

**INTERNAL AUDIT ANNUAL  
REPORT  
Including  
ANNUAL ASSURANCE  
STATEMENT  
2014 / 2015**



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

## **1. INTRODUCTION**

- 1.1 The purpose of this report is to:
- (i) document and communicate internal audit's overall opinion on the overall adequacy and effectiveness of the Council's control environment, commenting on significant matters and key themes;
  - (ii) summarise the audit work from which the opinion is derived; and
  - (iii) document the performance of the internal audit service.
- 1.2 The Accounts and Audit (England) Regulations 2011 require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices. Proper practice is defined within the Public Sector Internal Audit Standards and corresponding Local Government Application Note.
- 1.3 The Public Sector Internal Audit Standards requires the Head of Internal Audit to provide a written report to those charged with governance, to support the Annual Governance Statement, which should include an opinion of the overall adequacy and effectiveness of the Council's control environment.
- 1.3 Reporting the work of internal audit to the Audit Committee provides the Committee with an opportunity to review and monitor its activity and gain assurance that its internal audit function is fulfilling its statutory obligations. This is an essential component of corporate governance. The Audit Committee receives quarterly reports regarding internal audit and Fraud activities and outcomes during the year.
- 1.4 In 2014/15 the internal audit service, including the Council's fraud resources, became part of the shared back office with the London Borough of Newham working under the banner of oneSource. The service was scheduled to be reviewed and restructured in the first year of oneSource. At the end of 2014/15 the service review is complete but only the fraud service restructure has been implemented. In 2014/15 the computer audits continued to be delivered by members of the audit team from Newham, as had been the contractual agreement pre oneSource. In 2015/16 the audit team will be restructured and a oneSource service delivered to both Councils by one team.
- 1.5 Our opinion is based on the work of the audit service during the 2014/15 financial year. We are grateful for the co-operation and support we have received from all those who have engaged with and supported the audit process.

## **2. ANNUAL ASSURANCE STATEMENT**

### **Control Environment**

- 2.1 The management of the Council is responsible for ensuring that the organisation operates in accordance with the law and proper standards,

that public funds are safeguarded, properly accounted for, and used economically, efficiently and effectively.

- 2.2 The management of the Council is also responsible for ensuring that there is a sound system of internal control, which includes arrangements for managing risk. The three key elements of the Council's control environment comprise: internal control, governance, and risk management arrangements. These three elements help ensure that the Council's strategies, plans, priorities and objectives are met and that policies and procedures are complied with in order to minimise risk to a reasonable level.

### **Internal Audit Effectiveness**

- 2.3 As a prerequisite for giving an assurance opinion on the overall adequacy and effectiveness of the Council's control environment, the Head of Internal Audit is required to confirm the effectiveness of the internal audit service and its resultant fitness for purpose to carry out work that informs the annual opinion statement.
- 2.4 In 2014/15 the audit service has held a vacancy in the structure due to the pending restructure. A further team member has also been on maternity leave. When planning for the year it was envisaged that the oneSource restructure would launch during the year and shortfalls to deliver the plan would be addressed post launch of the new structure. As noted above the restructure did not occur in year therefore there was a shortfall in resources to deliver the plan in year and some action to mitigate this was taken; further details are provided later in this report.
- 2.5 The service review undertaken by an independent team within oneSource in 2014/15 has sought to bring together the best of both the Havering and Newham services but also ensure the new service is striving towards best practice in the most efficient and effective manner. As a result of the service review and plans to implement a new structure there has been little service development in Havering during 2014/15.
- 2.6 In 2013/14 the Internal Audit and Corporate Risk Manager undertook an exercise to compare the internal audit function to the new Public Sector Internal Audit Standards which came into effect on 1 April 2013. The new standards were issued by CIPFA and are based on the Institute of Internal Auditors' International Standards and are mandatory. They are designed to underpin the internal audit arrangements within the Council and set standards for good practice. There has been no deviation from the service's procedures therefore this evaluation remains current. A full review against the Public Sector Internal Audit Standards will take place in 2015/16 for the new oneSource team.
- 2.7 The Internal Audit and Corporate Risk Manager is therefore able to report for 2014/15 a significant level of compliance with the Public Sector Internal Audit Standards and considers the internal audit service to be effective. No significant deviations from the Public Sector Internal Audit Standards

were identified which warrant inclusion in the Council's Annual Governance Statement. The main restriction to the service has been the vacancies within the team however this is seen as a short term loss made to facilitate the longer term gains for the Council and the service of the oneSource partnership.

### **Internal Audit Independence**

- 2.8 The Internal Audit and Corporate Risk Manager confirms that there have been no matters arising which have threatened the independence of the internal audit function during 2014/15.
- 2.9 Whilst remaining an independent assurance function the internal audit team seek to maintain strong relationships with management to ensure that appropriate actions are agreed and implemented in a timely fashion. Protocols exist to outline the roles and responsibilities of both the internal audit team and management.

### **Basis of Assurance Opinion**

- 2.10 Our assurance opinion is based on the work carried out by internal audit during the year which was planned to give sufficient assurance on the management of risks within Havering Council.
- 2.11 The 2014/15 Internal Audit Plan, of 844 days, was approved by the Audit Committee in June 2014. This does not include the resources deployed on reactive and proactive fraud work which is referred to in 4.2 below. Progress reports from the Internal Audit and Corporate Risk Manager are presented to the Committee at quarterly meetings.
- 2.12 During the year there is some flexibility needed to react to changes in risk or accommodate changes in the needs of management; the focus of audits may therefore be changed or new audits included in the programme. The plan also makes provision for internal audit to accommodate requests for advice and guidance on specific issues or investigation of specific issues. Before any tasks are undertaken risks are considered to ensure that resources continue to be used in an efficient and effective manner and tasks that provide the greatest added value to the organisation are prioritised.

### **Communication of the Annual Assurance Statement**

- 2.13 The provision of an annual assurance statement is a key duty of the Internal Audit and Corporate Risk Manager and is timed to support the production of the Council's Annual Governance Statement.
- 2.14 It will be communicated internally, prior to its presentation to Committee and will also be available on the Council's website from June 2014, within the Audit Committee Agenda.

### **3. ANNUAL ASSURANCE STATEMENT FOR 2014/15**

- 3.1 In the Internal Audit and Corporate Risk Manager's opinion, the system of internal control is satisfactory and processes to identify and manage risks are in place. The system of internal control has been weakened in recent years, as has previously been reported, and reasons are reiterated again in section five.
- 3.2 The Council continues to face significant challenges in future years, however the Corporate Management Team clearly understands these challenges and their continued impact on corporate governance and there are systems and processes in place to manage risk. In some areas audited in 2014/15 weaknesses have been identified; however action has been taken or is planned by management to address these. There is reduced capacity in services to action audit recommendations; the team strive to highlight efficient and effective controls for services to consider and ways that greater efficiency can be achieved through more effective management of risk. This message is consistent with prior year reports and will continue to be a challenge into 2015/16. More efficient and effective assurance provision is at the heart of the design of the new oneSource structure.
- 3.3 There are increased demands on internal audit to provide assurances and support management in effective management of risk. The call for compliance work is greater since the introduction of self service, in particular from senior management. Capacity in the service going forward will not meet all the demands placed upon it. The new oneSource structure will bring many advantages in terms of capacity and resilience. However, the team will have a reduced capacity overall compared to the individual services that it replaces and will have to respond to the demands of both organisations that have very different risk tolerances and control environments, so the aspiration of control and therefore assurance convergence is not yet materialising. This issue is well understood by management and will be a key risk area for the Head of Audit going forward.
- 3.4 In 2014/15 the Council did invest in activities designed to strengthen the governance framework of the organisation. A new Governance Group has been formed and one of the key roles of this group is ensuring a joined up approach to governance related issues which will have a positive impact on the control environment. This work will continue to embed in 2015/16. In addition the service review of the audit service, which includes insurance and risk Management as well as the fraud resources, has determined that specialist risk management resources would be beneficial to embed risk management more robustly across both parent organisations. This will also be beneficial to the system of internal control by being preventive which should reduce the burden on the service for reactive work when risks materialise.

- 3.5 This opinion is based on a programme of audit work which was delivered:
- In accordance with the approved Internal Audit Plan;
  - By suitably experienced and qualified auditors;
  - In accordance with the Public Sector Internal Audit Standards; and
  - To standards accepted by the Council's external auditors.
- 3.6 The following has also been considered:
- The acceptance of audit recommendations and progress noted in year to implement required changes;
  - The results of follow up work on limited assurance audit areas; and
  - Whether any fundamental or significant recommendations have not been accepted or implemented by management and the consequent risk.
- 3.7 Section 4 of this report details the work completed by the team and the key issues arising.

#### **Inherent qualifications to the assurance opinion**

- 3.8 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, not absolute, assurance of effectiveness.

### **4. WORK THAT SUPPORTS THE OPINION**

#### **4.1 Systems Audit and Computer Audit**

- 4.1.1 Appendix A contains details of the audit plan with the status and outcome of each audit.

#### **4.2 Fraud Work**

Reactive Work and Special Investigations:

<b>Reactive Workload Outcomes</b>		<b>Outcome</b>
Management Action Plan	11	
Resigned	6	Fraud
Disciplinary	9	
Dismissal	2	Fraud
No Case To Answer	25	
Withdrawn Application	4	Fraud
Reduced Direct Payment	1	Fraud
Prosecution	1	Fraud
<b>Total</b>	<b>59</b>	

- 4.2.4 At the commencement of the financial year a contingency of 275 days was provided to carry out investigations into suspected fraud issues reported by management or via the fraud or whistle blowing hotline. Due to a larger than anticipated caseload 340 days were delivered in year.

Pro-active:

<b>Proactive Workload Completed</b>	
Q1	Expenses
Q1	Home Ownership
Q1	Dismissed/Redundant/Agency
Q4	LD Residential Care
Q4	Blue Badges

- 4.2.5 Appendix B details the status of the proactive fraud plan.
- 4.2.6 Work to support management in the prevention of fraud has continued throughout 2014/15 both based on risk analysis and in areas identified through reactive and proactive work. A number of fraud awareness training sessions were provided and a Fraud Response Plan produced.

<b>Advice &amp; Assistance</b>		
	<b>Cases</b>	<b>C/F</b>
Directors	57	2
Local Authority	17	0
Fraud Hotline	32	4
	<b>106</b>	<b>6</b>

- 4.2.7 £130,030.12 savings were identified and recovered through corporate fraud activity during 2014/15 and £24,170 losses identified and not recovered.
- 4.2.8 The Corporate Fraud Team tracked the completion of all 126 recommendations made to services in 2014/15, of which 118 have been implemented and eight are not due until later in the year

### **4.3 Follow Ups**

- 4.3.1 The audit team track the completion of all audit recommendations. Information regarding outstanding recommendations is reported as part of the quarterly report to Audit Committee. Annually the Audit Committee receive a full list of all outstanding recommendations.
- 4.3.2 There were six 'limited assurance' reports in 2013/14. Follow up work was undertaken on five of these during 2014/15. Two of the follow ups were reported under one report; therefore only four reports were reported to Audit Committee during 2014/15.

#### **4.4 Schools**

- 4.4.1 Seven schools were audited in 2014/15 of which six were given 'substantial assurance' and one was given a 'nil assurance'. The school given a 'nil assurance' will be followed up during 2015/16.
- 4.4.2 The schools audit programme has been adapted throughout the year to take into account new and emerging risks.
- 4.4.3 During 2014/15 the undertaking of the school's health checks transferred from education finance to internal audit. As part of the traded services on offer to all authority maintained schools within the borough, schools are able to buy in an audit health check. The health checks provide schools with an independent assurance between their triennial audits. These have been very well received by the schools.

#### **4.5 Other Outside Assurances**

- 4.5.1 Reports produced by other inspection bodies or assurance providers are also reviewed. Planned work is taken into account when the plan is produced and for unplanned inspections the plan is revised to avoid duplication in the scope of work.

#### **4.6 Risk Management Arrangements**

- 4.6.1 Work to implement a new approach to risk management took place throughout 2014/15. An Operational Risk Management Group met periodically to discuss risk issues and report back to Corporate Leadership Team as appropriate. The Group also reviewed the Corporate Risk Register and Service Risk Registers.

#### **4.7 Review of Other Strategies**

- 4.7.4 Other corporate arrangements and strategies such as the Internal Audit Strategy are reviewed annually and approved by Audit Committee. Most strategies were not reviewed in 2014/15 and this is an early task planned as the new teams are formed post restructure. The strategies remained current for 2014/15 and there were no major changes required.

### **5. KEY MESSAGES**

#### **5.1 Organisational Change**

- 5.1.1 As was concluded for the last three years within this report, many of the control weaknesses identified this year can be attributed to the pace of organisational change that has been required to achieve the savings targets. Teams across the Council have become smaller and the self service model has led to changes in the control environment. Gaining assurance regarding compliance continues to be a challenge and often an ad hoc task rather than part of the system of internal control. Compliance work undertaken by audit has indicated non-compliance within systems



and processes. Balancing the risks against the cost of the control environment continues to be a challenge for senior management. In 2014/15 the most significant change was the creation of oneSource, however as a result of the service reviews there will be significant redesign of processes to ensure value for money. As long as risk remains at the forefront of the redesign of process then the system of internal control can strengthen even with reduced capacity. Internal audit will need to be at the forefront of the work supporting managers and providing assurances with regards the achievement of objectives.

- 5.1.2 Audit work and investigations into suspected fraud often conclude that basic controls are lacking from processes including lack of segregation of duties or quality checks by management. This issue will be picked up as part of our fraud awareness and training plan.

## **5.2 One Oracle**

- 5.2.1 The One Oracle implementation in 2014/15 provided some opportunity to strengthen the system of internal control; collaborative working with other organisations reduces the input required to update and maintain the governance framework and encourages sharing of best practice. Key financial audits in 2014/15 have reviewed the control environment; some work was still ongoing when this report was prepared. An external review of the configuration and segregation of duties in the system was also completed at the end of 2014/15 which will also provide both a good level of assurance but also some recommendations to further improve the controls. The Oracle Module Governance, Risk, Compliance and Control would further strengthen the control environment and work to consider the benefits of this is underway. Internal audit has worked alongside relevant services to review this and will continue to do so going forward.

## **5.3 Declarations of Interest**

- 5.3.1 In 2014/15 it was noted that a theme had developed in recent years with regard to the need to strengthen the robustness of the process regarding declarations of interest and the understanding within the organisation of what is acceptable. The Council has set the tone in accordance with its Fraud Strategy, Code of Conduct and Disciplinary Policy and taken action against those identified as not behaving in a manner fit for an officer in public service. This issue has been reported to the Governance Group and an action plan has been developed. The risks and issues in this area will also continue to be monitored and assurance provided by internal audit.

## **5.4 Conclusion**

- 5.4.1 The issues detailed above have been considered as part of the process to produce the 2014/15 Annual Governance Statement. These issues have also been considered during the annual audit planning process and will also be picked up within individual audits as applicable during 2015/16.

## **6. INTERNAL AUDIT QUALITY ASSURANCE**

### **6.1 Liaison with Other Boroughs**

- 6.1.1 The Internal Audit and Corporate Risk Manager or an audit team member, attends the London Audit Group and other relevant training and networking events in order to benefit from presentations and discussions on new emerging risk areas and share issues arising and best practice. The team also have informal links with teams in neighbouring boroughs and due to oneSource links with the London Borough of Newham these have been strengthened.

### **6.2 Delivery of Planned Audit Work**

- 6.2.1 90% of the 2014/15 Internal Audit Plan was delivered as at 2<sup>nd</sup> April 2015. The plan was flexible to accommodate the needs of management. Five audits have been deferred to the 2015/16 plan due to timing issues. The remainder of the plan is expected to be delivered in the first quarter of 2015/16.
- 6.2.2 The Audit Committee and Corporate Management Team receive performance reporting quarterly.

### **6.3 Internal Audit Reports & Assurance Levels Given in 2014/15**

Assurance Opinion	Number of Audits	%
Full	1	3
Substantial	20	54
Limited	9	24
Nil	1	3
N/A	6	16
Totals	37	100

### **6.4 Audit Recommendations Raised in 2014/15**

Recommendations	Number of Recs	%
High	29	21
Medium	84	63
Low	21	16
Totals	134	100

### **6.5 Feedback from Auditees**

Rating	Number of Replies	%
5 (Very Good)	131	70
4 (Good)	48	26
3 (Satisfactory)	8	4
2 (Poor)	0	0
1 (Very Poor)	0	0
Totals	187	100

Following every audit, the managers receiving the audit report were sent a feedback survey form. 100% of the feedback received rated the service satisfactory or above. All comments received from managers are reviewed monthly and fed into the team's one to one meetings and the new Performance Development Review process.

**APPENDIX A: POSITION OF THE 2014/15 INTERNAL AUDIT PLAN  
AS AT 31/03/2015**

	<b>Audit Title</b>	<b>Status End Qtr4</b>	<b>Report Assurance</b>
<b>Corporate</b>	Prepaid Cards	Final	Substantial
	Use of Volunteers	Removed	
	Car Pool Scheme	Moved to 15/16 Plan	
	North East Purchasing Organisation (NEPRO)	Final	N/A
	Talent Link	Final	N/A
	Governance Review	Final	N/A
<b>Culture, Community &amp; Economic Dev.</b>	Youth Services	Final	Substantial
	Environmental Protection & Housing	Final	Limited
	Waste Contract Management	Draft	
	Payments to Contractors (Road & Pavement Defects)	Final	Limited
	Carbon Reduction Commitment	Final	N/A
<b>Resources (Finance &amp; Commerce)</b>	Council Tax (13/14)	Final	Substantial
	Housing Benefit (13/14)	Final	Substantial
	Budgetary Control (13/14)	Final	Substantial
	Main Accounting (13/14)	Final	Substantial
	Accounts Receivable (13/14)	Final	Substantial
	Payroll (13/14)	Final	Substantial
	Pensions (13/14)	Final	Substantial
	Bankers Automated Clearing System	Final	Limited
	Long Term Sickness	Final	Nil
	Council Tax	Fieldwork Commenced	
	Housing Benefit & Council Tax Support	Fieldwork Commenced	
	Construction Industry Scheme	Final	Substantial
	Accounts Payable (Pre One Oracle Implementation)	Final	Substantial
	Accounts Receivable (Pre One Oracle Implementation)	Final	Substantial
	Payroll (Pre One Oracle Implementation)	Final	Substantial
	Main Accounting (Pre One Oracle Implementation)	Final	Substantial
	Accounts Payable	Fieldwork Commenced	
	Accounts Receivable	Fieldwork Commenced	
	Payroll	Fieldwork Commenced	
	Pensions	Fieldwork Commenced	
	Budgetary Control incl. Collaborative Planning	Fieldwork Commenced	

	Audit Title	Status End Qtr4	Report Assurance
	Main Accounting	Removed	
	ISS - Post One Oracle	Removed	
	One Oracle - PWC Review	Fieldwork Commenced	
	i-Procurement	Removed	
	Members Allowance Payments	Final	Limited
Children, Adults & Housing	Housing Capital	Final	Substantial
	Housing Allocations	Final	Limited
	Housing Rents	Final	Limited
	Contracts & Procurement	Removed	
	TMO's	Final	Limited
	Gas Safety Regulations (Building Services)	Final	Substantial
	Gas Safety Regulations (Home Ownership)	Final	Limited
	Service Charges	Draft	
	Development - Special Purpose Company to Deliver Housing	Fieldwork Commenced	
	Responsive Maintenance	Fieldwork Commenced	
	Children & Families Bill	Final	N/A
	Out of Area Placements	Removed	
	Adult Safeguarding	Removed	
	Adult Commissioning	Removed	
	Special Educational Needs - C&FG Act	Removed	
	Pupil Place Planning	Moved to 15/16 Plan	
	Manor Green Pupil Referral Unit	Fieldwork Commenced	
Schools	Benhurst Primary	Final	Substantial
	Squirrels Heath Infant	Final	Substantial
	Towers Junior	Final	Substantial
	St. Edwards CE Primary	Final	Substantial
	Brady Primary	Final	Substantial
	Parklands Junior	Final	No
	St Patricks RC Primary	Final	Substantial
IT Audits	PARIS	Final	Limited
	End to End Service, Data Centre & Disaster Recovery	Removed	
	Remote Access	Moved to 15/16 Plan	
	Off Site Storage	Moved to 15/16 Plan	
	3 <sup>rd</sup> Party Connections	Fieldwork Commenced	
	ID Smart Cards	Moved to 15/16 Plan	
	Compliance with 10 Steps of Cyber Security	Removed	

	Audit Title	Status End Qtr4	Report Assurance
	Malware	Fieldwork Commenced	
	Operating Systems Follow Up	Final	Substantial
Follow Ups	Audit Recommendations	On-going	N/A
	Information Governance	Final	Substantial
	Tenancy Management	Final	Substantial
	LAC Placements	Final	Substantial
	Emergency Assistance Scheme	Final	Full

## DEFINITIONS OF ASSURANCE LEVELS

For each risk based audit where controls have been analysed, an assurance statement is issued. This simple grading mechanism provides an indication of the level of confidence in the controls in operation and the extent to which they are being applied. Each category is defined below:

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

## PRIORITY OF RECOMMENDATIONS

Recommendations are made to mitigate weaknesses identified in the system of control. Recommendations are categorised into three levels of priority to ensure that those addressing areas of significant risk are implemented as a priority. The three categories comprise:

- High:** Fundamental control requiring implementation as soon as possible.
- Medium:** Important control that should be implemented.
- Low:** Pertaining to best practice.

**Appendix B: Corporate Fraud Proactive Audit Plan Progress 2014/15**

<b>Description</b>	<b>Risks</b>	<b>Plan days</b>	<b>Qtr 4 Status</b>
Grants	Identification of grants provided to charity organisations to inspect and confirm that supporting documentation for expenditure is valid and used for the purpose intended in the original application or as stipulated by the Council on approval of the grant. Review formal acceptance documentation and payment and bank records to ensure payments are accounted for.	20	In progress
Payment of Election expenses	Review appointment of staff, entitlement, and payment of fees/arrangements including postal votes and counting. Completion of claims and receipt.	10	In progress
Learning & Physical Disability Residents	Review bank accounts, building society accounts, income and expenditure records and receipts.	20	Final Report
Internet Abuse - Review of blocked sites	Bluecoat reporting to ascertain if employees are attempting to access blocked internet sites.	10	In progress
Blue Badge	Identification of procedures to ensure records retained and maintained and badges are recovered following death. That badges are used in accordance with the legislation.	10	Final Report
NNDR	A full review of the NNDR process to gain a position statement and establish the recovery levels to date and possible weaknesses in system particularly with Charities and 'Pop Up Shops'	20	Delayed due to Restructure of service team
Direct Payment Assessments	This to include the assessment and payment calculations and follow ups with the Care Assessors to establish processes and evaluate controls.	15	Planned
Employee Applications	This could involve any applications, including attempts to gain employment or subsequently where any of the details prove to be false including, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.	20	Planned

Description	Risks	Plan days	Qtr 4 Status
Procurement of Services	False payments to contractors for house modifications, either by internal or external persons or companies including, but not limited to: violation of procedures; manipulation of accounts; records or methods of payment; failure to supply; failure to supply to contractual standard.	15	Planned
Debt Avoidance	This is any fraud linked to the avoidance of a debt to the organisation including, but not limited to: council tax liabilities (do not include SPD from question 4.1); rent arrears; false declarations; false instruments of payment or documentation.	15	Planned
Payroll	This includes, but is not limited to: the creation of non-existent employees; unauthorised incremental increases; the redirection or manipulation of payments; false sick claims; not working required hours; or not undertaking required duties .	30	Planned
NFI	The match identifies addresses where the householder is claiming a council tax single person discount on the basis that they are the only occupant over 18 years of age yet the electoral register suggests that there is somebody else in the household who is already or approaching 18 years of age. This may or will make the SPD invalid.	30	Planned
	<b>TOTAL</b>	<b>215</b>	