Havering
LONDON BOROUGH

AUDIT COMMITTEE
27 September 2016

Subject Heading:	Head of Assurance Quarter 1 Progress Report: 4th April 2016 to 3rd July 2016
CMT Lead:	Jane West, Managing Director oneSource
Report Author and contact details:	David Hogan, Head of Assurance Tel: 0203 045 4943 E-mail: david.hogan@bexley.gov.uk
Policy context:	To inform the Committee of progress on the Assurance work undertaken in quarter one of 2016/17.
Financial summary:	N/A

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

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

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 4th April 2016 to 3rd July 2016.

RECOMMENDATIONS

1. To note the contents of the report.

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

REPORT DETAIL

This progress report contains an update to the Committee regarding Internal Audit activity. The report is presented in three sections.

Section 1   Introduction, Issues and Assurance Opinion

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

Section 3   Appendices Provide supporting detail for members information

Appendix A Detail of Quarter One Internal Audit Work (4th April 2016 to 3rd July 2016)
Appendix B Summary of Audit Reports
Appendix C List of High Priority Audit Recommendations
Appendix D Copy of Audit Structure

IMPLICATIONS AND RISKS

Financial implications and risks:

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

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. 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 obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. Such failures may result in financial losses for the Council.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

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

Equalities implications and risks:

None arising directly from this report.

<div style="text-align:center; border:2px solid black; display:inline-block; padding:10px;">

BACKGROUND PAPERS

</div>

N/A

Section 1: Introduction, Issues & Assurance Opinion

1.1   Introduction

1.1.1   The composite report brings together all aspects of internal audit and anti-fraud work undertaken in Quarter One 2016/17 in support of the Audit Committee's role.

1.1.2   The main body of the report provides the Head of Assurance's ongoing assurance opinion on the internal control environment and highlights key outcomes from audit and anti-fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide greater detail for the Committee's information.

1.1.3   The audit plan was developed to provide maximum assurance using the internal audit resource available. The full oneSource plan contains 1,900 days.   602 days have been allocated to Havering audits and 395 days to auditing oneSource services across both authorities.

1.1.4   The 2016/17 planned audit days of 997 for Havering and oneSource audits was an increase of 24.6% (197), compared to 2015/16.

1.1.5   The oneSource service transformation restructure was formally launched on the 15th April and closed on the 31st May 2016; this included the new partner-Bexley. The structure went live late August. This will deliver additional resilience and savings and efficiencies required in line with the Joint Committee Business Case. However, the remainder of this financial year will be a transitional Year. Given the challenge of the restructure, which has not been fully populated, the number of days in the plan was ambitious and needs to be reviewed to reflect the actual position.

1.2   Current/Future Key Issues

1.2.1   The oneSource Assurance Service restructure was completed in August. This will deliver additional resilience, savings and efficiencies for all 3 boroughs (Newham, Havering and Bexley).

1.2.2   The proposed Target Operating Model was agreed by the three partner statutory Section 151 Finance Officers, will be fit for purpose and achieve significant long term benefits for all three Councils. Expenditure reductions will be achieved by sharing management posts, removing management duplication, and by improving the effectiveness and efficiency of processes. This will make the services more resilient in the current challenging financial climate. Additionally, there will be benefits achieved by fully exploiting the synergies that exist between Internal Audit, Counter Fraud, Risk Management and Insurance.

1.2.3   This will be a transitional year whilst we develop a "One Policy, Strategy and Procedure" approach, in line with the principles in the business case that will ensure duplication is removed and partners receive the same service standard. A fundamental review of current plans, resources and targets will be undertaken

given that the structure is not fully populated yet. However all work will be risk assessed to ensure that High Risk work is prioritised.

1.2.4 A structure chart is attached, as Appendix D, with key staff and their contact details.

1.2.5 The previous Interim Head of Internal Audit chaired the officer working group, which seeks to strengthen the Officer Governance Group. The Governance Group met in April 2016 and considered progress against the significant governance issues in the 2014/15 Annual Governance Statement. The group considered areas for inclusion for this year's Annual Governance Statement, which was presented to the Audit Committee in June.

1.3   Level of Assurance

1.3.1 In June 2016, Members received the Head of Internal Audit's opinion based upon the work undertaken in 2015/16, which concluded that reasonable assurance could be given that the internal control environment is operating adequately.

1.3.2 Based upon the work undertaken since the last update to Members, no material issues have arisen which would impact on this opinion. There were no Nil or Limited assurance reports issued.

Section 2: Executive Summary of work undertaken in Quarter 1 2016/17

2.1.1 Delivery of the Audit Plan is below anticipated for the reasons identified in Section 1. There were no changes to the 2016/17 Audit Plan in quarter one.

2.1.2 Of the 61 Audit recommendations previously made, 22 were categorised as "High Priority" (Appendix C sets out the list). Fifteen of these were completed, six are in progress and one has been superseded.

2.1.3 The performance against key performance indicators is below target. The restructuring process inevitably had a significant impact and it should also be noted that one member of staff was on long term sick.

2.2.1 Proactive audit work undertaken in quarter one is shown within Appendix A.

2.2.2 The proactive audit work received three new referrals in quarter one, which are currently being investigated.

2.3.1 During quarter one the criminal investigation team:
- recovered four housing properties with a nominal saving of £72,000;
- had four Right to Buy applications withdrawn;
- served three Notice to Quits which are currently being pursued through the appropriate channels; and
- referred one case to HB Fraud.

Appendix A: Quarter One Internal Audit Work (4ᵗʰ April 2016 to 3ʳᵈ July 2016)

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

1.1.2 The team undertake:
  ➢ Risk based systems audits;
  ➢ Review grant claims;
  ➢ Provide consultancy advice for new and developing systems;
  ➢ Provide assurance with regard to compliance with policy and procedure;
  ➢ Undertake school probity audits;
  ➢ Undertake audit health checks on schools on behalf of the Head of Learning and Achievement; generating an income for the team;
  ➢ Proactive Audit Investigations;
  ➢ Reactive Audit Investigations;
  ➢ Criminal / fraud Investigations and
  ➢ HR Investigations.

1.1.3 The Audit Committee approved an Annual Audit Plan for the 2016/17 financial year totalling 602 days to Havering Audits, 395 days to auditing oneSource service across both authorities. The table below compares the approved audit plan for this year and the previous two years.

	2014/05	2015/16	2016/17
oneSource	-	55	395
Havering Risk Based Systems Audits	844	560	602
Havering Proactive*	235	185	-
Total	867	800	997

* A separate proactive budget allocation was not included in the original Audit Plan approved by members in June 2016.

1.1.4 There have been no risk based systems audits removed from or added to the 2016/17 approved audit plan during quarter one. However, as stated in the report following the restructure, which has not been fully populated, the plan will need to be reassessed and Members advised at a future meeting.

1.2   Risk Based Systems and School Audits

1.2.1 As at the 3ʳᵈ July 2016, no assignments had been completed but 29 were in progress but had not reached final report stage.

1.3   Key Performance Indicators

1.3.1 The table below details the profiled targets and the performance to date at the end of June 2016. The total number of planned audits, where there was a standard approach to deliverables for 2016/16 is 72.

Performance Indicator	Quarter 1 Target	Quarter 1 Actual	Quarter 1 Variance
Percentage of Audit Plan Delivered	25	21	-4
Number of Briefs Issued	21	30	+9
Number of Draft Reports Issued	15	2	-13
Number of Final Reports Issued	7	0	-7

1.4   Outstanding Audit Recommendations Update

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

1.4.2   This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high priority recommendations.

1.4.3   Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified.   The three categories comprise:
- High: Fundamental control requirement needing implementation, as soon as possible.
- Medium: Important control that should be implemented.
- Low: Pertaining to best practice.

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

1.5 Outstanding Audit Recommendations				No. of Recommendations in the Original Report			Position as at 03/07/16	
Audit Year	**Area Reviewed**	**Director / HoS Responsible**	**Assurance Level**	**H**	**M**	**L**	**Complete**	**In Progress**
12/13	Transport	Asset Management	Substantial	1	4	2	6	1
			2012/13 Totals	**1**	**4**	**2**	**6**	**1**
13/14	Tenancy Management	Homes & Housing	Limited	0	14	0	13	1
			2013/14 Totals	**0**	**14**	**0**	**13**	**1**
14/15	Gas Safety (Building Services)	Homes & Housing	Substantial	1	4	3	5	3
14/15	Manor Green PRU	Children's Services	Nil	17	10	0	22	5
14/15	Responsive Maintenance	Homes & Housing	Substantial	1	6	0	0	7
			2014/15 Totals	**19**	**20**	**3**	**27**	**15**
15/16	Accounts Payable	Exchequer & Transactional Services	Substantial	0	2	0	1	1
15/16	Accounts Receivable	Exchequer & Transactional Services	Substantial	0	3	0	2	1
15/16	Service Manager (ISS)	Exchequer & Transactional Services	Limited	2	1	0	0	3
			2015/16 Totals	**2**	**6**	**0**	**3**	**5**
			Totals	**22**	**44**	**5**	**49**	**22**

2.1   Proactive Audit Investigations

2.1.1 Proactive work undertaken during quarter one is shown below:

Description	Risks	Quarter 1 Status
Purchase Card	Members request into the Council expenditure via Purchase Cards following National Newspaper headlines reporting inappropriate expenditure in Council's	Complete
Whistleblowing	All whistleblowing referrals	Ongoing
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation.	Ongoing
Freedom of Information Requests	To undertake all Freedom of Information Requests relating to Internal Audit Investigations.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately.	Ongoing
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance.	Ongoing
Advice to Local Authorities	All Data Protection Act requests via Local Authorities, Police etc.	Ongoing

2.1.2 The proactive audit investigation work comprises two elements:
  ➢ A programme of proactive audit investigations; and
  ➢ Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.

2.2   Reactive Audit Investigation Cases

2.2.1 The table below provides the total cases at the start and end of the quarter as well as referrals, cases closed and cases completed.

Caseload Quarter 1 2016/17						
Cases at start of quarter	Referrals received	Referred To Criminal Fraud Team	Referred to HR	Audit Investigations		
				Not Proven Cases	Successful Cases	Cases at end of quarter
0	3	0	0	0	0	3

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

Source and Number of Referrals Quarter 1 2016/17	
Number of Referrals/ Type	**IA Reports Qtr 1**
Anonymous Whistleblower	0
External Organisations / Members of the Public	0
Internal Departments	3
Total	**3**

2.2.3 The table below shows the number and categories of Audit Investigation cases at the end of the quarter 1, compared to the quarter 4 totals.

Reports by Category		
Audit Investigation Category	**Previous Cases Qtr 4**	**Current Cases end of Qtr 1**
PC – Misuse and Abuse	0	0
Breach of Code of Conduct	0	2
Breach of Council Procedures	0	0
Misuse of Council Time	0	0
Direct Payments	0	0
Theft	0	0
Disabled Facility Grant	0	0
Procurement Fraud	0	1
Money Laundering	0	0
Total	**0**	**3**

2.2.4 The table below shows the case outcomes for the Internal Audit Investigations from April to June 2016.

Case Outcomes	
Outcome	**Qtr 1**
Management Action Plan	0
Resigned	0
Disciplinary	0
No case to answer	0
Withdrawn Application	0
Total	**0**

2.3 Savings and Losses

2.3.1 The investigations carried out by Audit Investigations provide the Council with value for money through:
  ➤ The identification of monies lost through fraud and the recovery of all or part of these sums; and
  ➤ The identification of potential losses through fraud in cases where the loss was prevented.

2.3.2 There have been no savings or losses identified during quarter one of 2016/17.

2.4   Audit Investigation Recommendations

2.4.1 In 2015/16 there were 27 'Recommendations Not Yet Due' carried forward. No recommendations were made at the end of June 2016 and none are outstanding to the agreed implementation date.

3.1   Criminal Investigations Team

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

Housing Investigations – Visiting Team			
Quarter One	**Tenancy Audit Visits**	**Tenancy Audits (Checks) completed**	**Referrals from Audit to Fraud**	**NFA'D**
April	1,372	313	55	258
May	1,275	290	15	275
June	1,883	625	14	611
YTD	4530	1228	84	1144

Investigation Team							
Quarter One	**Cases Under Investigation (open cases)**	**NFA'D**	**Notice to Quit Served**	**Possession Order Granted**	**Total Properties Recovered**	**Cases referred for HB Fraud**	**RTB cancelled through audits**
April	27	28	1	1	1	1	2
May	149	39	1	1	3	0	2
June	133	18	1	1	0	0	0
YTD	309	85	3	3	4	1	4

3.1.2 Outcomes for the quarter include the following;
- Four properties were recovered with a nominal value of £72k;
- Four Right to Buy applications were withdrawn;
- Three Notice to Quits were served and are currently being pursued through the appropriate channels; and
- One case has been referred to HB Fraud.

Appendix B Summary of Audit Reports

There are no summary reports for quarter one.

Appendix C: List of High Risk Recommendations and status

Of the 22 high priority recommendations due, 15 have been completed, 6 remain in progress and 1 has been superseded.

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
12/13	Transport	Asset Management	Management should ensure that: • Members of staff should submit CRB renewals prior to expiration; • CRB renewals are followed up if a response has not been received in a timely manner; and • Members of staff should not be permitted to work with vulnerable people if a CRB renewal has not been submitted or a response has not been received in a timely manner.	Complete
14/15	Gas Safety (Building Services)	Housing Services	Procedures are documented and communicated so that contractors know what processes to follow in the event of them finding a property that is over occupied or in an uninhabitable state of repair or if they suspect a vulnerable person is subject to neglect or abuse.	Complete
14/15	Manor Green PRU Follow Up	Children's Services	Declarations of Interest should be signed (annually) by all members of the Management Committee and those staff involved in financial processes / making financial decisions for the College.	Complete
			The SFVS for the financial year 2015/16 should be completed and approved by the Management Committee, before being submitted to the Council's LMS Team.	Superseded
			The College's performance targets should be clearly documented, ensuring that sufficient systems are in place to capture the information needed to monitor performance.	Complete
			A College Improvement Plan should be documented and made available to all staff. This plan should clearly identify: · Objectives; · How success will be achieved; · Responsible Officer; and	Complete

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			· Any cost / resource implications (linked to the budget).	
			The College should clarify the current arrangements for all campuses and where necessary ensure that appropriate service level agreements are in place setting out responsibilities and applicable costs.	In Progress
			The College should produce a documented Asset Management Plan setting out remedial and improvement related works across all sites, including: · Priority of the work; · Estimated costs; and · Expected timescale for completion.	In Progress
			Emergency Planning / Business Continuity arrangements covering both the College and the individual campuses should be documented and made available to all staff.	In Progress
			All staff should be required to complete a driving declaration that identifies whether they use their car for work purposes. For those that declare they do use their car for work purposes, the full driving checklist should be completed to verify eligibility.	Complete
			The College must register with the Information Commissioner for Data Protection.	Complete
			The College should ensure that appropriate records are maintained at each campus of all assets. Records should be checked annually for accuracy and results reported to the Management Committee.	Complete
			Formal budget monitoring should be undertaken and documented. This should include explanations of variations to projected spend and should be submitted to Committee members in advance of meetings to ensure sufficient time is available for the information to be analysed before the meeting.	Complete
			Bank reconciliations should be: · Completed regularly (in line with Financial Regulations / Finance Policy); and · Appropriately signed by the Executive Head; and Submitted to LMS by the	Complete

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			deadline.	
			The College should drive down the number of retrospective orders being placed, to allow funds to be committed against the budget at the earliest opportunity and ensuring the accuracy of budget monitoring processes.	Complete
			Key procurement documents to be in place and signed by an appropriate authorised signatory in line with corresponding financial limits.	Complete
			The College should ensure that all petty cash and charge card procedures have been embedded at each of the campuses and that all documents are sufficiently completed / signed to evidence compliance with these procedures.	Complete
			Timesheet information should be supplied to the Business Manager to allow checks on the payroll report to include checks on these payments.	Complete
			The College should engage with the Council to explore the possibility of using Personnel Links to allow efficient and effective monitoring of payroll related payments.	Complete
14/15	Responsive Maintenance	Housing Services	Work should be undertaken to investigate and resolve the issues with the data interface between systems to ensure that only accurate information is being used.	In progress
15/16	Service Manager (ISS)	oneSource	Training to be undertaken by those staff responsible for creating performance reports.	In progress
			Reports to created/ extracted that accurately reflect the performance against agreed objectives.	In progress

Audit Committee, 27 September 2016

APPENDIX D: COPY OF AUDIT STRUCTURE

```
                                    David Hogan
                                    Head of Assurance
                                    LBB
                                    0203 045 4943
```

Stuart Moore	Emma Vick	Stephen Stuchbury
Deputy Head of Assurance (Audit & Consultancy) LBB 0203 045 4947	Deputy Head of Assurance (Pro-Active Audit & Counter Fraud) LBN 0203 3739793	Principal Risk & Insurance Manager LBB 0203 045 4984

| Nicole Metivier Audit Partner (Systems & Schools) LBN | | Maria Denton Audit Partner (Assurance & Consultancy) LBH | Phil Harris Audit Partner (Pro-Active Audit & Counter Fraud) LBH | | Paula McLoughlin Insurance & Risk Manager LBH |

| Principal Auditor (Systems & Schools) 1 x LBH | | Principal Auditor (Assurance & Consultancy) 1 x LBN | Principal Fraud Investigator 1 x LBN | Senior Fraud Investigator 1 x LBH | Insurance Officers 1 x LBB 2 x LBH 2 x LBN |

| Principal Auditors 2 x LBN 2 x LBH 1 x LBB | Senior Auditors 1 x LBN 1 x LBB | Auditors 1 x LBN 1 x LBB | Fraud Investigators 2 x LBN 2 x LBB (DCLG Partnership) | Financial Investigator 1 x LBN | Risk & Insurance Assistants 1 x LBB 1 x LBN |

3 x Senior Auditor - vacant

1 x Auditor/Trainee - vacant

1 x Partnership Claims Co-ordinator - vacant

1 x Trainee/Apprentice - vacant