



# HEAD OF ASSURANCE ANNUAL REPORT

2016/17



**Havering**  
LONDON BOROUGH

## 1. Introduction

- 1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit (Head of Assurance) is required to provide an annual opinion to the Audit Committee, based upon and limited to the work performed on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is achieved through an audit plan that has been focussed on key strategic and operational risk areas, agreed with senior management and approved by the Audit Committee. The Head of Internal Audit opinion does not imply that internal audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based audit work formulated around a selection of key systems and risks.
- 1.2 This report provides Members of the Audit Committee with:
- The Head of Assurance Opinion for 2016/17;
  - An overview of the Council's risk management processes and its overall system of internal control;
  - A summary of the work undertaken by Internal Audit in 2016/17 that supports the opinion;
  - Review of the outcomes of key internal audit reports.
- 1.3 In line with best practice, Internal Audit prepares, in consultation with senior management, an annual risk based strategic plan. The audit plan is, if necessary, amended during the year to reflect changes within the Council's risk profile.
- 1.4 From the work undertaken during the year, reasonable assurance can be provided that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally applied consistently. The level of assurance, therefore, remains at a level consistent with the assurance provided in 2015/16.
- 1.5 The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments, contained within the Internal Audit risk based plan, that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. A summary of Audit Opinions is shown in the following table:

Table 1 – Summary of Audit Opinions 2016/17

| Category           | Substantial | Moderate  | Limited  |
|--------------------|-------------|-----------|----------|
| oneSource          | 2           | 1         | 1*       |
| LBH Systems Audits | 8           | 6         | 1        |
| LBH Schools Audits | 2           | 11        | 4        |
| <b>Total</b>       | <b>12</b>   | <b>18</b> | <b>6</b> |

\*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. This has been taken into consideration in the overall assurance opinion.

1.6 The table below provides the definitions of the assurance levels provided by internal audit:

| <b>Key to Assurance Levels</b> |  |
|--------------------------------|--|
| Substantial Assurance          | There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives. |
| Moderate Assurance             | Whilst there is basically a sound system of control within the areas reviewed, a need was identified to enhance controls and/or their application and to improve the arrangements for managing risks.  |
| 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.   |

1.7 Appendix A details all internal audit work undertaken during 2016/17. 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.

1.8 It should be noted that the Council is managing a fundamental change in service delivery, and has been reconfiguring services including those for Internal Audit and Finance. It is to be expected that there will be some challenges experienced whilst reconfiguring services, which will ultimately provide more resilience in the longer term. In giving an opinion, it should be noted that the system of internal control can provide only reasonable and not absolute assurance.

1.9 Five LBH audits were given a Limited Assurance rating during 2016/17. Detailed summaries of these reports have been provided to the Audit Committee in the quarterly progress updates. The details of these reports, with a summary of the high risk recommendations, are provided below (the implementation of all high risk recommendations will be verified as part of the follow up process):

|   | Audit Title   | High Risk Recommendations Summary  |
|---|---|--|
| 1 | Direct Payments (Adults)<br>Please note that this audit was subject to a follow up review during 2016/17. | <ul style="list-style-type: none"> <li>• The Children's Direct Payment Procedure Guidance should be put in place and approved (this was identified as an issue while the Adults services was under review);</li> <li>• Clients who are financially assessed as not eligible for a Direct Payment should be requested to reimburse the full amount paid;</li> <li>• Full Financial Assessments should be carried out every three years to ensure that the client is making the correct contribution towards the cost</li> </ul> |

|   |                   |  |
|---|-------------------|--|
|   |                   | <p>of their care;</p> <ul style="list-style-type: none"> <li>• Credit checks should be carried out on clients who are not in receipt of benefits or in receipt of DLA only, to ensure that the information supplied by the client is correct. This would include bank accounts &amp; savings, and identify ownership of a property other than where the client is permanently residing;</li> <li>• Documents should be requested over specific periods of time to evidence income received. For example bank statements requested over a three, six and twelve month period will show any income which is received other than on a monthly basis.</li> </ul>   |
| 2 | Broadford Primary | <ul style="list-style-type: none"> <li>• A documented School Improvement Plan should be produced that sets out academic objectives. The plan should ensure that for each objective, the expected outcome, measurable indicators, expected timescales and any financial or resource costs have been identified. Once produced the plan should be presented to Governors for formal approval;</li> <li>• A documented Asset Management Plan should be produced that sets out premises related works. The plan should ensure that for each task, the expected completion timescale and financial costs have been identified. Once produced the plan should be presented to Governors for formal approval;</li> <li>• Spend from the delegated fund should be linked to the education of the pupils and ensure that the principles of public service, in relation to the use of public funds, can be demonstrated; and</li> <li>• Checks should be carried out on self-employed individuals in advance of them being engaged by the school. These checks should include: <ul style="list-style-type: none"> <li>• Self-Employment Checklists;</li> <li>• HMRC ESI Online Tool Checks; and</li> <li>• Decisions sheet. Decision sheets should then be approved by an appropriately authorised signatory.</li> </ul> </li> </ul> |

|   |                 |   |
|---|-----------------|---|
| 3 | Mead Primary    | <ul style="list-style-type: none"> <li>• Formal budget monitoring meetings to be implemented;</li> <li>• All staff and Governors to be subject to a DBS check every three years in line with the Councils expectations; and</li> <li>• A review of the inventory to be undertaken to ensure all assets are recorded and outcome of the inventory check to be reported to Governors.</li> </ul>  |
| 4 | Sanders School  | <ul style="list-style-type: none"> <li>• Authorised signatories and financial limits set out within both the Scheme of Delegation / Delegated Authority and Finance Policy &amp; Procedures to align;</li> <li>• Appropriate checks to be undertaken to ensure staff using their car for work purposes, are legally entitled to do so;</li> <li>• Emergency Planning and Business Continuity arrangements to be formally documented;</li> <li>• Checks to be carried out on self-employed individuals in advance of them being engaged by the school;</li> <li>• The details, including serial number, or Items of equipment purchased to be clearly documented and items stored securely until such time that the item is added to the inventory and allocated a location; and</li> <li>• The circumstances regarding the missing iPads, the absence of investigation into the potential theft and lack of reporting to the police to be formally reported to Governors for recording in the meeting minutes.</li> </ul> |
| 5 | Wykeham Primary | <ul style="list-style-type: none"> <li>• Checks should be undertaken on all staff to ensure that those that drive for business use have the relevant insurance and driving documentation.</li> <li>• The budget should be subject to regular monitoring in order to identify and address potential overspends / discrepancies.</li> <li>• Keys should be held in a safe and secure location.</li> <li>• A clearly defined procurement process to be developed and followed by all staff when purchasing goods/ services.</li> <li>• Quotes / tenders should be obtained for all contracts in excess of thresholds.</li> <li>• The School Fund Account should be regularly reconciled.</li> <li>• The School Fund Account should be subject to independent audit on a regular basis.</li> </ul>  |

|  |  |
|--|--|
|  | <ul style="list-style-type: none"> <li>• Efforts should be made to find the missing personnel files, or to re-gather the information to be held by the school</li> <li>• Access to personnel information should be adequately restricted.</li> <li>• Payroll should be checked on a monthly basis.</li> <li>• A process should be designed to monitor and maintain an effective control of inventory.</li> <li>• A review of the inventory should be completed annually.</li> <li>• A record of equipment on loan should be maintained.</li> </ul> |
|--|--|

### 1.10 Follow up Work

The Internal Audit Team track the completion of all non-school audit recommendations. Information regarding outstanding recommendations is reported as part of the quarterly update provided to the Audit Committee. Annually the Audit Committee receive a full list of all outstanding high risk recommendations. The status of the high risk recommendations raised during 2016/17 is outlined within the table below.

#### **Non School Audits**

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

The details of recommendations which are not yet fully implemented are provided below:

| Area Reviewed            | Head of Service Responsible | Recommendation and current progress   | Status   |
|--------------------------|-----------------------------|---|--|
| 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<br/>Work is currently underway to review the arrangements for Direct Payments in children, at the moment the adults policy covers DP for children's, but as part of the review as separate policy is required and this will be developed by July 2017.</p> <p>*Note that while Children's was not part of the scope of this review it was decided to include this recommendation as part of the findings of this review since the policies were linked together at the time of the audit.</p> | Partially Implemented (in progress with revised deadline of July 2017) |
| 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:<br/>A two yearly DR test will be scheduled; there are currently dependences on the new infrastructure going live and generator &amp; 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.

### School Audits

School audit recommendations have previously been followed up as part of the financial health checks, which are referred to under the schools programme detailed in Section 2 below, or reviewed as part of the triennial school reviews. From 2017/18 onwards, high risk school recommendations will be included in the overall follow up process, to ensure that implementation can be monitored more effectively.

## 2. Schools Programme

- 2.1 There are currently 52 borough maintained schools within Havering with 39 schools having received a triennial audit between the financial years 2014/15 – 2016/17. Of the remaining 13 schools, all have received at least one Health Check since their last triennial visit, and are scheduled to be reviewed as part of the 2017/18 audit plan. In addition to assessing the implementation of recommendations raised following the previous audit, the Health Check also reviews the perceived high risk areas, including those common themes noted in paragraph 2.3 below.
- 2.2 Assurance opinions are given for each school report. Of the 17 schools receiving a triennial audit in 2016/17, two received Substantial Assurance, eleven received Moderate Assurance and four received Limited Assurance. Details of the schools given Limited Assurance ratings are provided in paragraph 1.9 above.
- 2.3 Recommendations raised during the 2016/17 audits produced some common themes found across multiple schools:
- Procurement; specifically due to schools raising orders on the SIMS Finance system retrospectively upon receipt of an invoice. This creates issues with budget monitoring processes for the schools as they are potentially unaware of spend before the invoice arrives.
  - Self Employment; schools need to ensure they are completing the relevant HMRC checks prior to employing self employed individuals.
  - Inventory controls; the need for an inventory to be maintained, reviewed at least annually and reported to the Governing Body.
  - Safeguarding; the need for all staff and governors to be subject to a DBS check every three years.
- 2.4 During 2016/17 the service delivered 26 Health Checks, generating a revenue of £13,000.
- 2.5 The Schools Financial Value Standard (SFVS) is designed to assist schools in managing their finances and to give assurance that they have secure financial management in place. As Governing bodies have formal responsibility for the financial management of their schools, the standard is aimed primarily at governors. The SFVS returns are used to inform the internal audit programme. All schools within Havering completed and submitted their copies of the SFVS to the LA within the agreed timescales.

### **3. Counter Fraud**

#### **Corporate Fraud**

- 3.1 The Council has a zero tolerance approach to fraud and the work of the Fraud Team supports this priority.
- 3.2 Working closely with services we have introduced a number of initiatives, such as ID verification scanners, for front line services to ensure stronger verification checks to prevent fraud occurring. The team can offer both a criminal and proactive support service.



- 3.3 The Fraud Team have provided anti-fraud training to members of staff within Transactional Services and Housing's Homeless Team. Five training sessions have been undertaken in 2016/17, with 74 delegates attending.

### **Housing Fraud**

- 3.4 The Proactive Tenancy project saw the recovery of 23 properties and cancelled 28 Right to Buy applications, ensuring Havering's houses were allocated to those with genuine entitlement.
- 3.5 During the year the team have:
- Undertaken 17,306 tenancy visits and completed 5,300 audit checks; and
  - Undertaken 2,219 Private Sector Landlord (PSL) tenancy visits and completed 832 audit checks.

### **Asylum and Immigration Fraud**

- 3.6 The Council is at risk of incurring a fine of up to £20,000 for every person who is employed with no right to work, in addition to them taking a job that should have gone to someone else. Whilst there were no cases identified in 2016/17, we are seeking to strengthen the vetting process, in partnership with HR, via chip scanning of all identify documents in 2017/18.

## **4. Risk Management Arrangements**

- 4.1 The Senior Leadership Team (SLT) reviews the corporate risk register on a quarterly basis. The SLT undertook a risk review workshop at the start of 2017 to review and refresh the corporate risk register. The revised risk register was presented to the Audit Committee at the 9<sup>th</sup> May meeting. The SLT will proactively manage, develop and review the corporate risk register throughout 2017/18.

## **5. Governance Arrangements**

- 5.1 There is an established officer Governance and Assurance Board at LB Havering which the Head of Assurance attends. The work of Internal Audit informs this group and issues brought to the group and identified in the Annual Governance Statement (AGS), inform the annual audit plan. Governance arrangements are routinely considered as part of all internal audit reviews.

### **Audit Committee**

- 5.2 The Audit Committee has had a pivotal role in ensuring the risk management, governance and internal control environment is adequately robust.

## Appendix A – Audit work undertaken during 2016/17

|                        | Audit Title                             | Assurance Opinion         |             |
|------------------------|---|---------------------------|-------------|
| one Source             | NNDR valuation and liability            | Moderate                  |             |
|                        | Disaster recovery                       | Substantial               |             |
|                        | Talent Link Application                 | Substantial               |             |
|                        | Council tax collection*                 | Limited                   |             |
|                        |   |                           |             |
| LBH Systems Audits     | Capital Works in Schools                | Moderate                  |             |
|                        | Catering                                | Moderate                  |             |
|                        | NEPRO                                   | Moderate                  |             |
|                        | Direct Payments                         | Limited                   |             |
|                        | Car Pool Scheme                         | Moderate                  |             |
|                        | Troubled Families Claim Window 1        | Substantial               |             |
|                        | Troubled Families Claim Window 2        | Substantial               |             |
|                        | Corporate Property Portfolio Management | Substantial               |             |
|                        | Disabled Facilities Capital Grant       | Substantial               |             |
|                        | SWIFT                                   | Substantial               |             |
|                        | Payment in Error (HSE)                  | n/a                       |             |
|                        | ID Card Activation                      | n/a                       |             |
|                        | Cheque Processing                       | Moderate                  |             |
|                        | Careers Group                           | n/a                       |             |
|                        | Mayors Appeal Fund Annual Review        | n/a                       |             |
|                        | Missing Planning Cheque                 | n/a                       |             |
|                        |   |                           |             |
|                        |   |                           |             |
|                        | Schools                                 | Broadford Primary         | Limited     |
|                        |   | Clockhouse Primary        | Substantial |
| Dame Tipping           |   | Moderate                  |             |
| Gaynes                 |   | Moderate                  |             |
| Hacton Primary         |   | Moderate                  |             |
| Harold Wood Primary    |   | Moderate                  |             |
| Langtons Infant        |   | Substantial               |             |
| Marshalls Park         |   | Moderate                  |             |
| Mawney                 |   | Moderate                  |             |
| Mead Primary           |   | Limited                   |             |
| Newtons                |   | Moderate                  |             |
| Parsonage Farm Primary |   | Moderate                  |             |
| Royal Liberty          |   | Moderate                  |             |
| Sanders                |   | Limited                   |             |
| St Ursula Junior       |   | Moderate                  |             |
| Towers Infants         |   | Moderate                  |             |
| Wykeham Primary        |   | Limited                   |             |
|                        |   |                           |             |
| Follow Ups             |   | Direct Payments Follow Up | Moderate    |
|                        |   | Service Manager Follow Up | Substantial |
|                        | Third Party Connections Follow Up       | Substantial               |             |

|  | <b>Audit Title</b>                | <b>Assurance Opinion</b> |
|--|-----------------------------------|--------------------------|
|  | PARIS (Cash Receipting) Follow Up | Substantial              |

\*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. This has been taken into consideration in the overall assurance opinion.