



AUDIT COMMITTEE

21 June 2017

Subject Heading:

Interim Head of Assurance –
Quarter Four Progress Report

CMT Lead:

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Policy context:

To inform the Committee of progress on
the assurance work undertaken in quarter
four 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 & counter fraud teams during quarter four 2016/17, and includes the overall outturn for 2016/17.

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 four.

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

Appendix A: Detail of Quarter Four Internal Audit work

Appendix B: Current Status of 2016/17 Audit Plan

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 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.

BACKGROUND PAPERS

N/A

Section 1: Introduction, Issues and Assurance Opinion

1.1 Introduction

- 1.1.1 The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) 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, 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.

- 1.1.3 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 Members of the Assurance Service have been involved in work with the Section 151 Officer, Monitoring Officer and Director of Finance for oneSource to refresh the Governance Group arrangements and the approach to collating evidence for the Annual Governance Statement. They have also been working with senior management to update risk registers, and to integrate Audit and Counter Fraud Plans with those. Horizon scanning work has already taken place with other Heads of Audit and through the Croydon Framework to identify common risk and audit themes. Updated Risk Registers and Audit Plans for 2017/18 were approved by the Audit Committee in May, which reflected this revised approach.
- 1.1.6 Members will be aware that the full range of Assurance Services; Internal Audit, Counter Fraud, Risk Management & Insurance, are now delivered by a shared service with LB Bexley and LB Newham as part of oneSource. The new structure has started to deliver additional resilience, financial savings and the operational efficiencies required in challenging financial times. This has been

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achieved by sharing management posts, removing management duplication, and by improving the effectiveness and efficiency of processes.

- 1.1.7 Members were previously advised that 2016/17 will be a transitional year whilst the service develops a consistent approach, in line with the principles in the business case that will ensure duplication is removed and partners receive the same service standard. A number of other authorities have expressed an interest in the model and any controlled expansion of the arrangements would benefit the member Boroughs.
- 1.1.8 This composite report brings together all aspects of internal audit and anti-fraud work undertaken in quarter four, 2016/17, in support of the Audit Committee's role. It also summarises the overall outturn position against the 2016/17 audit plan.
- 1.1.9 The report supports 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 specific detail of outputs for the Committee's information.

1.2 Level of Assurance

- 1.2.1 At the March Committee meeting, Members received the Head of Assurance opinion based upon the work undertaken in quarter three of 2016/17, which concluded that reasonable assurance could be given that the internal control environment is operating adequately.
- 1.2.2 Based upon the work undertaken since the last update to Members, no material issues have arisen, which would impact on this opinion. No limited assurance reports were issued in quarter four.

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

- 2.1.1 There have been ten reports issued in quarter four; five of these were given substantial assurance and five were given moderate assurance. There were no reports with limited assurance.
- 2.1.2 Of the 43 recommendations raised in the reports issued in quarter four; there were four high risk recommendations, 29 medium and 10 low. Details of all outstanding (ie. those not implemented) recommendations raised in 2016/17 audits are provided in Section 3.5 of Appendix A.
- 2.1.3 Appendix B shows the current status of the 2016/17 audit plan.
- 2.2.1 The Audit Partner (Pro-Active Audit & Counter Fraud) received three new referrals in quarter four.
- 2.2.2 Five cases have been completed during the quarter resulting in:
- One resignation;
 - One dismissal; and
 - Three No Case to Answer.
- 2.3.1 During the quarter the investigations team:
- Recovered six properties with a notional value of £108,000; and
 - Had Ten Right to Buy applications withdrawn with a notional value of £870,000.
- 2.3.2 The total net savings for the Tenancy Fraud Project from October 2015 to March 2017 is £4.011m.

Appendix A

3. Quarter Four Internal Audit Work

3.1 Risk Based Systems and School Audits

- 3.1.1 The table below details the ten final reports issued in quarter four. It should be noted that no limited assurance reports were issued in quarter four. It should also be noted that the Direct Payments (Adults) follow up shows an improvement in the control issues identified in the full audit conducted in the year and the assurance level was lifted from Limited to Moderate to reflect this improvement.

Report	Assurance	Recommendations			
		High	Med	Low	Total
System Audits					
Corporate Property Portfolio Management	Substantial	0	0	0	0
Troubled Families Grant - January 2017 Claim	Substantial	n/a	n/a	n/a	n/a
Disabled Facilities Capital Grant	Substantial	n/a	n/a	n/a	n/a
Direct Payments (Adults) Follow Up	Moderate	2	3	0	5
Third Party Connections Follow Up	Substantial	0	0	0	0
School Audits					
Clockhouse Primary	Substantial	0	2	2	4
Hacton Primary	Moderate	0	6	2	8
Harold Wood Primary	Moderate	1	7	2	10
Mawney	Moderate	0	4	3	7
Towers Infants	Moderate	1	7	1	9
Total		4	29	10	43

The high risk recommendations raised in Quarter 4 are detailed below:

Audit	Recommendation
Direct Payments (Adults) Follow Up	The Children's Direct Payment and Adults Direct Payments Policies should be put in place and approved. (Children's is included here because the policy that was used during the audit included both Children's and Adults so the recommendation raised is to ensure there will be 2 separate policies going forward).
Direct Payments (Adults) Follow Up	Clients who are financially assessed as not eligible for a direct payment should be requested to reimburse the full amount paid.
Harold Wood Primary	Self Employment checks should be completed including: <ul style="list-style-type: none">• Self Employment Checklists should be completed before individuals are engaged for the provision of goods / services;• HMRC ESI Online Tool Checks should be

	<p>completed before an individual is engaged for the provision of goods / services;</p> <ul style="list-style-type: none">• Decisions sheets should be completed before an individual is engaged for the provision of goods / services; and• Decision sheets should be approved by an appropriately authorised signatory.
Towers Infants	The School should ensure that the composition of the Governing Body complies with the Constitutional Regulations.

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

3.1.2 During quarter four there were 12 school health check audits completed and reports issued comprising:

- Gidea Park Primary;
- Scargill Junior;
- Crownfield Junior;
- Branfil Primary;
- Towers Junior;
- Engayne Primary;
- St Peter's Catholic Primary;
- Harold Court Primary;
- St Patrick's RC Primary;
- James Oglethorpe;
- Ardleigh Green Junior; and
- Whybridge Junior.

3.2 Key Performance Indicators

3.2.1 As previously advised to Members, the Audit Service was restructured during 2016/17. This restructure has inevitably had some impact on available capacity to deliver the audit plan during the year and as a result the plan was revised to ensure a focus on key risks. The re-profiled plan for 2016/17 consisted of 48 general audits and advisory reviews. As at 30th April, 43 audits have been

completed / draft reports issued. The remaining five audits (details provided in Appendix B) are currently in progress and it is anticipated that the results of these audits will be reported on at the next audit committee in September.

Performance Indicator	Outturn Target	Outturn Actual
Percentage of Audit Plan Delivered	90%	90%

3.3 Client Satisfaction Rating

3.3.1 The table below illustrates the responses received from client satisfaction surveys that are issued with the final assurance report for 2016/17:

Rating	Number of Ratings*	%
5 (Very Good)	299	71
4 (Good)	84	20
3 (Satisfactory)	23	6
2 (Poor)	0	0
1 (Very Poor)	0	0
0 (No Rating)	14	3
Totals	420	100

*rating refers to the response to each individual question in survey (15 questions per survey).

The overall level of 97% of returns at a satisfactory level and above remains consistent with the previous year. As a comparator, the table below illustrates the responses received from the client satisfaction survey from the previous year (2015/16)::

Rating	Number of Ratings	%
5 (Very Good)	328	73
4 (Good)	78	18
3 (Satisfactory)	23	5
2 (Poor)	0	0
1 (Very Poor)	0	0
0 (No Rating)	19	4
Totals	448	100

3.4 Outstanding Audit Recommendations Update

3.4.1 Internal Audit follows up all non-school 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.

3.4.2 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in

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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.

- 3.4.3 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.

- 3.4.4 The status of the high risk recommendations raised during 2016/17 is outlined within the table below.

Number of high risk recommendations raised during 2016/17	13
Number of high risk recommendations due to be implemented by 31/05/2017	11
Number of high risk recommendations fully implemented	9
Number of high risk recommendations partially implemented	2
Number of high risk recommendations not implemented	0

- 3.4.5 The list of outstanding and partially implemented high risk recommendations is shown in the table below:

3.5 List of High Risk Recommendations and status:

Of the 11 high priority recommendations due, nine have been completed and two are partially implemented.

Audit Year	Area Reviewed	HoS Responsible	Recommendation and current progress	Status
16/17	Direct Payments (Adults)	Adult Services	<p>The Children's Direct Payment and Adults Direct Payments Policies should be put in place and approved.</p> <p>April 2017 Update Work is currently underway to review the arrangements for Direct Payments in children, at the moment the adults policy covers Direct Payments for children's, but as part of the review a separate policy is required and this will be developed by July.</p>	Partially Implemented (in progress with revised deadline of July 2017)
16/17	Disaster Recovery	ICT	<p>The DR plan should be tested periodically, if not annually at least every two years and results of the tests should be formally communicated to ICT's SMT and CLT and any remedial action required should be performed as necessary.</p> <p>May 2017: A two yearly DR test will be scheduled; there are currently dependences on the new infrastructure going live and generator & UPS upgrade in Dockside.</p>	Partially Implemented

Partially implemented recommendations will continue to be monitored and any instances of non-implementation reported to the Audit Committee in the future.

3.6 Proactive Investigations

3.6.1 Proactive work undertaken during quarter four is shown below:

Description	Risks	Quarter 4 Status
Whistleblowing	All whistleblowing referrals.	Completed
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation. 127 recommendations made of which 27 are not yet due and all others are implemented	Completed
Freedom of Information Requests	To undertake all Freedom of Information Requests relating to Internal Audit Investigations.	Completed
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately.	Completed
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance	Completed
Advice to Local Authorities	All Data Protection Act requests via Local Authorities, Police etc.	Completed

3.6.2 The proactive audit investigation work comprises two elements:

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

3.6.3 A proactive review was undertaken during Quarters Three and Four of Town Hall parking permit holders with the number of days paid for compared to the number of days the permit was used to access the Town Hall car park. The review identified that 54 members of staff had used the car park in excess of the number of days they had paid for. This amounted to an underpayment of £2,680.

3.7 Reactive Investigation Cases

3.7.1 The table below provides the total cases at the start and end of the Quarter Four period as well as referrals, cases closed and cases completed.

Caseload Quarter 4 2016/17						
Cases at start of period	Referrals received	Referred To Criminal Fraud Team	Referred to HR	Audit Investigations		
				Not Proven Cases	Successful Cases	Cases at end of period
7	3	1	0	3	2	5

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

Source and Number of Referrals Quarter 4 2016/17	
Number of Referrals/ Type	IA Reports Qtr. 4
Anonymous Whistleblower	0
External Organisations / Members of the Public	0
Internal Departments	3
Total	3

3.7.3 The table below shows the number and categories of Investigation cases at the end of the Quarter 4, compared to the Quarter 3 totals.

Reports by Category		
Audit Investigation Category	Previous Cases Qtr 3	Current Cases end of Qtr 4
Breach of Code of Conduct	1	1
Breach of Council Procedures	0	0
Falsification of Records	1	0
Miscellaneous	1	1
Misuse of Council Time	3	0
Procurement	1	0
Theft	0	1
Total	7	3

3.7.4 The table below shows the case outcomes for the Investigations from December to March 2017.

Case Outcomes	
Outcome	Qtr 4
Management Action Plan	0
Resigned	1
Disciplinary	1
No case to answer	3
Total	5

3.8 Savings and Losses

3.8.1 The investigations carried out provide the Council with value for money through:

- The identification of monies lost through fraud and the recovery of all or part of these sums; and
- The identification of potential losses through fraud in cases where the loss was prevented.

3.8.2 The table below shows significant cases identified during quarter four

Case details	Savings Identified & Recoverable	Details
Town Hall Parking Permit Holders	£2,680	Car park used in excess of the number of days paid for. Recovery proceedings are underway.

3.9 Investigation Recommendations

- 3.9.1 Any recommendations raised as part of proactive or reactive investigation reports are recorded and their implementation monitored as part of a follow up programme. 66 recommendations were made and agreed during 2016/17, with the details of implementation rates in the table below:

Total 2016/17 Proactive Investigation Recommendations	
Total Recommendations as at Quarter 4	66
Recommendations Implemented	63
Recommendations Not Yet Due for implementation	1
Recommendations Date Reset	2

3.10 Criminal Investigations Team

- 3.10.1 During the quarter the majority of resource has been focused on the Tenancy Fraud Project. The tables below show the work undertaken on the project during quarter four.

Housing Investigations – Visiting Team						
Month	Tenancy Audit Visits	Tenancy Audits (Checks completed)	PSL Tenancy Audit Visits	PSL Tenancy Audit (Checks completed)	Referrals from Audit to Fraud	NFA'D
Jan	1,215	518	74	26	8	510
Feb	969	400	918	354	5	395
Mar	501	175	1201	448	2	173
YTD*	17,036	5,300	2,219	832	152	6,695

* April 2016 to March 2017

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Investigation Team					
Month	Cases Under Investigation (open cases)	Closed	Total Properties Recovered	Cases referred for HB Fraud	RTB cancelled through audits
Jan	75	18	2	0	2
Feb	86	11	2	0	3
Mar	96	2	2	0	5
YTD*	N/A	153	23	6	28

* April 2016 to March 2017

3.10.2 Outcomes for the quarter include the following:

- Six properties were recovered with a nominal value of £108,000;
- Ten Right to Buy applications were withdrawn with a notional value of £870,000; and,
- The total net savings for the project from October 2015 to March 2017 is £4.011m.

Appendix B: Current Status of 2016/17 Audit Plan

	Audit Title	Opinion	Status
one Source	NNDR valuation and liability	Moderate	Complete
	Disaster recovery	Substantial	Complete
	Talent Link Application	Substantial	Complete
	Council Tax Collection	Limited*	Complete
	NNDR Billing and Collection	TBC	Underway
	One Oracle	TBC	Draft Report
LBH Systems Audits			
	Capital Works in Schools	Moderate	Complete
	Catering	Moderate	Complete
	NEPRO	Moderate	Complete
	Direct Payments	Limited	Complete
	Car Pool Scheme	Moderate	Complete
	Troubled Families Claim Window 1	Substantial	Complete
	Troubled Families Claim Window 2	Substantial	Complete
	Corporate Property Portfolio Management	Substantial	Complete
	Disabled Facilities Capital Grant	Substantial	Complete
	SWIFT	Substantial	Complete
	Payment in Error (HSE)	n/a	Complete
	ID Card Activation	n/a	Complete
	Cheque Processing	Moderate	Complete
	Careers Group	n/a	Complete
	Mayors Appeal Fund Annual Review	n/a	Complete
	Missing Planning Cheque	n/a	Complete
	Declaration of Interests	TBC	Draft Report
	Children's Commissioning	TBC	Underway
	Contract Monitoring – Streetcare	TBC	Underway
	Grants to Voluntary Organisations	TBC	Underway
Schools	Broadford Primary	Limited	Complete
	Clockhouse Primary	Substantial	Complete
	Dame Tipping	Moderate	Complete
	Gaynes	Moderate	Complete
	Hacton Primary	Moderate	Complete
	Harold Wood Primary	Moderate	Complete
	Langtons Infant	Substantial	Complete
	Marshalls Park	Moderate	Complete
	Mawney	Moderate	Complete
	Mead Primary	Limited	Complete
	Newtons	Moderate	Complete
	Parsonage Farm Primary	Moderate	Complete
	Royal Liberty	Moderate	Complete
	Sanders	Limited	Complete

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	Audit Title	Opinion	Status
Follow Ups	St Ursula Junior	Moderate	Complete
	Towers Infants	Moderate	Complete
	Wykeham Primary	Limited	Complete
	PARIS (Cash Receipting) Follow Up	Substantial	Complete
	Direct Payments Follow Up	Moderate	Complete
	Service Manager Follow Up	Substantial	Complete
	Third Party Connections Follow Up	Substantial	Complete
	Disaster Recovery Follow Up	TBC	Underway

*this relates to a oneSource Council Tax audit which received a limited assurance opinion due to the number of high risk recommendations, all of which related only to LB Newham's processes and do not impact on LB Havering.