**SLT Lead:**

**Jane West**

**Report Author and contact details:**

**Contact:** Radwan Ahmed  
**Designation:** Head of Financial Control  
**Telephone:** 020 3373 0934  
**E-mail address:**  
[radwan.ahmed@oneSource.co.uk](mailto:radwan.ahmed@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 2017/18**

**Financial summary:**

There are no financial implications arising from this report which is for information only.

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

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

## **SUMMARY**

The 2017/18 audit process was completed by the Public Sector Audit Appointments (PSAA) representative, Ernst and Young. No issues have been highlighted

## **RECOMMENDATIONS**

The Committee is recommended to:

1. note the report
2. note the year-on-year grant claims performance (see paragraph.1)

## **REPORT DETAIL**

**Overall summary of the 2017/18 audited grant claims compared to 2016/17.**

### **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**

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

- 1.1. For 2017/18, the PSAA arrangements required only the certification of the Council's Housing and Council Tax Benefits Subsidy (BEN01).
- 1.2. The Housing and Council Tax Benefits Subsidy for 2017/18 has now been certified by Ernst and Young.
- 1.3. There are no amendments to the claim for 2017/18, and there were none in 2016/17.
- 1.4. The Housing and Council Tax Benefits claim for 2017/18 was unqualified, (see appendix 1 for Ernst and Young audit report) as was in 2016/17.

- 1.5. Of the one claim audited for 2017/18 it met its Audit Commission/Grant Funding Body certification deadlines as did the claim for 2016/17, see Table 1 below.

Table 1

	2017/2018		2016/2017	
	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 2017/18 BEN01 – Housing and Council Tax Benefit audit process.

1.7. Audit Fees

The following table records audit fees paid each year:

Table 2

Paid in 2014/15 re 2013/14 audits	Paid in 2015/16 re 2014/15 audits	Paid in 2016/17 re 2015/16 audit	Paid in 2017/18 re 2016/17 audit	Paid in 2018/19 re 2017/18 audit
£22,565	£21,570	£15,080	£16,178	£15,080
No of Claims Audited 2	No of Claims Audited 1	No of Claims Audited 1	No of Claims Audited 1	No of Claims Audited 1

The value of the Housing and Council Tax Benefit grant claim for 2017/18 is £90.9m. 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 2017/18 is £15,080. The audit fee for the Housing Benefit Grant for 2016/17 with a value £95.8m, was £16,178.

- 1.8. Ernst and Young has been the Council's appointed auditor for grant claims since April 2016, and they carried out the audit to provide certification for the Housing and Council Tax Benefit Grant 2017/18.

## **2. External Compliance/Assurance Audit requirements for 2017/18**

- 2.1. The Teachers Pensions Authority and the Department of Communities and Local Government require external and independent certification of the Council's final statutory returns for 2017/18. These are the End of Year Certificate (Teacher's Pensions), and the Final Pooling Return.
- 2.2. As these items are no longer covered by the scope of the PSAA appointment of statutory auditors, the audit fees for these grants were negotiated separately, with Grant Thornton LLP appointed to complete the work. This is summarised as follows

	<b>2017/2018</b>		<b>2016/2017</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
<b>Total Claims</b>	<b>2</b>	<b>100</b>	<b>2</b>	<b>100</b>
Submitted by due date	2	100	2	100
Amended claims	0	0	0	0
Qualified claims	0	0	0	0
Certified by deadline	2	0	2	0

The grants that required audit compliance or assurance in 2017/18 are:

- Teachers Pensions - Assurance required against £36.2m total contributory salary which includes £9.4m of teachers pensions contributions
- DCLG Pooling of Housing Capital Receipts – Certification of £13.9m Housing Capital receipts (indicative figure subject to final audit).

Audit requirements and outcome are shown below:

- 2.3.1 Teachers Pensions 2017/18 - 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 was engaged to perform this service for 2017/18 at a cost to the Council of £3,500 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 2017/18 - For the 2017/18 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 £3,500 plus vat.

Outcome

At the date of writing this report, Grant Thornton have yet to provide the final assurance of the audit. It is not expected that any issues will be raised however a verbal update will be given

2.4. Additional Audit Fees outside of the core audit

Paid in 2015/16 re 2014/15 audits	Paid in 2016/17 re 2015/16 audits	Paid in 2017/18 re 2016/17 audits	Paid in 2018/19 re 2017/18 audit
£24,436	£6,490	£7,500	£7,000
No of Claims Audited 5	No of Claims Audited 3	No of Claims Audited 2	No of Claims Audited 2

For 2018/19, the Council has appointed Ernst and Young to carry out the Teacher's Pension and Housing Capital receipts audit.



## **IMPLICATIONS AND RISKS**

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

There are no financial implications arising from this report which is for information only.

The number of grants which require external audit has been steadily reducing in recent years. 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.

The statutory audit fee is met by a corporate budget and for 2018/19 is reported as part of the revenue monitor process. Audit costs incurred from additional assurance/compliance requirements are met by the individual service budgets.

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

There are no apparent legal implications arising out of the Report

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

There appear to be no HR implications arising directly.

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

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

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## AUDIT COMMITTEE 24 APRIL 2019

<b>Subject Heading:</b>	Audit Committee – Annual Report 2018/19
<b>CMT Lead:</b>	Jane West
<b>Report Author and contact details:</b>	Victoria Freeman, 01708 433862, Victoria.freeman@onesource.co.uk
<b>Policy context:</b>	As required under the Council's constitution, the document attached summarises the work of the Committee during the 2018/19 municipal year.
<b>Financial summary:</b>	There are no financial implications arising from approval of the Annual Report.

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

Communities making Havering	[X]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

### SUMMARY

The annual report of the Committee is attached for approval and referral to full Council.

## **RECOMMENDATIONS**

1. That the Committee to approve the Annual Report 2018/2019 and refer this to Council.
2. That the Committee delegate to the Chairman and Vice-Chair approval of the final version of the report in order that issues covered at the Committee meeting on 24 April 2019 can also be included in the annual report.

## **REPORT DETAIL**

The attached document summarises the work of the Committee during the 2018/19 municipal year. It is recommended that the Committee agree that the report should be referred to full Council for consideration, as required under the Council's constitution. In order to capture issues discussed at this meeting of the Committee, it is further recommended that approval of the final wording of the Annual Report be delegated to the Committee Chairman and Vice-Chair.

## **IMPLICATIONS AND RISKS**

**Financial implications and risks:** There are no financial implications arising from approval of the Annual Report.

The existence of an effective Audit Committee is fundamental in ensuring the Council maintains a robust system of internal control. Failure of the Audit Committee to undertake its duties in an effective manner may result in issues that arise not being addressed, which in turn may have financial implications for the Council.

**Legal implications and risks:** There are no apparent legal implications in respect of the matters in the Report.

**Human Resources implications and risks:** None of this covering report.

**Equalities implications and risks:** None of this covering report.

## **BACKGROUND PAPERS**

None.



<p style="text-align: center;"><b>ANNUAL REPORT ON THE WORK OF THE AUDIT COMMITTEE 2018/19 FINANCIAL YEAR</b></p>
---------------------------------------------------------------------------------------------------------------------------

**1. Introduction**

This reports covers the period April 2018 to March 2019 and outlines:-

- Information relating to the Audit Committee;
- The coverage of work undertaken by the Audit Committee;
- Actions taking during the year, including training, to ensure the effectiveness of the Audit Committee; and
- Future planned work and challenges.

**2. Background**

- 2.1 The Audit Committee has been in place for a number of years. The Committee's terms of reference list the responsibilities and authorities delegated in the Council's Constitution, which comprise:

**Internal control**

- To consider and monitor the adequacy and effectiveness of the authority's risk management and internal control environment and to make recommendations to full Council where necessary.

**External audit**

- To monitor the adequacy and effectiveness of the External Audit Service and respond to its findings.

**Internal audit**

- To support the Officers with their delegated responsibility of ensuring arrangements for the provision of an adequate and effective internal audit.
- To monitor the adequacy and effectiveness of the internal audit service and to receive and monitor an annual internal audit plan from the audit manager.
- To approve the Annual Statement of Accounts, including the Annual Governance Statement, and to recommend as necessary to the Governance Committee regarding the committee's responsibilities to monitor corporate governance matters generally.
- To monitor proactive fraud and corruption arrangements.

### **The Audit Structure (as at April 2018):**

Audit Committee: Councillor Martin Good (Chairman)  
Councillor Matt Sutton (Vice Chairman)  
Councillor Clarence Barrett\*  
Councillor Gerry O'Sullivan  
Councillor Viddy Persaud  
Councillor Roger Ramsey

*\*For part of the 2018-19 municipal year and was replaced by Councillor Ford.*

Internal Auditors: oneSource  
External Auditors: Ernst & Young

During the year under review, the Committee met on four occasions and dealt with the following issues:

### **3. Audit Committee coverage**

3.1 The Audit Committee has received the reports as set out in Appendix A. The coverage can broadly be categorised as regular and specific. More information on both is set out below.

#### **3.2 Regular work**

The Committee has regularly reviewed:

- Progress against the audit plan and performance;
- Key findings/issues arising from each audit undertaken;
- Progress against implementation of the recommendations;
- Anti-fraud and corruption activity, including frauds investigated and outcomes;
- Treasury Management activity; and
- The Accounts closedown timetable and progress reports.

#### **3.3 Specific Review / Reports**

There were several during the year including a review and approval of:

- the Statement of Accounts;
- the Annual Governance Statement; and
- the Annual Audit Plan.

The Committee also received assurances via:

- Annual Report from Internal Audit that includes the Annual Assurance Statement; and
- The work of external Audit (EY).

## **Priorities and work plan for the forthcoming year**

- 4.1 The Audit Committee is currently planned to meet on four occasions over the next municipal year. There are specific reports planned throughout the year, running through a mix of quarterly progress reports and annual reviews of specific strategies and policies within the remit of the Committee, together with progress reports from the Council's external auditor.
- 3.2 Officers will continue to ensure all members on the Committee, and their nominated substitutes, are adequately trained.
- 3.3 The Committee will continue to oversee the effectiveness of the audit team and wider fraud resources in accordance with Public Sector Audit Standards Audit and Accounts Regulations 2015.
- 3.4 The Committee will focus on the embedding of the Risk Management arrangements agreed in the Revised Management Policy and Strategy.
- 3.5 Fraud prevention and detection will continue to be high on the Audit Committees agenda going forward.
- 3.6 The Committee will continue to focus on ensuring Value for Money and challenging weak areas that have been highlighted by the work of Internal Audit.
- 3.7 A draft forward plan and indicative training plan are detailed in Appendix B.

**AUDIT COMMITTEE AGENDA ITEMS – FROM JULY 2018 TO MAY 2019**

**July 2018**

- Annual Governance Statement 2017/18
- Annual Statement Of Accounts 2017/18 & To Those Charged With Governance
- Annual Treasury Management Report 2017/18
- Head Of Assurance Annual Report 2017/18
- Head Of Assurance - Quarter Four Progress Report 2017/18
- Proposed Work Programme For The Audit Committee For The 2018/19 municipal year

**November 2018**

- Head Of Assurance - Progress Report 2018/19
- Treasury Management Mid Year Update 2018/19
- 2017-18 Annual Audit Letter
- Forward Plan 2018/19

**January 2019**

- Local Government Audit Committee Briefing
- External Audit Plan 2018-19
- Closure Of Accounts Timetable
- Accounting Policies 2018-19
- Treasury Management Strategy Statement
- Governance Update
- Head Of Assurance - Progress Report Quarter Three 2018/19

**April 2019**

- Review Of Risk Management
- 2019-20 Internal Audit Plan, Strategy And Charter
- Annual Audit Report 2018- 19
- Annual Governance Statement 2018-19
- Assurance Progress Report
- Grants Certification report

## APPENDIX B

### AUDIT COMMITTEE – DRAFT FORWARD PLAN / TRAINING

FORWARD PLAN	AGENDA ITEM	PLANNED TRAINING
July 2019	<ul style="list-style-type: none"> <li>• Treasury Management Annual Report 2018/19</li> <li>• Annual Statement of Accounts 2018/19</li> <li>• External Audit Report to those charged with Governance (ISO 260)</li> <li>• Assurance End of Year Report</li> </ul>	Training on the role of the audit committee and the financial statements will take place between May-July
October 2019	<ul style="list-style-type: none"> <li>• 2018/19 Annual Audit Letter</li> <li>• 6 Month Review of Risk Management</li> <li>• Assurance Progress Report Q1 and Q2</li> <li>• Treasury Management Quarter 1 Update</li> </ul>	Per training plan to be considered April 19
January 2020	<ul style="list-style-type: none"> <li>• External Audit Plan 2020/21 for London Borough of Havering and Havering Pension Fund</li> <li>• Governance Update</li> <li>• 18/19 Grants Certification Report</li> <li>• Assurance Progress Report Q3</li> <li>• Draft Treasury Management Strategy Report 20/21</li> <li>• Treasury Management Mid-Year Report</li> <li>• Accounting policies 2019/20</li> <li>• Closure of Accounts Timetable 2019/20</li> </ul>	
April 2020	<ul style="list-style-type: none"> <li>• Audit Committee – Annual Report 2019/20</li> <li>• Member training plan</li> <li>• Draft Annual Governance Statement 19/20</li> <li>• 2020/21 Internal Audit Plan, Strategy and Charter</li> <li>• Annual Review of Risk</li> <li>• Internal Audit Progress Report Q4</li> </ul>	

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## AUDIT COMMITTEE 24 APRIL 2019

<b>Subject Heading:</b>	Draft Annual Governance Statement 2018/19
<b>SLT Lead:</b>	Jane West Chief Operating Officer
<b>Report Author and contact details:</b>	Jeremy Welburn Head of Assurance Tel: 01708 432610 / 07976539248 E-mail: <a href="mailto:jeremy.welburn@onesource.co.uk">jeremy.welburn@onesource.co.uk</a>
<b>Policy context:</b>	This report presents the draft version of the 2017/18 Annual Governance Statement for comment and approval.
<b>Financial summary:</b>	N/A

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

### SUMMARY

This report provides the background for the requirement to produce an Annual Governance Statement (AGS).

The report will update the Committee on progress against the significant governance issues monitored during 2018/19, the status of these issues and the new issues arising from 2018/19 for monitoring in 2019/20.

<b>RECOMMENDATIONS</b>
------------------------

1. To comment on the draft 2018/19 Annual Governance Statement, attached as Appendix 1.
2. To agree the 2018/19 Annual Governance Statement subject to any changes to the draft made as a result of recommendation one and any changes required by the Leader and the Chief Executive prior to signature.

<b>REPORT DETAIL</b>
----------------------

1. The Accounts and Audit Regulations (England) 2015 require the Council to conduct at least annually a review of the effectiveness of its system of internal control and to approve an Annual Governance Statement, prepared in accordance with proper practices in relation to internal control.
2. The Annual Governance Statement is prepared in accordance with the requirements of 'Delivering Good Governance in Local Government: Framework' (CIPFA/SOLACE, 2016).
3. The Council must review its systems of internal control and governance annually and assure itself that its internal control environment is effective. The assurance framework sets out the sources of assurance that are relied upon on to enable preparation of the Annual Governance Statement. These include the work of the internal auditors and of directors and managers within the Council who have responsibility for the development and maintenance of the internal control environment, and also the comments made by the external auditors and other review agencies and inspectorates. The Head of Audit opinion set out in the internal audit annual report forms a key element of the review, as does the Council's work on risk and performance management.
4. The Annual Governance Statement covers all significant corporate systems, process and controls, spanning the whole range of the Council's activities, including in particular those designed to ensure that:
  - the Council's policies are implemented in practice;
  - high quality services are delivered efficiently and effectively;
  - the Council's values and ethical standards are met;
  - laws and regulations are complied with;
  - required processes are adhered to;
  - financial statements and other published performance information are accurate and reliable;

- human, financial, environmental and other resources are managed efficiently and effectively.
5. The AGS is required to disclose any issues that the Council consider to be significant governance issues. Of the four significant issues identified in the 2017/18 AGS, three have been closed after the Governance and Assurance Board considered enough action had been taken in year. The remaining significant issue; Delivery of a balanced budget, is considered to have been an ongoing issue during 2018/19, requiring further ongoing action and so has been included in the 2018/19 AGS.
  6. In addition to this, two further significant issues have been identified during 2018/19:
    - Embedding the Governance Culture and Framework within the organisation; and
    - EU Exit; preparation and exit.
  7. Approval of the Annual Governance Statement should be at a corporate level and should be confirmed by the most senior officer (CE) and member (Leader) signing the statement on behalf of the Council. The Council's Constitution delegates the responsibility for approving the AGS to the Audit Committee. The Audit Committee is required as part of its role to consider any corporate governance related issues that need to be referred to the Governance Committee for review.
  8. The Annual Governance Statement is subject to audit alongside the Statement of Accounts. The auditors do not give an opinion on the statement as such, but consider whether it reflects their understanding of the Council's governance arrangements obtained through all aspects of their work. They also form a view as to whether the statement adequately discloses any significant governance issues.
  9. A draft version of the AGS is attached as appendix 1.

<b>IMPLICATIONS AND RISKS</b>
-------------------------------

**Financial implications and risks:**

There are no financial implications arising directly from commenting on/agreeing the Annual Governance Statement. However implementation of the planned actions set out in the AGS may have financial implications. The expectation is that these will be contained within existing resources. Where this is not the case issues will be raised through the appropriate channels.

Failure to produce a robust AGS could result in adverse comments from the Council's External Auditors.

**Legal implications and risks:**

The Authority is statutorily obliged to conduct a review into the effectiveness of its systems of internal control prepared in accordance with proper practices and to prepare an Annual Governance Statement, which must be approved by the relevant committee (Regulation 6 Accounts and Audit Regulations 2015). Approval of the Annual Governance Statement (subject to any comments on the draft) complies with that requirement.

**Human Resources implications and risks:**

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

**Equalities implications and risks:**

None arising directly from this report.

## **ANNUAL GOVERNANCE STATEMENT 2018/19**

This statement, from the Leader and Chief Executive, provides reasonable assurance to all stakeholders that within the London Borough of Havering, processes and systems have been established which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to everyone who is served by the Borough.

The Annual Governance Statement is co-ordinated within the Assurance Service and the production and progress of the statement is monitored by the officer Governance and Assurance Board.

### **Scope of responsibility**

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Havering is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The London Borough of Havering is committed to operating in a manner which is consistent with the seven principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government Framework 2016 Edition*. This statement outlines how the London Borough of Havering has complied with these principles and also meets the requirements of regulations 6(1) (a) and (b) of the Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

### **The purpose of the governance framework**

The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework, available on the Havering website and provided in the link below, has been in place at the London Borough of Havering for the year ended 31 March 2019 and up to the date of approval of the statement of accounts.

[https://www.havering.gov.uk/downloads/file/3000/code\\_of\\_governance](https://www.havering.gov.uk/downloads/file/3000/code_of_governance)

### **Review of governance effectiveness**

Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based.

### **Constitution**

The Monitoring Officer keeps the Constitution under continual review, having delegated powers to make amendments arising from organisational changes and legal requirements and to correct errors. Other amendments are recommended by the Governance Committee for decision by Full Council.

### **Governance and Assurance Board**

The London Borough of Havering has an established officer Governance and Assurance Board, that meets at least every six weeks, with standing membership including:

- Chief Finance Officer / Section 151 officer
- Deputy Director Legal and Governance (Monitoring Officer)
- Head of Assurance
- Deputy 151 Officer
- Director of Human Resources and Organisational Development (oneSource)
- Director of Technical Services
- Assistant Director Transformation
- Head of Procurement
- Head of Programme Management Office
- Head of Joint Commissioning Unit

The terms of reference for the Board (reviewed annually) provide the option to extend membership to meet demands and will regularly invite additional key officers to attend, to address or report on existing and/or emerging governance issues. This Board is charged with monitoring and reviewing the effectiveness of the governance arrangements throughout the year, overseeing the production of the Annual Governance Statement, monitoring progress against significant issues raised as part of this and reviewing arrangements for Risk Management.

The Board reviews the AGS significant issues as a standing item at each meeting and provides an update to Audit Committee on the progress of these issues at least once during the year. Emerging governance issues are also considered during the regular review of governance arrangements that takes place at each meeting.



**Senior Leadership Team (SLT)**

The Senior Leadership Team (SLT) consists of the Chief Executive, five Directors with responsibility for Regeneration, Neighbourhoods, Children's Services, Adult Services & Health and Public Health plus the Chief Operating Officer which incorporates the role of Chief Finance Officer (s151 officer).

During the year there has been an interim Chief Executive for oneSource (covering the period from April 2018 to January 2019) and since February 2019, an interim Executive Director of oneSource. The Executive Director of oneSource is responsible for the delivery of the shared services between the Council with the London Borough of Newham and London Borough of Bexley. oneSource has seven portfolio Directors who are also members of the Corporate Leadership Team for the Council and have a dual role across Havering, Newham and in some cases Bexley.

**Governance Committee**

The Council's Governance Committee, attended by the Leader of the Council and other Group Leaders and is charged with overseeing the organisation's governance arrangements including the review of the Constitution and the Code of Conduct for Members.

**Audit Committee**

The Audit Committee is responsible for monitoring the adequacy and effectiveness of internal audit, the risk management environment, fraud and corruption arrangements and the provision of the external audit service. They receive regular reports in line with this remit and agree the annual audit plan, draft Annual Governance Statement and revisions to related policies. This monitoring is integral in the process to compile a robust Annual Governance Statement, which is approved by the Audit Committee. Significant governance issues are escalated to the Governance Committee by the Chair of the Audit Committee as required. Approval of the annual Statement of Accounts also falls under the remit of the Audit Committee.

**Adjudication and Review Committee**

The Adjudication and Review Committee is made up of ten Councillors. The committee provides Members for panels to consider complaints against councillors and also to make up 'Member review' panels (which is the default panel for considering complaints made by members of the public at Stage Three of the Corporate Complaints procedure through a paper exercise). Should a Member Review Panel consider that a complaint warranted a formal hearing it would adjourn and reconvene to hear the matter with the parties present. The Adjudication and Review Committee is also responsible for overseeing and confirming the appointment of 'Independent Persons' and the Independent School Appeal panels which are convened to review permanent pupil exclusions.

## **Overview and Scrutiny**

The Overview and Scrutiny function reviews and challenges decisions made by the Executive and other bodies, e.g. National Health Service organisations and the Police to assist in the development of policy.

An overarching Board undertakes all call-in functions and acts as a vehicle by which the effectiveness of scrutiny is monitored and where work undertaken by themed sub-committees is co-ordinated to avoid duplication and to ensure that areas of priority are being pursued. .

The Overview and Scrutiny Board and its sub-committees have the opportunity to consider performance information within their area of responsibility using monthly Members packs and other relevant performance data.

Each year Overview and Scrutiny is tasked with identifying areas of the Council's work that it wishes to consider in detail, for which purpose task groups comprised of members of the Board and its sub-committees are set up to research the issue with the assistance of officers and sometimes external bodies and report their findings and recommendations.

## **Local Pension Board**

The role of the Local Pension Board is to assist Havering as the Administering Authority to ensure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS.

This established Board holds quarterly meetings and an annual general meeting. Matters that are discussed at the meeting are shared with the Pensions Committee through the sharing of minutes and submission of an annual report.

The Pension Fund's Governance Compliance statement also incorporates the Local Pension Board which reports the extent of compliance against a set of principles.

## **Internal Audit (Assurance Services)**

Internal Audit is an independent assurance function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risk. In doing so Internal Audit supports the Chief Finance Officer in their statutory role as Section 151 Officer. Annually the Head of Internal Audit Opinion and annual report provides assurance to officers and Members regarding the system of internal control; this assurance has also been considered in the production of this statement.

From the work undertaken during the 2018/19 year, reasonable assurance can be provided that there is generally a sound system of internal control, designed to meet the organisations objectives and that controls are generally applied consistently. The level of assurance, therefore, remains at a level consistent with the assurance provided in 2017/2018.

## **Risk Management**

The strategic risks to the achievement of the Authority's objectives are captured within a Corporate Risk Register which is overseen by the Governance and Assurance Board and reported to Audit Committee during 2018/19. The Corporate Risk Register was last reviewed and approved by SLT in January 2019.

The risk management strategy and supporting policies have been reviewed and updated during 2018/19 to ensure they are sufficient to support the objectives of the Council. External, independent support has been utilised to review these processes.

## **External Inspectors**

The Council is subject to review and appraisal by a number of external bodies; results of such reviews are considered within the performance management framework. The work of the Council's External Auditor, currently Ernst and Young (E&Y) is reported to the Audit Committee. The Committee received a copy of the Audit Letter issued by Ernst & Young following completion of the 2017/18 audit. They issued unqualified opinions on the Council's and Pension Fund's financial statements along with the unqualified assessment of the Council's value for money. The Audit Results Report was issued on 31<sup>st</sup> July 2018 and the certificate of completion had been issued on 29<sup>th</sup> August 2018.

## **Information Commissioner's Office**

The Council must comply with the General Data Protection Regulation 2016 and Data Protection Act 2018. The Information Commissioner's Office (ICO) found no case of a data breach against the Council during 2018/19. No fines were imposed because of the controls implemented once issues were identified and remedial action taken.

## **Local Ombudsman**

The Council comes within the jurisdiction of the Local Government and Social Care Ombudsman. In 2018/19, the Ombudsman found eight cases of maladministration against the Council. Three cases were "maladministration & injustice without penalty" and five cases were "maladministration & injustice with penalty". There was a further determination of maladministration from the Housing Ombudsman.

## **LGA Corporate Challenge Peer Review**

Havering commissioned an LGC Corporate Peer Challenge for February 2019. The self-assessment included our position statement, setting out where we are, where we are going, what we have done so far and our plans to deliver our priorities. The review came at a time when the senior political leadership had recently changed (May 2018), and provided an ideal opportunity for the Council to take stock and subject itself to review from within the local government sector, undertaken by Peers who are experiencing similar financial and demographic pressures. The review provided an independent review of the Councils' future arrangements, expressed in the "forward" 2019/20 Corporate Plan, that set out the new Administration's big priorities and was agreed at Full Council on the 27<sup>th</sup> February 2019 alongside the MTFS.

In addition to the standard five areas for review: our understanding of our locality, our leadership, governance, financial planning and capacity to deliver this, Havering included three other specific areas of focus:

1. In view of the demographic make-up of the Borough and the challenges of the local healthcare system, Havering's approach to delivering improvements in Adult Social Care in the Borough.
2. In relation to capacity to deliver, which is one of the five key themes, a particular focus on how Havering will ensure that it maintains the corporate capacity and resilience to continue on behalf of its residents across a range of services in the face of further funding cuts.
3. In respect of our significant regeneration and housing ambition do our priorities look like what you would expect?

The Peer Teams report is expected early in 2019/20 and this will help inform the Havering Improvement Plan.

**Progress of significant governance issues raised in the 2017/18 AGS**

The issues identified in the 2017/18 Annual Governance Statement have been monitored by management and the Governance and Assurance Board throughout the year with review periodically to challenge actions and progress by both the Senior Leadership Team and the Audit Committee.

**1. Corporate Project Management Office (PMO) and Economic Development**

**Programme:** A 'one Council' approach is not yet in place and the governance framework around the Corporate PMO has been identified as needing strengthening.

Progress during 2018/19:

- The Council has moved to a new governance structure which utilises 4 themes to deliver the Council's vision and encourage cross-cutting projects and programmes across the council. The four themes are Opportunities, Communities, Connections and Places.
- There is a Steering Group for each theme, attended by officers, which feeds into a Theme Board attended by the Senior Leadership Team and Cabinet Members.
- The Corporate Programme Management Office (PMO) has developed a governance framework for projects and programmes which feeds into the four theme Boards on a regular basis.
- The Council's programme management software (Execview) provides visibility of the portfolio of projects and programmes. Reports are produced from Execview data for a range of audiences – Directors, Transformation Board, Theme Steering Groups and Theme Boards.
- There is visibility of all projects across the council via the Theme Boards and any red or amber projects are discussed in detail.
- The themed reports include information about project and programmes including milestones, costs, benefits and risks, specifically identifying red and amber risks for Board attention.
- Capacity to deliver the wide range of activity determined by the Medium Term Financial Plan and strategic priorities outlined in the Corporate Plan is under constant review by SLT and new business cases for launch of projects and programmes are approved via the Theme Steering Groups and Boards.
- Recommendations from the Project and Programme Governance Internal Audit have been implemented.

The Governance & Assurance Board consider that sufficient action has taken place during 2018/19 to close this significant issue.

**2. Financial Regulations:** During the course of the year, inconsistencies between the financial regulations, scheme of delegation and wider constitution were identified. This particularly related to the write off of bad debts and who had approval to authorise these.

Progress during 2018/19:

- The constitution was updated by the Legal Services team which clarified the roles and responsibilities at a portfolio level.
- The authorisation of the write off of debts and approval of income and expenditure was clarified based on the current financial regulations.
- It was confirmed that the financial regulations and scheme of delegation needed to be updated in 2018/19 to ensure they were more streamlined and easier for Officers to navigate.
- The financial regulations and associated scheme of delegation will be reviewed and amendments identified and pursued through full Council.
- Once updated to go to SLT for review and then to Governance Committee for approval.

There is an ongoing process to ensure that the remaining identified issues and inconsistencies are rectified and whilst this will remain on the Governance and Assurance Board's agenda until full completion it is considered that sufficient action has taken place during 2018/19 or is planned to conclude in early 19/20 to close this significant issue down.

**3. Delivery of a balanced budget:** The Council was able to set a balance budget for the 2019/20 financial year. As set out in the report to Council there continues to be continued pressures over the medium term to the Council due to increased service demand and pressures while available resources are reducing. The report specifically highlights pressures for both Children Services and Homelessness services, which amount to £3.304m. The continued financial landscape for the Council isn't set to change over the medium term and will continue to present challenges to the Council in setting a balance budgets for 2019/20 and beyond.

Progress during 2018/19:

- At the end of 2017/18 the Council was able to achieve a balance budget for 2018/19.
- Service mitigation plans were put in place where services were not able to operate within their delegated budgets and for both Children Services and Homelessness these were in place and monitored by the Council's senior leadership team.
- The Medium Term Financial Strategy (MTFS), sets out the Council's financial forecast for the coming five years, aligned to the Corporate Plan and was monitored during the year for anticipated levels of expenditure and income to the Council and the requirement for officers to identify efficiency opportunities.
- Officers reported to the Senior Leadership Team on a monthly basis from period 2 – 12 with an anticipated outturn for the financial year identifying medium term financial pressures and opportunities. This was subsequently reported to Cabinet Members.
- Cabinet received a mid-year review of the MTFS in September 2018.
- A report to Cabinet outlining current budget gaps went in December 2018.



- The Council is embarking on a wider transformation and modernisation programme which will support the delivery of efficiencies whilst improving outcomes to residents and delivering the Council's corporate plan.

This has been identified as a continuing significant issue during 2018/19 and will remain on the action plan for monitoring during 2019/20.

#### **4. Information Governance - GDPR:**

Progress during 2018/19:

- The mapping of data processes has been completed and there is continuous review of content and updates to information. This is now embedded as a business as usual process and the information recorded is updated as processes change.
- Internal Audit completed and audit during March 2019 and a Moderate Assurance was given. An action plan of recommendations raised was provided to management within the draft report.

The Governance & Assurance Board consider that sufficient action has taken place during 2018/19 to close this significant issue.

**Significant governance issues 2018/19 (to be addressed in 2019/20)**

**3. Delivery of a balanced budget:** The Council was able to set a balance budget for the 2019/20 financial year. As set out in the report to Council there continues to be continued pressures over the medium term to the Council due to increased service demand and pressures while available resources are reducing. The continued financial landscape for the Council isn't set to change over the medium term and will continue to present challenges to the Council in setting a balance budgets for 2019/20 and beyond. Uncertainty around many aspects of the future funding model for Local Government remains a challenge in the medium term.

**Actions taken during 2018/19**

- At the end of 2018/19 the Council was able to achieve a balance budget for 19/20.
- The development of the 2019/20 budget and MTFS has fully taken account of the financial position being reported for 2018/19. At budget setting, the period 8 (30th November) monitoring report reviewed by Overview and Scrutiny Committee reported an overspend across Council service departments of £2.787m for 2018/19. The Senior Leadership Team has continued to focus on measures to contain expenditure within the approved budget in order to ensure financial stability as a basis for the 2019/20 budget and beyond. Work continued in year to reduce the overspend by the year end.
- Officers reported to the Senior Leadership Team on a monthly basis from period 2 – 12 the anticipated outturn for the financial year, which identified medium term financial pressures and opportunities, and demonstrated management action to contain the in year position.
- The Medium Term Financial Strategy, sets out the Council's financial forecast for the coming five years, aligned to the Corporate Plan, and will continue to monitor the anticipated levels of expenditure and income to the Council and the requirement for officers to identify efficiency opportunities.
- The Council established a wider transformation and modernisation programme supporting the delivery of efficiencies whilst improving outcomes to residents and delivering the Council's corporate plan.
- A corporate capital strategy was developed in line with the revised code of practice and this was approved with the capital programme alongside the MTFS report. This incorporated the work of the council's regeneration programmes.

**Planned actions for 2019/20**

- Officers will continue to report to the Senior Leadership Team on a monthly basis from period 2 – 12 the anticipated outturn for the financial year, which will identified medium term financial pressures and opportunities.
- The Medium Term Financial Strategy will continue to be updated and the corporate work plan is beginning from April to consider the budget challenge for

the next year and medium term. Cabinet will receive updates on the MTFS and overarching financial position throughout the year.

- The Council continues to deliver the transformation and modernisation programme, including the transition to Oracle Fusion. The theme boards will focus on the delivery of the transformation and core business.
- Officers will continue to work with the administration to ensure that the financial challenge is clearly understood and they work collaboratively to support officers in identifying new opportunities to reduce the financial pressures facing the Council.

#### **Lead Officer**

Jane West, Chief Operating Officer

## **2. Embedding the Governance Culture and Framework within the organisation:**

Further work needs to be undertaken to develop a comprehensive, auditable and objective assurance process to give reassurance that the Governance framework is understood and embedded within the organisation. Particular emphasis should be given to ensuring that any change in the governance framework is known and addressed and that new personnel are equipped with the correct knowledge and understanding.

#### **Actions taken during 2018/19**

- Induction process.
- Governance issues picked up within some individual audits during completion of the 2018/19 Internal Audit plan and recommendations raised to address them.

#### **Planned actions for 2019/20**

- Highlighting of key governance changes.
- Review and development of induction process.
- Development of co-ordinated and monitored training programme.
- Further specific governance and risk work allocated in the 2019/20 Internal Audit Plan.

#### **Lead Officer**

Jane West, Chief Operating Officer

3. EU Exit; Preparations and Impact
Actions taken during 2018/19
<ul style="list-style-type: none"> <li>• Established a Corporate EU Exit Group, reporting weekly to SLT</li> <li>• Active participation in Borough, London and National related groups, e.g. London Resilience</li> <li>• Completion of the London Resilience Risk Register for Havering</li> <li>• Review of Borough Emergency Plan and arrangements against National standards</li> <li>• Training of Local Authority GOLD Officers</li> <li>• Updated BCPs</li> <li>• Testing of Borough Emergency Plan</li> <li>• Attendance at national events</li> <li>• Implemented weekly PI monitoring</li> <li>• Weekly returns to London Councils made</li> <li>• Weekly telephone conference with London Resilience/London Council Groups</li> <li>• Sign-posting of National Guidance (Community and Staff)</li> </ul>
Planned actions for 2019/20
<ul style="list-style-type: none"> <li>• As above plus:             <ul style="list-style-type: none"> <li>• Move to daily updates</li> <li>• Arrangements in place for EU elections on May 23<sup>rd</sup></li> <li>• Review key Risk Mitigations</li> <li>• Support for LAC EU settlement status</li> </ul> </li> </ul>
Lead Officer
Jane West, Chief Operating Officer

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

#### Conclusion

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year. We did not find any matters that needed addressing during our review other than those that were previously identified and on which action has been taken to address.

#### Signed:

Leader of the Council .....

Chief Executive .....



## AUDIT COMMITTEE

24 April 2019

**Subject Heading:**

Head of Assurance – Progress Report  
Quarter Four 2018/19

**SLT Lead:**

Daniel Fenwick  
Interim Executive Director oneSource

**Report Author and contact details:**

Jeremy Welburn  
Head of Assurance  
Tel: 01708 432610 / 07976539248  
E-mail: [jeremy.welburn@onesource.co.uk](mailto:jeremy.welburn@onesource.co.uk)

**Policy context:**

To inform the Committee of progress on  
the assurance work during quarter four.

**Financial summary:**

There are no financial implications arising  
directly from this report which is for noting  
and/or providing an opportunity for  
questions to be raised.

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

**SUMMARY**

This report advises the Committee on the work undertaken by the Assurance Service (internal audit and counter fraud) during quarter four. This report is presented in three sections:

Section 1: Introduction, Issues and Assurance opinion

Section 2: Executive Summary – A summary of the key messages

Section 3: Appendices: Provide supporting detail for Member's information

Appendix A: Detail of Internal Audit work to date

Appendix B: Current status – high risk recommendations

Appendix C: Detail of Counter Fraud work

Appendix D: Current status of 2018/19 audit plan

## **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**

### **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) and other 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 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 policy or system owner/sponsor
- Third line – independent assurance.

The Council's third line of defence includes internal audit, which should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

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 higher risk 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 This report brings together all aspects of internal audit and counter fraud work undertaken to the end of March 2019, in support of the Audit Committee's role.
- 1.1.6 The report supports the Head of Assurance's ongoing assurance opinion on the internal control environment and highlights key outcomes from internal audit and counter fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide specific detail of outputs for the Committee's information.

## **Section 2. Executive Summary of work undertaken during quarter four**

### **2.1 Internal Audit**

- 2.1.1 There have been seven final reports issued in quarter four. Of these reports, two were given an audit opinion of substantial assurance, two moderate assurance and the remaining three were not assigned an assurance rating due to the nature of the work carried out. Appendix D shows the current position of the 2018/19 audit plan.
- 2.1.2 Three high risk recommendations were raised in these reports with further detail of these provided in Appendices A and B.

### **2.2 Pro-Active and Counter Fraud**

- 2.2.1 The four referrals brought forward from the previous quarter have all been investigated. One referral resulted in disciplinary action, one referral has been passed to HR for investigation and for two referrals there was no case to answer.
- 2.2.2 Three referrals were received during quarter four. Two referrals are still being investigated and for one referral there was no case to answer.

<b>IMPLICATIONS AND RISKS</b>
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**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 internal audit service, 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.

### 3. Progress Report - Internal Audit Work

#### 3.1 Audit Progress

- 3.1.1 The Annual Audit Plan, approved by the Audit Committee in February 2018, comprised 47 audit reviews. Members will be aware that the plan is subject to revision and amendment at any time should higher priority risks or tasks be identified. Adjustments have been made since the plan was approved (see table below) and the current number of audit reviews is 36.
- 3.1.2 Members are reminded that the 2018/2019 Audit Plan was presented as a flexible plan to allow for changes in the risk and operational environment in which the Council operates. As such, the plan included a list of high and medium risk audit areas, covering the range of Council activities which, in conjunction with management, had been assessed as requiring assurance during 2018/2019. The number of audits on the list totalled 895 audit days, which exceeded the available resources by around 100 days. This overstatement was deliberate and the list of audits has been refined throughout the year during discussions with senior management. The Audit Committee has been informed of all changes to the plan at the regular progress updates during the year.
- 3.1.3 Current, cumulative progress toward delivery of the 2018/19 audit plan (including audits carried forward from 2017/18, but excluding School Health Checks) is summarised in the table below, with further detail provided in Appendix D. It should be noted that some of the work undertaken by internal audit does not result in an opinion being provided, such as advisory reviews and grant claims.

Audit Plan Status	Number of Audits / Tasks
Approved Audit Plan 2018/19	47
2017/18 Audit tasks brought forward to 2018/19	1
Audit tasks added to the Plan	9
Audit tasks cancelled	(9)
Audit tasks deferred to 2019/20	(12)
<b>Total</b>	<b>36</b>
<b>Audits completed</b>	<b>27</b>
Final reports issued / completed	22
Draft reports issued	4
In Progress	9

## 3.2 Risk Based Systems and School Audits

3.2.1 The table below details the results of the final reports issued in quarter four.

Report	Assurance	Recommendations			
		High	Med	Low	Total
System Audits					
Disabled Facilities Grant	Moderate	0	6	0	6
IR35	No Opinion*	2	11	3	16
Troubled Families	N/A	N/A	N/A	N/A	N/A
Pensions Fund Administration	Substantial	0	1	0	1
Non Contracted Spend (Housing)	N/A	0	1	0	1
System Audits Totals		2	19	3	24
School Audits					
R.J.Mitchell Primary	Moderate	0	9	4	13
Parsonage Farm Primary	Substantial	0	3	0	3
School Audits Totals		0	12	4	16
Q4 Audits Totals		2	31	7	40

\* Whilst IR35 is applicable to both Havering and Newham as part of the shared services delivery, this review was brought forward in preparation for a HMRC visit to Newham Council. The review was carried out shortly before the visit, and hence, was limited to an assessment of potential adequacy of existing controls. An assessment of the controls effectiveness was not completed as sample testing was not undertaken. On this basis no opinion has been provided.

Key to Assurance Levels	
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, weaknesses were identified and therefore there is a need to enhance controls and/or their application and to improve the arrangements for managing risks.
Limited Assurance	There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

## 3.3 Audit Recommendations Update

3.3.1 Internal Audit follows up all audit recommendations with management when the deadlines for implementation are due. 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 provided, is verified through a follow up audit review.

3.3.2 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 risk recommendations.

- 3.3.3 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:	Advisories - Pertaining to best practice.

- 3.3.4 The table below summarises the recommendations raised during 2018/19 up until February 2019:

<b>System Audit recommendations</b>	<b>High</b>	<b>Med</b>	<b>Low</b>	<b>Total</b>
No. of Recs raised in Q4	2	19	3	24
Recommendations brought forward	7	19	3	29
<b>Total</b>	<b>9</b>	<b>38</b>	<b>6</b>	<b>53</b>

- 3.3.5 As at the end of February 2019 all five high risk recommendations due, of the nine detailed above, had been implemented. The remaining four high risk recommendations are not due to be implemented until April 2019. The detail of these recommendations and their current status are outlined in the table in Appendix B.

### 3.4 School Audit Recommendations Update

- 3.4.1 The table below summarises the recommendations raised for school audits during 2018/19, up until the end of February.

<b>School Audit recommendations</b>	<b>High</b>	<b>Med</b>	<b>Low</b>	<b>Total</b>
No. of Recs raised in Q4	0	12	4	16
Recommendations brought forward	5	26	12	43
<b>Total</b>	<b>5</b>	<b>38</b>	<b>16</b>	<b>59</b>

- 3.4.2 All 5 high risk recommendations detailed above have been implemented.

## Appendix B: Current status of High Risk Recommendations

Audit: Private Sector Leasing	
Recommendation	Original management response
The backlog of re-charges to landlords for property repairs to be cleared as soon as possible to avoid any dispute from the landlord arising and further delays occurring, with future re-charges.	Officers have been directed to clear the backlog of charges in accordance with the contractual protocol. The new Housing Management ICT system will address this in phase two of the programme. In the interim manual systems will be used to undertake this.
Implementation Dates / Current Status including most recent update	
<b>Original Implementation Date:</b> Mar -19	

Audit: No Recourse to Public Funds	
Recommendation	Original management response
The process for assessing, recording and managing NRPF cases should be established and documented. This process should clearly define responsibilities regarding ownership and oversight of NRPF. Documented policies and procedures should be produced to support the process and staff training should be provided where necessary.	Processes and policies will be reviewed by Assistant Director and Head of Service. Through this a key person will be identified for children's services to become the single point of contact for NRPF.
Implementation Dates / Current Status including most recent update	
<p><b>Update:</b> The Transformation team are undertaking a project to review the system and to identify where NRPF should sit (Children's Services or Housing) and from there a key person will be identified to become the single point of contact for NRPF. Policy and procedures are in place and staff training has been undertaken.</p> <p><b>Original Implementation Date:</b> Aug -18</p> <p><b>Full implementation Expected:</b> Mar -19</p>	



<b>Audit: IR35</b>	
<b>Recommendation</b>	<b>Original management response</b>
Senior Council Management should confirm how they intend to 'police' IR35 compliance. A decision should be made as to whether this is a role for an internal function (such as HR, Procurement or Finance) or whether the responsibility in this regard would be better outsourced to an external provider (against which regular assurances could be returned) In the event that this is to be achieved internally, decisions should be made regarding feasibility and potential for additional resource to be applied. In the event that an outsourced provider is considered, the mandatory procurement processes in terms of ensuring value for money etc should be followed.	SLT to decide how they intend to police IR35 compliance. Option 1 - Continue with "self service" model but reinforce the fact that Directors and line managers have the responsibility to comply with the Council's Intermediaries policy. Option 2 - Police through the internal departments. This will require additional resources within HR. Option 3 - to outsource all IR35 decisions to an external provider which could be quite costly. SLT should also note that other HR departments across London Councils have taken the lead on IR35 decision and / or managed the process. However, HR will require a dedicated resource to manage this process as the level of non compliance has increased. SLT to agree that further financial detail should be presented to SLT if the "policing" model is to be adopted.
<b>Implementation Dates / Current Status including most recent update</b>	
<b>Update:</b> Findings were reported to the Senior Leadership Team on the 29th January 2019. Directors take responsibility. Panel process – option 1. <b>Original implementation Date:</b> Recommendations are due for implementation by Apr -19	

<b>Recommendation</b>	<b>Original management response</b>
The activity through the IR35 Panel should be communicated, either to SLT or into relevant DMT meetings, to help ensure: - there is visibility of the positive assurances that can be sought where managers are proactively seeking a decision from the IR35 Panel, before procuring services; and - there is visibility of the negative assurances from the number of cases that are identified after the service has been procured and the IR35 risks have materialised.	The breakdown of cases has been highlighted in SLT reports. However, it is not broken down by directorate. Non-compliance in Directorates is highlighted to Directors outside of SLT meetings. HR to explore adding a Directorate column on the log to enable reporting at this level and to provide periodic reports to directors.
<b>Implementation Dates / Current Status including most recent update</b>	
<b>Update:</b> Findings were reported to the Senior Leadership Team on the 29 <sup>th</sup> January 2019. HR to share list with SLT of areas that are non-compliant. <b>Original implementation Date:</b> Recommendations are due for implementation by Apr -19	

## 4. Quarter Four - Counter Fraud Audit Work

### 4.1 Proactive Counter Fraud Investigations

4.1.1 Proactive work undertaken during quarter four is shown below:

Description	Risks	Quarter 4 Status
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. No requests for advice were received.	Ongoing
Advice to Other Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. One request for advice was received.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. No referrals were received.	Ongoing
FOI Requests	To undertake all freedom of Information Requests. No FOI requests were received.	Ongoing
National Fraud Initiative Data Upload	To co-ordinate the data upload for the 2018/19 NFI. The NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud and is conducted every two years. All datasets have been uploaded in accordance with NFI Guidance.	Complete

### 4.2 Reactive Investigation Cases

4.2.1 Four referrals were brought forward from the previous quarter.

- One referral resulted in disciplinary action;
- One referral has been passed to HR for investigation; and
- Two referrals there was no case to answer.

4.2.2 During the first two months of quarter four three referrals were received:

- Two referrals are still being investigated; and
- One referral there was no case to answer.

## Appendix D: Current status of 2018/19 Audit Plan

	AUDIT TITLE	STATUS	OPINION
LBH SYSTEM AUDITS	Children with Disabilities	COMPLETED	SUBSTANTIAL
	Financial Monitoring of CAD Placements	COMPLETED	SUBSTANTIAL
	SEN Transport	COMPLETED	SUBSTANTIAL
	Care Packages	COMPLETED	MODERATE
	No Recourse to Public Funds (NRPF) Follow Up (Additional Task)	COMPLETED	MODERATE
	Project and Programme Governance Follow Up (Additional Task)	COMPLETED	SUBSTANTIAL
	Disabled Facilities Grant – Capital Grant Determination 2017/18 (Additional Task)	COMPLETED	N/A
	Disabled Facilities Grant (Additional Task)	COMPLETED	MODERATE
	IR35	COMPLETED	NO OPINION
	Troubled Families (Additional Task)	COMPLETED	N/A
	Non Contracted Spend (Additional Task)	COMPLETED	N/A
	Reablement Services	DRAFT REPORT	
	Direct Payments	DRAFT REPORT	
	PMO / Project Management Arrangements	DRAFT REPORT	
	Replacement for SWIFT	UNDERWAY	
	GDPR	UNDERWAY	
ONESOURCE	One Oracle Interfaces (2017/18)	COMPLETED	SUBSTANTIAL
	Financial Controls Phase 1 (forms part of the Key Financial Systems audit allocation)	COMPLETED	N/A
	Pension Fund Administration	COMPLETED	SUBSTANTIAL
	Cloud Computing (forms part of the ICT audit allocation)	DRAFT REPORT	
	Virus Protection (forms part of the ICT audit allocation) (Additional Task)	UNDERWAY	
	Procurement	UNDERWAY	
	Financial Controls Assurance Phase 2 (forms part of the Key Financial Systems audit allocation) (Additional Task)	UNDERWAY	
	Purchase Card (Transactional Services) (Additional Task)	UNDERWAY	
	Payroll (Transactional Services)	UNDERWAY	
SCHOOLS	St Patrick's Catholic Primary	COMPLETED	MODERATE
	Brady Primary	COMPLETED	MODERATE
	Hylands Primary	COMPLETED	MODERATE
	Nelmes Primary	COMPLETED	MODERATE
	St Ursula's Catholic Primary	COMPLETED	MODERATE
	The Learning Federation (Mead & Broadford)	COMPLETED	LIMITED
	R.J. Mitchell Primary	COMPLETED	MODERATE
	Parsonage Farm Primary	COMPLETED	SUBSTANTIAL
	James Oglethorpe Primary	UNDERWAY	
	Scotts Primary	UNDERWAY	
	Health Checks (18)	UNDERWAY (6)	12 Completed

	<b>AUDIT TITLE</b>	<b>STATUS</b>
<b>LBH SYSTEM AUDITS</b>	Economic Development Programme Review	Move to 2019/20
	General Project Assurance Work	Move to 2019/20
	Housing – Fixed term tenancy agreements	Move to 2019/20
	Corporate Health and Safety	Move to 2019/20
	Contract Management	Move to 2019/20
	Emergency Planning and Business Continuity	Move to 2019/20
	School Expansion Programme	Move to 2019/20
	Social Care Transitions	Move to 2019/20
	Right to Buy	Move to 2019/20
	Private Sector leasing – new payments system	Cancelled
	Homelessness/Housing – new system	Cancelled
	Joint Commissioning Unit	Cancelled
	Housing and Planning Act 2016	Cancelled
	Homelessness – Homelessness Reduction Act	Cancelled
	Adoption and Permanency Prescription	Cancelled
<b>SCHOOLS</b>	Suttons Primary	Move to 2019/20
	Gaynes Language College	Cancelled – Converted to Academy
	Sanders Drapers	Cancelled – Converted to Academy
<b>ONE SOURCE</b>	Pension Fund Governance	Move to 2019/20
	Treasury Management	Move to 2019/20
	NNDR – Debt Recovery and Write Offs - Now forms part of the Financial Controls Assurance Work	Cancelled

## AUDIT COMMITTEE 24 APRIL 2019

<b>Subject Heading:</b>	Internal Audit Plan 2019/20
<b>SLT Lead:</b>	Daniel Fenwick Interim Executive Director oneSource
<b>Report Author and contact details:</b>	Jeremy Welburn Head of Assurance. Tel: 01708 432610 / 07976539248 E-mail: <a href="mailto:jeremy.welburn@onesource.co.uk">jeremy.welburn@onesource.co.uk</a>
<b>Policy context:</b>	To inform the Committee of the proposed audit plan for 2019/20
<b>Financial summary:</b>	There are no financial implications arising from approving the audit plan/strategy. It is expected that the costs of implementing both will be contained within the oneSource revenue budget for internal audit.

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

### SUMMARY

The Public Sector Internal Audit Standards refer to the need to produce a risk-based Internal Audit Plan. This should take into account the requirement to produce an annual internal audit opinion and report that can be used by each Council to inform the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work.

The report sets out the approach to producing the draft Internal Audit plan and invites comment from Members.

## **RECOMMENDATIONS**

1. To approve the draft 2019/20 Internal Audit Plan and the Shared Service Internal Audit Charter and Strategy.
2. To raise any issues of concern and ask specific questions of officers, where required.

## **REPORT DETAIL**

### **1. Introduction**

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) and other guidance.

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 straightforward 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 policy or system owner / sponsor
- Third line – independent assurance

The Council's third line of defence includes Internal Audit, who should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

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 higher risk and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

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.

## **2. Internal Audit Plan**

- 2.1 To develop the 2019/20 audit plan and to ensure that this reflects the Council's strategic risks, officers within the Assurance Service have been involved in discussions with the Section 151 Officer, Directors and senior management to review risks in their areas. This work identified that the Corporate Risk Register required refreshing. As a result, the Council's Risk Management Strategy has been revised – this is the subject of a separate report being presented this evening.
- 2.2 The draft plan has been developed using a thematic approach, in line with the Corporate Plan priorities for 2019/20. While some key risk areas and audits have already been identified, there is an allocation of time under each theme to carry out risk identification and service mapping. It is intended that this work will have a dual purpose by embedding the new Risk Management Strategy / informing the Corporate Risk Register; and identifying additional risk areas that would benefit from some audit work in 2019/20 and in future years.
- 2.3 The horizon scanning document, which discusses national and pan-London local government risks, has also been reviewed to assist in identifying common risk and audit themes and used to inform these discussions with Directors. This, along with senior management requests and audit cumulative knowledge and experience, has formed the basis of the plan.
- 2.4 Each borough in the shared service has its own unique objectives and approach to achieving these. Consequently, it is generally expected that individual audits will be conducted. However, where common risks have been identified across the 3 boroughs, there will be improved efficiencies by the sharing of skills and knowledge.
- 2.5 It is proposed that the 2019/20 plan is flexible to allow for changes in the risk and operational environment in which the Council operates. As noted above, work is currently underway to refresh the Council's corporate risk register. Any significant changes in the strategic risk environment will also be reflected in any future amendments to the plan.
- 2.6 The draft plan, as presented here, is a list of audit areas, covering the range of Council activities which, in conjunction with senior management, have been assessed as requiring assurance. As a result, it is intended that audit resources will be allocated to these tasks. However, the Plan will be subject to review throughout the year to ensure that any emerging risks are covered. The Audit Committee will be informed of all changes to the plan at the regular progress updates during the year. The draft plan totals 700 audit days.
- 2.7 The initial draft plan will be presented at a SLT meeting in April.



- 2.8 Attached as Appendix 1 is the draft Summary Internal Audit Plan 19/20. The Plan is exclusive of Counter Fraud investigations but there is a provision for Internal Audit staff to support Counter Fraud work on system related work.

**3. Internal Audit Charter and Strategy**

- 3.1 The work of the Internal Audit shared service is underpinned by the Internal Audit Charter and Strategy. This is attached as Appendix 2 and has been reviewed and updated for 2019. This defines Internal Audit's purpose, authority and responsibility, in accordance with the UK Public Sector Internal Audit Standards. It establishes Internal Audit's position within the Councils and clarifies reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of Internal Audit activities.
- 3.2 The Charter and Strategy also covers the role of the Head of Assurance and Internal Audit staff, and identifies the nature of professionalism, skills and experience required.

Appendix 1 Internal Audit Plan 2019/20 for LB Havering

Appendix 2 Internal Audit Charter and Strategy 2019

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

There are no financial implications arising from approving the plan. The financial implications arising from implementation of the plan are predominantly staffing costs and associated resources. It is expected that costs will be contained within the oneSource shared budget for internal audit and any variance will be reported and addressed through budget monitoring processes.

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.

**Legal implications and risks:**

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

**Human Resources implications and risks:**

None arising directly from this report.

**Equalities implications and risks:**

None arising directly from this report.

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## Appendix 1

### **LBH Internal Audit Plan 2019/2020**

	Communities	Place	Opportunities	Connections
	Risk & Service Mapping	Risk & Service Mapping	Risk & Service Mapping	Risk & Service Mapping
Children's Services	School Expansion Programme		Post Implementation Review of Liquid Logic	
Public Health		Performance Monitoring of Leisure Centres		
Neighbourhoods	Licensing Schemes		Right to Buy Fixed Term Tenancies Private Sector Leasing	
Adults Services	Safeguarding Adults Social Care Transitions			
Regeneration Projects	Projects to be determined following Risk Work	Projects to be determined following Risk Work	Projects to be determined following Risk Work	Projects to be determined following Risk Work
Chief Operating Officer	Contract Management		Contract Management	
oneSource	School Audit Programme			Oracle Upgrade

### **Core Assurances & Cross Cutting**

#### **Governance**

- General Governance inc. Annual Governance Statement
- Production of Committee / SLT Reports

#### **Assurance**

- Advice & Consultancy, Audit Plan Management
- Follow Up Recommendations / Counter Fraud Support

#### **Compliance Work**

- Key Financials
- Pension Fund Governance
- Treasury Management
- Corporate Decision Making

#### **ICT**

- Business Continuity & Emergency Planning
- Work arising from ICT needs assessment

#### **Delivery of Corporate Plan**

- Ensure all risk work and Audit Plan delivery align with Corporate Plan priorities

## Appendix 1

Audit Area	Proposed Scope/Audit Work	Proposed Timing (Quarter)	Estimated Budget (Days)
Core Assurances & Cross Cutting			
Governance			
General Governance Work	To include co-ordination of Annual Governance Statement and production of Audit Committee / SLT reports.	Ongoing	40
Assurance Work			
General Assurance Work	Advice and Consultancy, Audit Plan Management, Follow up of recommendations and Counter Fraud Support.	Ongoing	50
Compliance Work			
Key financial audits	Areas of focus TBC as identified in Financial Controls Work carried out in 18/19 plan.	Q2/3	60
Pension Fund Governance	Brought forward from 18/19. Compliance with processes and procedures.	Q2	
Treasury Management	Brought forward from 18/19. Compliance with processes and procedures.	Q2	
Corporate Health and Safety	Brought forward from 18/19. Compliance with processes and procedures.	Q1	
Corporate Decision Making	Compliance with new governance processes	Q3/4	
ICT			
ICT	Work arising from ICT needs assessment / risk work.	TBC	40
Business Continuity & Emergency Planning	Brought forward from 2018/19 plan. Focus on the ICT arrangements in the event of an emergency.	Q1	
General Key Risk Work			
Delivery of Corporate Plan	Ensure that risk work and audit plan delivery align with Corporate Plan priorities	Q2	20
Regeneration	Projects to be determined following risk work and consideration of those critical to delivery of the Corporate Plan. This includes the Economic Development Programme Review and the General Project Assurance Work carried forward from 2018/19 plan.	Q2 onwards	40
Risk Mapping and Review	Risk mapping, workshops and reviews across all Corporate Themes to assist Directors and Services with identifying their key risks. Any audits arising as a result of this risk work will be added to this audit plan as the work progresses.	Ongoing	80
Contingency allowance and provision for assurance work on emerging risk	Contingency to allow time for high risk areas for audit as identified as part of the risk mapping, workshops and review work.	Ongoing	70

## Appendix 1

Communities			
<b>Children's:</b> School Expansion Project	Carry forward from 18/19 – to consider budget position, processes that cross over services, financial risk and political exposure.	Q1	190
<b>Neighbourhoods:</b> Licensing Schemes	Implementation and delivery of the licensing scheme. To consider scheme for HMOs and PSL.	TBC	
<b>Adults:</b> Safeguarding Adults	To ensure due process followed and issues identified in a recent review have been picked up.	Q2	
<b>Adults:</b> Social Care Transitions	Brought forward from 18/19. Consideration of costing and efficiencies in processes.	Q2	
<b>TBC:</b> Contract Management	Review of a sample of contracts, selected on a risk basis, to ensure appropriate management and monitoring.	Q2	
<b>Cross Cutting:</b> School Audit Programme	Schools risk based audit programme of Borough maintained schools and Health Checks as purchased.	Ongoing	
Place			
<b>Cross Cutting:</b> Performance monitoring – Leisure Centres	Identified as a key risk area following new system implementation. To consider contract monitoring.	Q2	10
Opportunities			
<b>Cross Cutting (Children's &amp; Adults):</b> Post Implementation Review of Liquid Logic	To identify compliance issues and realisation of benefits of new system.	Q3	80
<b>Neighbourhoods:</b> Right to Buy	Brought forward from 18/19. To consider checks and processes in place that ensure the purchases are not fraudulent.	Q1	
<b>Neighbourhoods:</b> Fixed Term Tenancies - Housing	Brought forward from 18/19. Processes in place to review fixed term tenancy arrangements at the point of renewal.	TBC	
<b>Neighbourhoods:</b> Private Sector Leasing (PSL)	Requested by Director as a key risk area.	TBC	
<b>TBC:</b> Contract Management	Review of a sample of contracts, selected on a risk basis, to ensure appropriate management and monitoring.	Q1	
Connections			
<b>oneSource:</b> Oracle upgrade	Engagement and advice leading up to and during the process of upgrading the current Oracle financial system.	Ongoing	20
Total Audit Plan (Days)		700	

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# Internal Audit: Charter and Strategy 2019

### Background

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

This Charter and Strategy also covers the role of the Head of Assurance and internal audit staff, and identifies the nature of professionalism, skills and experience required.

### Statutory requirements for an Internal Audit function

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

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

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

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

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

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

### Definition of Internal Audit

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

### Applicable Standards that must be complied with

The internal audit function is required to comply with Public Sector Internal Audit Standards (PSIAS). The relevant internal audit standard setters, which include the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of local government, originally adopted PSIAS from 1 April 2013. PSIAS was subsequently revised and updated in 2017. The Standards encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). Compliance with these Standards is subject to a quality assurance and improvement programme in line with PSIAS.

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

### Responsibility of Internal Audit

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

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

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

### Responsibility of the Councils

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

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

Financial Regulations specify the responsibilities of the Directors in terms of access, explanations, reporting of allegations of fraud and engaging with the audit process.

The respective roles of managers in relation to internal audit are also set out in Financial Regulations. In addition, there is a straightforward assurance framework, which assists in understanding the role of internal audit in the overall risk management and internal control processes in the Councils. This framework is commonly referred to as the 'three lines of defence' model.

Operational management is responsible for ensuring that systems of internal control are in place, good business practices are implemented and followed in all areas, compliance is maintained, risks, including fraud risks, are identified and mitigated, and effective governance is established. This is the 'first line' of defence.

The second line of defence is performed by those responsible for oversight functions, generally the policy / system owner. They set boundaries by drafting and implementing policies and procedures. They are also responsible for guidance and directions for implementing their policies and for monitoring their proper execution. They therefore provide oversight over business processes and risks.

The Council's third line of defence includes internal audit, which should provide independent assurance to senior management and the Audit Board / Committee on how effectively the first and second lines of defence have been operating.

Notwithstanding the above, the internal audit service may, on occasion, be required to undertake a range of reviews which, through volume testing, identify and examine the levels of organisational compliance with council policies, procedures, financial regulations and legislation. As a result of these reviews, an assessment can be provided on the degree of compliance across the councils and can help services to improve their systems to facilitate greater compliance in the future.

The individual topics of work undertaken by the internal audit service include:

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

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

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

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

This is supplemented by Council Policies which include:

1. The Anti-Fraud and Corruption response plan/Strategy
2. The Anti-Money Laundering response plan/Policies
3. Anti-Bribery Policies

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

### Head of Assurance

The Head of Assurance is the Chief Audit Executive as referred to in the Public Sector Internal Audit Standards (PSIAS). They will have sufficient skill, experience and competencies to work with the leadership team and the Audit Board/Committee, influencing risk management, governance and the internal control environment of each Council. The Head of Assurance will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership, and adhere to professional values and the Code of Ethics.

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

### Independence of Internal Audit

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

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

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

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

### Relationships

The Head of Assurance reports directly to the S151 Officer of each Council, and the Director of Finance for oneSource.

The Head of Assurance has direct access to the Head of Paid Service (Chief Executive or equivalent), all levels of management and elected members, as set out in each Council's financial regulations.

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

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

The Head of Assurance, or an appropriate representative, attends meetings of the partner Councils' senior management teams to discuss the audit plan, following consultation over the proposals with Directors.

### Scope of Internal Audit

#### Responsibility

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

#### Due Professional Care

The internal audit function is bound by the following standards:

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

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



### Opinion work

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

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

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

The risk based plan is a live document and subject to reviews in year to take account of changes in the risk environment and internal factors within each Council.

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

### Non-opinion work

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

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

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

### Fraud

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

The wider internal audit service supports the Pro-Active Audit & Counter Fraud Team to provide a counter fraud function to support the Section 151 officer in the discharge of his/her responsibilities.

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

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

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

The Counter Fraud team also responds reactively to allegations of fraud from both internal and external sources, aiming to investigate cases where appropriate to a criminal standard. Council policies require that the Assurance Service is notified of all suspected or detected fraud and corruption.

The Counter Fraud team maintains and updates each Council's Counter Fraud policies, including:

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

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

- Anti-fraud and corruption response plan/Strategy
- Anti-money laundering response plan/Policy

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

Work carried out by the Counter Fraud team is reported to Members and contributes to the Head of Assurance's annual opinion.

### Reporting

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

- The Internal Audit Charter and any amendments are reported to senior management team and the Audit Board/Committee. The annual Internal Audit Plan is compiled by the Head of Assurance, taking account of the risk framework and after input from directors and heads of service. It is then presented to the senior management team, the oneSource Management team and Audit Board/Committee, annually, for noting and comment.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Assurance) and the independence of internal audit will be reported annually to the Audit Board/Committee. Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported regularly to Audit Board/Committee.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Board/Committee.
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be included in the annual Head of Assurance report. If there is significant non-conformance, this may be included in the partner Council's Annual Governance Statement.

### Internal Audit Access Rights

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

### Internal Audit Resources

Internal audit must have sufficient resources in terms of numbers, grades, qualifications, levels of experience, having regard to its objectives and to the Public Sector Internal Audit Standards.

The Head of Assurance is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities. If a situation arose whereby resources were insufficient this will be reported to the Directors of Finance, the Section 151 Officers and, if not resolved, Audit Board/Committees.

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## AUDIT COMMITTEE 24 APRIL 2019

<b>Subject Heading:</b>	Revised Risk Management Strategy
<b>SLT Lead:</b>	Daniel Fenwick Interim Executive Director oneSource
<b>Report Author and contact details:</b>	Jeremy Welburn Head of Assurance Tel: 01708 432610 / 07976539248 E-mail: <a href="mailto:jeremy.welburn@onesource.co.uk">jeremy.welburn@onesource.co.uk</a>
<b>Policy context:</b>	To inform the Committee of the revisions to the Risk Management Policy
<b>Financial summary:</b>	There are no financial implications arising from this report which is for information only.

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

### SUMMARY

This report presents the revised risk management strategy for Havering Council. It also provides details of how the risk management process will be strengthened within the Council.

### RECOMMENDATIONS

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

<b>REPORT DETAIL</b>
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## **1. Introduction and Background**

- 1.1 The Assurance Service has been working to review the Havering Council risk strategy, as the current document is out of date. The aim of this exercise is to clearly define the roles of senior management and all officers involved in the risk management process and reiterate the significance of effective risk management.
- 1.2 Advice and support have been provided by the Zurich risk service regarding the strategy, and a working draft of this document is attached as Appendix A.
- 1.3 The draft strategy was approved by the Senior Leadership Team (SLT) on 18<sup>th</sup> December 2018.

## **2. Considerations & Proposals**

### ***Areas for Improvement***

- 2.1 The Zurich review identified five priority areas for improvement within Havering Council:
  - Agree on the role and responsibilities of oneSource and the governance arrangements for risk management within the Council;
  - Simplify the risk policy, tools and risk registers;
  - Agree an appropriate and achievable risk management reporting timetable with respective management teams;
  - Refresh the Corporate and Service/Directorate risk registers in light of changes with an emphasis on identifying key risks; and,
  - Review how risks within projects and partnerships is included within the corporate risk management arrangements.
- 2.2 Risk are not always managed and reported consistently across the Council, at either Corporate or Directorate level. Without coordinated risk management activity, the Council is potentially exposed in terms of not identifying risks which could threaten the achievement of our objectives and organisational plans. Proposed actions to address these issues are highlighted below.

***Risk Strategy***

- 2.3 The risk strategy has been re-written to establish clear responsibilities regarding the management of risks at all levels within the Council, and reiterate the responsibilities in particular of the senior leaders. At this stage, it is still quite generic and will be tailored to the governance and reporting structure as agreed with SLT. A working draft of the proposed strategy is included in **Appendix A** and comments would be welcomed on this.
- 2.4 It is acknowledged that a new risk strategy alone will not mean that risk management becomes embedded within the Council, but it is an important first step so that responsibilities are defined and the leadership commits to managing its risks effectively.

***Review of Risk Registers***

- 2.5 A top down and bottom up approach is recommended to address the Corporate and Departmental risk registers, with specific risk identification sessions being run at SLT and Theme Steering Groups to identify the key risks. From these, revised risk registers will be produced, focussing on the key risk areas; ensuring they are appropriately assessed in terms of likelihood and impact; and, mitigating actions and owners are clearly identified.
- 2.6 Risk identification sessions will be scheduled with the Theme Steering Groups, supported by members of the Assurance team.
- 2.7 There will be a separate SLT session on corporate risk identification and horizon scanning.

***Resources and Support***

- 2.8 To enable effective support to be provided to Havering Council, the Head of Assurance has reviewed the resources available to support risk management. In the current shared service structure, there is half a senior manager post and a third of an administrator post within the insurance team assigned to risk management support. This is not sufficient across the three member Boroughs.
- 2.9 It is proposed that risk management is incorporated in to the role of the Audit Manager, with Principal Auditor support as required. This will allow for sufficient resource to be allocated to support risk managers within the Council – support can be provided in facilitating risk discussions at Directorate level; advice on risk wording and scoring; and, assist in training as required.
- 2.10 Initial training has already been delivered by Zurich to the audit team to ensure they are in a position to provide support to Directorates immediately through risk workshops. Zurich will be engaged to assist in the facilitation of the workshops, as required.



- 2.11 Bringing risk in to the role of auditors will also have the benefit of connecting the audit team even more effectively in to the Council's operations. By facilitating risk identification and horizon scanning sessions at regular intervals within theme steering groups / departmental management teams, they will have a better understanding of the risks faced by the service areas, which will assist in directing our risk based audit plan more effectively.
- 2.12 It should be noted that the additional involvement of the audit team will be based on supporting an effective risk management process within the Council – the responsibility for managing the risks themselves will always remain with the service management/Director.

***Reporting***

- 2.13 It is proposed that the reporting to SLT on risk management activity should be more frequent over the next 12-18 months, until it becomes more embedded as a business as usual activity.
- 2.14 Consideration will need to be given on reporting arrangements to Lead Members, the Audit Committee and Cabinet on key risks, in terms of frequency and reporting formats.

***Training***

- 2.15 An element of risk training has been negotiated with Zurich risk services as part of the insurance contract. Training needs will be assessed to establish how specific areas within the Council are targeted for development.
- 2.16 Training will also be arranged for Members, to support them in their role.

**Appendix A – Revised Risk Management Strategy**

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

There are no financial implications arising from this report which is for information only.

Any financial implications arising from the changes to job descriptions will be assessed as part of the Council's Organisational Change Process.

Financial risk to the Council is managed through its budget monitoring processes and in addition, funds are set aside through contingency and business risk reserves to manage any significant unforeseen financial issues.

**Legal implications and risks:**

None arising directly from this report.

**Human Resources implications and risks:**

The changes to job descriptions to include specific responsibility for risk management are being undertaken as part of a review of the service and the affected employees will be consulted on these changes in accordance with the Council's Organisational Change process and procedure.

**Equalities implications and risks:**

None arising directly from this report.

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# **Risk Management Strategy & Toolkit**

Last Updated: December 2018  
Shared Assurance Service

# Foreword

Havering Council's Risk Management strategy was revised in December 2018. Risk management is not simply a compliance exercise but an indispensable element of good management and corporate governance, which is essentially the way an organisation manages its business, determines strategy and objectives, and goes about achieving its goals. All organisations face risks in undertaking their business in the sense that there exists the possibility that an event or action will adversely affect their ability to achieve objectives.

As an organisation we face a significant number of risks and it is therefore important that the Council recognise its responsibility to adopt a risk management process and we are fully committed to improving the effectiveness of risk management across the Council.

Ultimately, effective risk management will help to ensure that the Council maximises its opportunities and minimises the impact of the risks it faces, thereby improving our ability to deliver key priorities, improve outcomes for residents, maintain good governance and minimise any damage to its reputation.

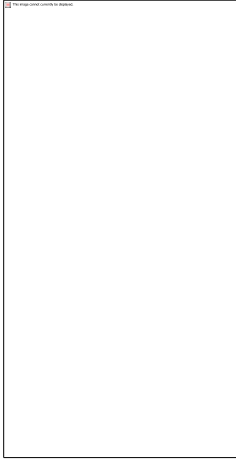
Risk Management is the responsibility of everybody at the Council and the aim of this strategy is to explain our approach to risk management and the framework that we will operate to ensure that risks are effectively managed.

**(To be signed)**

Chief Executive  
London Borough of Havering

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## Introduction

Risk management will help identify and deal with the key risks facing the organisation in the pursuit of its objectives and the process outlined within this strategy should be used to identify and manage all key risks to the Council's ability to deliver its priorities. It covers strategic priorities, operational activities and delivery of services, projects and partnership outcomes.

The Council defines risk as: *"The effect of uncertainty on objectives, often described by an event or a change in circumstances"* and Risk Management as: *"Coordinated activities to direct and control an organisation with regard to risk"*

The benefits of successful risk management include:

- **Increased confidence** – in achieving our priorities and desired outcomes.
- **More efficient service delivery** – fewer disruptions, efficient processes, improved controls.
- **Improved financial performance and value for money** – increased achievement of objectives, reduced impact and frequency of critical risks.
- **Stronger corporate governance and compliance systems** – robust corporate governance, fewer regulatory visits.

This Risk Management strategy provides a comprehensive framework and process designed to support managers in ensuring that the Council is able to discharge its risk management responsibilities fully. The strategy outlines the objectives and benefits of managing risk, describes the responsibilities for risk management, and provides an overview of the process that we have in place to manage risk successfully. Detailed information on how to implement this strategy and tools to assist in this are provided in the Risk Management Toolkit at the end of this document. Whilst OneSource provide risk management support to the council, their role is to facilitate and drive best practice, rather than own risk on behalf of the council.

Risk management should not be seen as a means of reducing all risk to the council. Indeed, in order to deliver our objectives we must have an appetite for a certain amount of risk; only by taking risks can we work innovatively to achieve our aims. As a large and diverse organisation it is recognised that our risk appetite will vary according to the activity undertaken and hence different appetites and tolerances for risk will apply. In this regard, the Council aims to be risk aware, but not overly risk averse, and to actively manage business risks to protect and grow the organisation. To deliver its strategic aims, the organisation recognises that it will have to take and manage certain business risks. In making informed decisions we will consider, on an individual basis, all options and opportunities and their associated risks. We will respond to those risks appropriately and take the actions most likely to successfully deliver our vision whilst also providing an acceptable level of value for money.

## Risk Management Process

The Council's risk management process consists of a series of co-ordinated activities, applicable to all levels and activities of the Council.



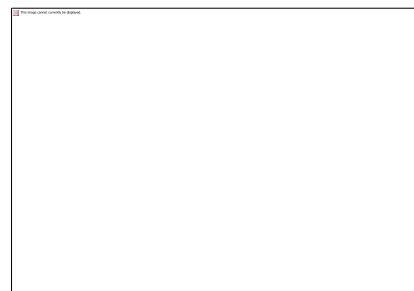
Step	Activity
<b>Establishing the context</b>	Understanding of key outcomes and objectives for the organisation, directorate, service or project being assessed.
<b>Risk Definition</b>	The step where risks to the organisation are identified and described.
<b>Initial Impact Assessment</b>	Assessment of key controls and the prioritising of risks based on likelihood and impact.
<b>Mitigation Plan</b>	Deciding what to do about the risks and planning further actions to reduce the risk to an acceptable level where necessary.
<b>Risk Latest Progress</b>	Risks change and so need regular monitoring and reporting to appropriate stakeholders for decision making and governance purposes.

Further detail of the process and its use is contained within section 4 of this document – Risk Management Toolkit.



# Roles and Responsibilities for Risk Management

The responsibility for managing risk extends throughout the organisation. It is important that all of us are aware of our roles. The following summarises the various roles and responsibilities.



Role	Responsibilities
<b>Corporate Leadership Team</b>	<ul style="list-style-type: none"> <li>• Demonstrate leadership of the risk management process.</li> <li>• Ensure the corporate risk register is a live and up to date record of the Council's risk exposure and regularly discussed within management team meetings</li> <li>• Set and communicate the organisation's risk appetite</li> <li>• Make informed decisions about treatment of significant risks</li> <li>• Provide assurance to Members that appropriate risk management processes are in place across the Council</li> </ul>
<b>Section 151 Officers</b>	<ul style="list-style-type: none"> <li>• Champion risk management amongst the Corporate Leadership Team ensuring that risk management features as a key management discipline across the organisation.</li> <li>• Overall accountability for the effectively delivery of the risk management framework</li> </ul>
<b>Governance and Assurance Board</b>	<ul style="list-style-type: none"> <li>• Consider and challenge the Council's management of risk</li> <li>• Provide assurance that a strong control framework and good governance arrangements are in place</li> </ul>
<b>Any relevant Corporate Programme Board</b>	<ul style="list-style-type: none"> <li>• Ensure risk is appropriately considered within business cases and procurement reports submitted</li> <li>• Ensure risks are appropriately monitored throughout the lifecycle of projects, programs and procurement checkpoint governance process.</li> <li>• Escalate significant risks to the Governance and Assurance Board.</li> </ul>
<b>Theme Steering Groups / Directorate Management Team</b>	<ul style="list-style-type: none"> <li>• Ensure the directorate risk register is a live and up to date record of the directorate's risk exposure and regularly discussed within management team meetings.</li> <li>• Understand where a directorate risk has a corporate or strategic impact and escalate accordingly</li> <li>• Appoint a risk champion to drive forward the risk management framework with their department.</li> </ul>
<b>Service Managers</b>	<ul style="list-style-type: none"> <li>• Contribute to the Directorate risk management process through identification and management of risks associated with service area</li> <li>• Ensure relevant staff have appropriate understanding of risk management</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Scrutinises and monitors the effectiveness of risk management arrangements</li> <li>• Obtain assurance on the effectiveness of risk and internal control arrangements</li> <li>• Reviews the Strategic Risk Register on a regular basis</li> </ul>

<b>Risk Owners</b>	<ul style="list-style-type: none"> <li>• Understand their accountability for individual risks and the controls in place to manage those risks</li> <li>• Understand that risk management and risk awareness are a key part of the Council's culture</li> <li>• Report promptly and systematically to senior management any perceived risks or failures of existing control measures</li> </ul>
<b>One Source Assurance Service – Risk Management</b>	<ul style="list-style-type: none"> <li>• Developing and maintaining the risk management strategy and framework</li> <li>• Submit the risk management strategy to Audit Committee for approval at least yearly</li> <li>• Support the Corporate and Directorate leadership teams in the identification and evaluation of risks at Corporate and Directorate level.</li> <li>• Arrange for training to be provided to all those who have responsibility for managing risk within the Council.</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>• Deliver a risk based audit plan in accordance with the Public Sector Internal Audit Standards 2012.</li> </ul>
<b>Other partners / shared services / alternative delivery units</b>	<ul style="list-style-type: none"> <li>• Where required, typically established through a memorandum of understanding or equivalent, adopt a risk management strategy. Requirements are assessed on a case by case basis.</li> </ul>

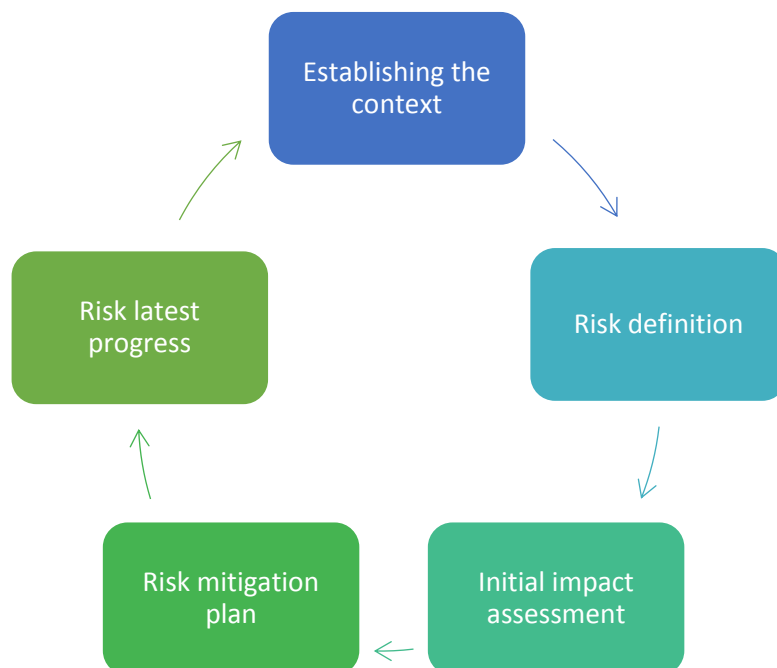
## Appendix 1

### Risk Management Toolkit

The Risk Management Process outlined within this Toolkit should be used as a guide to best practice in managing risks which could impact strategic priorities, operational activities (e.g. delivery of actions identified in directorate or service plans) and delivery of projects or programmes.

Risk management activity will happen at different levels within the organisation and for different purposes. You are identifying the risks that may affect the delivery of these objectives. A risk is where there is uncertainty of the outcome which may have a positive or negative effect on the achievement of the desired outcome, e.g. the objective.

The Council's risk management process consists of five steps:



A step-by-step guide follows to enable you to understand the risk management process.

Further advice and assistance on risk management is available from the OneSource Assurance Team.

## 1. Establishing the context

The starting point for risk management is to ensure that there is a clear understanding and agreement on the objectives for the subject on which the risk assessment is being undertaken (i.e. the organisation and the overarching corporate objectives, a particular service and local objectives, etc.). In this regard, risks are managed across the following levels within the organisation:

**Service Level:** the risks arising from service operations.

**Programme / Project Level:** the risks from initial business case stage throughout the project lifecycle.

**Directorate Level:** the risks which could impact upon the delivery of the annual service plan for a directorate.

**Leadership / Strategic Level:** the key risks facing the authority and the achievement of its corporate objectives.

## 2. Risk Definition

Risks should be identified that may affect the Council's ability to achieve its business objectives, execute its strategies successfully or limit its ability to exploit opportunities.

Risks can be identified through a number of methods, including:

- A 'brainstorming' session or workshop with the whole management team and relevant stakeholders
- Interviews or questionnaires with key stakeholders
- Meetings with smaller groups of people

There are a wide range of methods available that can be used to identify and understand risks. The method that you select will depend upon the type of risk(s) that you are dealing with but typically a management team workshop is the method most commonly used.

Additionally, existing sources of information could help inform this stage. Some examples are listed below:

- Service / corporate plans, strategies and objectives
- Existing risk registers
- Risks or issues raised by internal audit or any other external scrutiny body
- Risks identified through budget setting processes
- Health & safety risk assessments
- Business continuity risk assessments
- Partnership, programme or project documentation (e.g. business case or project risk register)
- Experience of those participating in the risk identification process

It is the responsibility of those identifying risks to decide which sources of information they should consult. This may be one or more of the sources listed above or it could be something else you think is appropriate.

It is crucial for risks to be defined properly at this stage. Failure to do so can result in confusion about the exact nature of the risk, ineffective risk controls being implemented, or the risk analysis being over or underestimated.

As well as direct risks to the achievement of our objectives it is important to think as broadly as possible about uncertainties that may have an impact on the organisation. The diagram shown below illustrates a variety of different risk themes, expanding on PESTLE prompts, which the organisation could face. Think also in terms of these themes when identifying risks.



Once identified, the risks need to be described in sufficient detail and recorded in a consistent format to support effective decision making on the way that the risk is managed.

The description of the risk should include the following elements:

- Risk Title – a short and concise header for the risk
- Description – expanding on the risk title outlining the situation or event that exposes us to a risk.
- Risk Cause – also known as the trigger event. Situations or factors which result in the risk becoming a reality.
- Risk Effect - the likely consequences if the risk materialises (The negative impact, How big? How bad? How much? - consider worst likely scenario)

When describing a risk try not to describe the impact of the risk as the risk itself or define risks with statement which are simply the converse of the objectives.

### 3. Initial Impact Assessment

Once risks have been identified the risk matrix is the main tool for prioritising each risk so we can establish which risks are most significant and therefore are in need of greater attention, effort and resources. It also allows us to compare different types of risk with each other across the council.

Each risk should be analysed for the likelihood it will happen and the impact if it did happen. This assessment should be made after considering controls that are already in place and working effectively – this is referred to the 'current risk'.

It is the risk owner's responsibility to ensure the controls they believe are reducing the risk are effective and are working in practice. Controls that are not yet in place should not be considered at this stage, no matter how soon they will be implemented.

The impact should be considered against the relevant objectives - corporate risks should be scored against the organisations objectives; departmental risks scored against departmental objectives; project risks scored against the objectives of the project and so on.

Each identified risk should be plotted onto the risk matrix once the likelihood and impact score has been agreed among the relevant management team.

<b>Impact</b>	<b>Major</b>	5	10	15	20	25
	<b>Serious</b>	4	8	12	16	20
	<b>Significant</b>	3	6	9	12	15
	<b>Moderate</b>	2	4	6	8	10
	<b>Minor</b>	1	2	3	4	5
		<b>Remote</b>	<b>Unlikely</b>	<b>Possible</b>	<b>Probable</b>	<b>Certain</b>
		<b>Likelihood</b>				

When considering the likelihood of a risk happening you should select the number from 1 to 5 from the risk matrix that you think it will be over the next 12 months (it can be longer or shorter; some risks in the Strategic Risk Register are better considered over 3 to 5 years, some operational risks will be considered over 3 to 6 months). This score will require an element of judgement when considering how likely an event is to occur and you should consider the following:

- *Has this event happened before in the Council? (How frequently?) Has this event happened elsewhere? (How frequently?)*
- *How likely is it that one or more of the causes/ triggers of the event will occur?*
- *Has anything happened recently that makes the event more or less likely to occur?*

The following table provides some support in quantifying the risk in terms of likelihood and impact.

<b>Risk Likelihood Key</b>				
<b>Score - 1</b>	<b>Score - 2</b>	<b>Score - 3</b>	<b>Score - 4</b>	<b>Score - 5</b>
<b>Remote</b>	<b>Unlikely</b>	<b>Possible</b>	<b>Probable</b>	<b>Certain</b>
Previous experience at this & other similar organisations makes this outcome highly unlikely to occur  0-10% chance of occurrence	Previous experience discounts this risk as being unlikely to occur but other organisations have experienced problems  10-50% chance of occurrence	The Council has in the past experienced problems in this area but not in the past three years  10-50% chance of occurrence	The Council has experienced problems in this area in the last three years.  50-90% chance of occurrence	The council is currently experiencing problems in this area or expects to within the next 12 months.  90-100% chance of occurrence

When you select the impact you should give consideration to the factors outlined in the risk matrix. For example, if the risk you are scoring has a low financial impact but a high impact on our reputation then you would select the most appropriate number between 1 and 4 that relates to the level of reputational impact. Once again, this score will have an element of judgement. The criteria for risk impact levels can be found on the next page.

	<b>Risk Impact Key</b>				
<b>Risk Impact</b>	<b>Minor</b>	<b>Moderate</b>	<b>Significant</b>	<b>Serious</b>	<b>Major</b>
<b>Financial</b>	Less than £50,000 or up to 5% of budget (TBC)	Between £50,000 and £100,000 or 5 – 10% of budget (TBC)	Between £100,000 and £250,000 or 10-20% of budget (TBC)	Between £250,000 and £500,000 or 20-50% of budget (TBC)	Over £500,000 or 50% of budget (TBC)
<b>Service Impact</b>	Brief disruption of important service area with a small impact on customer service	Moderate disruption to service delivery or alternative delivery models for up to one week.	Substantial impact to service delivery or alternative delivery models for up to one month	Sustained loss of service delivery or alternative delivery model beyond one month	Complete breakdown in service delivery or failure of a strategic partnership or significant alternative delivery model
<b>Staff</b>	No impact on staff turnover, limited impact on staff morale	Slight impact to staff morale, limited impact in staff turnover	Damage to staff morale, minor increase in staff turnover	Staff dissatisfaction, increase in staff turnover	Major staff dissatisfaction, short term strike action, staff turnover including key personnel
<b>Reputation</b>	Little or no adverse local public opinion or media attention	Limited and short term adverse local public opinion	Short term adverse local public opinion	Adverse local publicity / local public opinion noticeable impact on local public opinion	Intense political and national media scrutiny.
<b>Health &amp; Safety</b>	No health and safety implications	Minor injury, short term, sickness less than 3 days.	Minor injury, short term, sickness more than 3 days	Serious injury or extensive minor injury, semi-permanent, sickness more than 10 days	Life threatening or multiple serious injuries or prolonged workplace stress
<b>Legal &amp; Statutory Compliance</b>	Scrutiny required by internal committees or internal audit.	Internal review	Internal review with potential for involvement of external agencies	Scrutiny required by external agencies e.g. Ofsted.	Possible criminal or high profile civil action against council, members or officers
<b>Project Delivery &amp; Deadlines</b>	Negligible delays or impact on the costs or quality of the project	Minor delays, c. 5% impact on cost and marginal change to project specification.	Minor delays, c. 15% impact on cost and notable change to project specification.	Significant delays, increased costs and potential for reduced quality of project deliverable	Project benefits not realised, punitive costs that require financial re-planning and service cuts elsewhere or result in project no longer being sustainable.



#### Step 4. Mitigation Plan

Once risks have been identified and scored based on current controls the next step is to decide what action should be taken to manage or treat them.

Generally speaking, there are four approaches to treating risk and the Council will refer to these as: Reduce, Accept, Prevent / Contingency or Transfer:

Action	Description	Options
<b>Reduce</b>	Controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur	Reducing the likelihood of the risk occurring AND / OR Mitigating the impact if the risk does occur
<b>Accept</b>	Acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.	The ability to take effective action against some risks may be limited or the cost of taking action may be disproportionate to the potential benefits gained in which case the risk is accepted on an "informed" basis.
<b>Prevent / Contingency</b>	Not undertaking the activity that is likely to trigger the risk	Changing the direction or strategy and revisiting objectives or improving channels of communication Obtaining further information from external sources or acquiring expertise Reducing the scope of the activity or adopting a familiar, proven approach Deciding not to undertake the activity likely to trigger the risk
<b>Transfer</b>	Handing the risk on elsewhere, either totally or in part – e.g. through insurance.	Financial instruments such as insurance, performance bonds, warranties or guarantee. Renegotiation of contract conditions for the risk to be retained by the other party. Seeking agreement on sharing the risk with the other party. Sub-contracting risk to a consultant or external suppliers. NB. It may not be possible to transfer all aspects of a risk. For example, where there is or reputational damage to the organisation.

When considering further action required to manage the risk, and indeed the appropriateness of existing controls, an assessment of each treatment option should be made alongside a consideration of the Council's risk appetite and tolerance for the current level of risk.

A further consideration is the efficiency of risk treatment in relation to the cost effectiveness of the proposed actions to be taken. Firstly the cost of implementation has to be considered (time, manpower, budget, etc). The impact expected if no action is taken, should be weighed against the cost of

action and the reduction of the impact. There should be a direct benefit from the cost implementation in terms of the reduction of the level of the risk.

Action plans should be put in place where there is a need to reduce the current assessment of risk to an acceptable level within an agreed and acceptable timeframe, this is known as the 'target risk'. Where these actions are significant, they will need resourcing and may need to be incorporated into the Council's annual budget, business planning and performance monitoring processes.

#### **Step 5. Risk Latest Progress**

Corporate risks are generally long-term in nature and are managed through the Council's Corporate Risk Register.

Risks are also managed at a directorate, service, project, programme and partnership level. Respective management teams are responsible for ensuring that their risks are identified and managed appropriately.

Each risk register contains:

- The risk description, causes and consequences
- An identified risk owner
- Controls in place to mitigate the risk
- Risk scores based on likelihood and impact before and
- The level of risk the Council will accept to achieve the objective (target risk)
- An action plan to bring the level of risk to its acceptable level.

Required risk action planning should be proportionate to the significance of the risk.

Risk should be regularly considered and reported on alongside financial and performance information consistent with the Council's performance management framework.

Annually, the Audit Committee will receive a report on the Council's Risk Management arrangements together with an up to date risk matrix and Corporate Risk Register.

A thorough review of each risk register should occur annually as part of the annual business planning processes and departmental risk registers should be reported to the senior management team thereafter.

The Internal Audit and Risk Service is responsible for undertaking an annual review of the risk management framework and provides assurance on its effectiveness.

Further advice and assistance on risk management is available from the OneSource Assurance Service.

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