

Assurance End of Year Report 2018/19 incorporating Head of Assurance Opinion

1 Head of Assurance Annual Opinion

- 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 focused on key strategic and operational risk areas, agreed with senior management and approved by the Audit Committee. The Head of Assurance opinion does not imply that internal audit has 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 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.
- 1.3 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 2017/18. In giving an opinion the system of internal control can provide only reasonable, and not absolute, assurance.
- 1.4 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.
- 1.5 The table below provides a summary of Audit Opinions issued in 2018/2019. 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.

| Category | Substantial | Moderate | Limited | No Opinion |
|-----------------------|-------------|-----------|----------|------------|
| Shared Service Audits | 2 | 0 | 0 | 1 |
| LBH Systems Audits | 4 | 5 | 1 | 6 |
| LBH Schools Audits | 3 | 6 | 1 | 0 |
| Total | 9 | 11 | 2 | 7 |

Appendix 1 - Audit Committee 25 July 2019

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

| Key to Assurance Levels | |
|--------------------------------|--|
| Substantial Assurance | There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives. |
| Moderate Assurance | Whilst there is basically a sound system of control within the areas reviewed, weaknesses were identified and therefore there is a need to enhance controls and/or their application and to improve the arrangements for managing risks. |
| Limited Assurance | There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level. |

1.7 There can be some qualifications to the opinion where audit works results in a limited assurance. One LBH audit was given a Limited Assurance audit opinion during 2018/19. A detailed summary of the Direct Payments report is provided in Section 6 of this report.

2 Outturn of 2018/2019 Internal Audit Plan

- 2.1 The Annual Audit Plan, approved by the Audit Committee in February 2018, comprised 47 audit reviews. Members will be aware that the plan is subject to revision and amendment at any time should higher priority risks or tasks be identified. Adjustments have been made since the plan was approved (see table below) and the current number of audit reviews is 34.
- 2.2 Members are reminded that the 2018/2019 Audit Plan was presented as a flexible plan to allow for changes in the risk and operational environment in which the Council operates. As such, the plan included a list of high and medium risk audit areas, covering the range of Council activities which, in conjunction with management, had been assessed as requiring assurance during 2018/2019. The number of audits on the list totalled 895 audit days, which exceeded the available resources by around 100 days. This overstatement was deliberate and the list of audits has been refined throughout the year during discussions with senior management. The Audit Committee has been informed of all changes to the plan at the regular progress updates during the year.
- 2.3 The table below shows delivery of the 2018/19 audit plan (excluding School Health Checks), with further detail provided in Section 11.

| Audit Plan Status | Number of Audits / Tasks |
|--|---------------------------------|
| Approved Audit Plan 2018/19 | 47 |
| 2017/18 Audit tasks brought forward to 2018/19 | 1 |
| Audit tasks added to the Plan | 7 |
| Audit tasks cancelled | (9) |
| Audit tasks deferred to 2019/20 | (12) |
| Total | 34 |
| Final reports issued / completed | 30 |
| For completion in 2019/20 | 4 |
| Audits completed | 34 |

- 2.4 The table below details the results of the final reports issued since the last progress report.

| Report | Assurance | Recommendations | | | |
|-------------------------------------|------------------|------------------------|------------|------------|--------------|
| | | High | Med | Low | Total |
| System Audits | | | | | |
| Reablement | Moderate | 0 | 4 | 0 | 4 |
| Direct Payments | Limited | 0 | 10 | 0 | 12 |
| GDPR | Moderate | 3 | 3 | 0 | 6 |
| PMO/Project Management Arrangements | No Opinion | N/A | N/A | N/A | N/A |
| Replacement for SWIFT | No Opinion | N/A | N/A | N/A | N/A |
| System Audits Totals | | 3 | 17 | 0 | 22 |
| School Audits | | | | | |
| James Oglethorpe | Substantia | 0 | 4 | 0 | 4 |
| Scotts Primary | Substantia | 1 | 2 | 0 | 3 |
| School Audits Totals | | 1 | 6 | 0 | 7 |
| Totals | | 4 | 23 | 0 | 29 |

3 Audit Recommendations Update

- 3.1 Internal Audit follows up all audit recommendations with management when the deadlines for implementation are due. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations, in systems where limited assurance was provided, is verified through a follow up audit review.
- 3.2 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high risk recommendations.
- 3.3 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

| | |
|---------|---|
| High: | Fundamental control requirement needing implementation as soon as possible. |
| Medium: | Important control that should be implemented. |
| Low: | Advisories - Pertaining to best practice. |

- 3.4 The status of all recommendations raised during 2018/19 is outlined within the table below.

| Systems Audits | | | | |
|---|-------------|------------|------------|--------------|
| Number of Recommendations | High | Med | Low | Total |
| Recommendations raised since the last progress report | 3 | 17 | 0 | 22 |
| Total Recommendations Raised during 2018/19 | 5 | 44 | 3 | 54 |

| School Audits | | | | |
|---|-------------|------------|------------|--------------|
| Number of Recommendations | High | Med | Low | Total |
| Raised in quarter four and not yet due for implementation | 0 | 3 | 0 | 3 |
| Total Recommendations Raised during 2018/19 | 11 | 45 | 23 | 79 |

- 3.5 Of the five high risk recommendations raised for systems audits during 2018/19, three are not yet implemented since they related to the GDPR audit that has only recently been issued as final. Detail of these recommendations and their proposed implementation dates is detailed in Section 4. All high risk recommendations raised during 2018/19 for schools audits have been implemented.

4 High Risk Recommendations Detail - GDPR

| Recommendation | Original Management Response |
|---|--|
| <p>Management should review all contracts to identify high and low risk processor relationships, as well as those who they may share joint controller status with. Management should also evidence any plans or schedules to complete the task of issuing updated contracts and logging all outcomes. The list of requirements that should be included in the third-party vendor agreements can be found within Article 38.</p> | <p>All contracts and agreements issued are compliant with GDPR. Processors and contractors were contacted before the start of GDPR in May 2018 about requirements. The advice from the ICO was that contracts / agreements should be reviewed over a period of time because of the scale of work required. Contracts are therefore updated and new agreements implemented when the contracts are reviewed. We will continue to review this process and develop systems to speed up the review of contracts and data processing agreements.</p> |
| <p>Implementation Date: December 2019</p> | |

| Recommendation | Original Management Response |
|--|---|
| <p>It is recommended that management establish an appropriate plan i.e. assigning sufficient staff to complex cases, to address the delay in responses to data subject requests, including access (SARs) as well as future requests, to ensure a rating in the 90%+ bracket.</p> <p>Management should also evidence where an extension has been sought outside of the one month allowance. This can be done by enhancing the individual rights logs (statistics) which should also highlight cases where the 2 months allowance was surpassed.</p> | <p>The one month period may be extended by two further months where necessary under GDPR, taking into account the complexity and number of the requests. We inform the requester of any extension within one month of the request, as well as the reasons for the delay. Responses will continue to be monitored.</p> |
| <p>Implementation Date: September 2019</p> | |

| Recommendation | Original Management Response |
|--|--|
| <p>oneSource should revisit their 'All Asset' and 'All Flows' registers to ensure missing information is included and instances of wrongly applied lawful basis for processing are rectified. Additionally, those reviewing the Asset register should be fully aware of the six legal basis of the GDPR and which should apply in each processing activity type.</p> | <p>Corrected the instances of wrongly applied lawful basis for processing personal data. Started the review of processes that has missing information.</p> |
| <p>Implementation Date: August 2019</p> | |

5 Schools Programme

- 5.1 There are currently 44 borough maintained schools within Havering with 32 schools having received a triennial audit between the financial years 2016/17 – 2018/19. The remaining twelve maintained schools were assessed on the assurance given at their last triennial audit and considered to be low risk; therefore a triennial audit was not delivered as part of the three year rolling programme. These schools have received at least one health check since their last triennial visit, and seven are scheduled to be reviewed as part of the 2019/20 audit plan, with the remaining five schools receiving a health check.
- 5.2 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 5.4 below.
- 5.3 Assurance opinions are given for each school report. Of the 11 schools receiving a triennial audit in 2018/19, three received Substantial Assurance, six received Moderate Assurance and one limited assurance was given for two schools audited jointly, as part of a federation.
- 5.4 Recommendations raised during the 2018/19 audits produced some common themes found across multiple schools:
- Self-Employment: Schools need to ensure they are completing the relevant IR35 HMRC checks prior to employing self-employed individuals, to ensure compliance with HMRC regulations;
 - Payroll: Payroll details of the person checking the monthly payroll report should be subject to independent verification, to mitigate the risk of fraud; and
 - Charging Policy: the threshold above which refunds will be given needs to be decided and added to the Policy.
- 5.5 During 2018/19 the service delivered 19 Health Checks, one being to an out of borough school, generating total revenue in year of £16,625.
- 5.6 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 risk based internal audit programme. All schools within Havering completed and submitted their copies of the SFVS to the LA within the agreed timescales.

6 Limited Assurance Report Summary – Direct Payments

- 6.1 The Direct Payments audit was carried out as part of the annual Internal Audit Plan for 2018/19, agreed by the Audit Committee, in line with the respective terms of reference.
- 6.2 The overall audit opinion on the system reviewed provides **Limited Assurance** that risks material to the achievement of the system's objectives are being adequately managed. This means that 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.
- 6.3 This audit makes ten medium priority recommendations that aim to mitigate the risks identified. These are outlined with the relevant findings below. All recommendations have been accepted by management and an appropriate timescale for implementation agreed.

| Finding | |
|--|---|
| <p>Data provided during the audit showed that of 308 referrals received by the Financial Business Intelligence (FBI) Team between April and October 2018, 50% contained inaccuracies and / or omitted information. Furthermore, 103 referrals received during this period contained an incorrect budget figure.</p> <p>Errors are being logged and reported at the Business Unit Management Performance (BUMP) meetings within the Joint Commissioning Unit. A more effective control would be to report the errors to an equivalent meeting within Adults Social Care that would enable action to be taken to address issues at the source.</p> | |
| Recommendations | |
| R1 | Action should be taken to address the errors in calculating budgets before submission to the Financial Business Intelligence Team; to reduce the time spent rectifying errors and potential delays in paying the direct payment. |
| R2 | Poor performance and error rates monitoring should be reported to the monthly Adult Social Care Performance meeting. Action should be taken to address the issues being reported by the FBI Team, to reduce the percentage of support plans / referrals received that contain errors. |

Finding

There is currently no target timescales for setting up a direct payment however; there is a target of 35 days for completing the financial assessment.

A sample of 24 cases was selected for review, which found:

- In 18 cases there was a delay ranging from one month up to four months before the financial assessment was completed;
- In three cases the assessment had not been completed at the time of the review (the contract was signed by the service user four months earlier).
- In one case, the direct payment began in March 2017 and ceased in September 2018. A total of £15k was paid during this time; however, no assessment to determine the financial status of the service user was carried out.

Further discussions established that the financial assessment cannot be completed until the service provision is added to the system, which is completed by the Direct Payments Team once the contract has been signed by the service user.

The findings show that the 35-day target for the financial assessment is not being met. These findings highlight a risk that direct payments are paid to individuals who are not entitled to financial support and that avoidable administrative costs are being incurred.

Recommendations

| | |
|----|--|
| R3 | Expected timescales for the setting up of a direct payment should be established and incorporated into the JCU Corporate Pack as part of the key performance indicator monitoring. This timescale should align with the financial assessment target. |
| R4 | The current arrangements for completing the financial assessment after the direct payment has been set up should be reviewed to reduce the risk of financial loss from both the administrative cost of setting up, and payment of a direct payment to service users not entitled to financial support. |

Finding

The Direct Payments team are responsible for ensuring that direct payment funds are being used appropriately, not only in relation to permitted spend outlined in the Direct Payment policy, but that funds are being used in a way that meets the needs of the service user.

Making a decision as to whether spend is appropriate is reliant on the level of detail contained within the support plan. Where a direct payment is being paid for a personal assistant, the appropriateness of spend is easy to determine. However payments for Social Inclusion means that the funds could be used in a multitude of ways, which hinders the teams ability to make an informed decision where the support plan is not prescriptive.

In these instances, the team is reliant on the support and advice of Social Care to determine whether spend, particularly in relation to Social Inclusion is appropriate. Discussions during the review established that there is no collaborative working relationship between the Direct Payments Team and Social Care for addressing issues in this area and as a result, appropriate action is not always taken to address perceived misuse of funds.

Recommendation

| | |
|----|--|
| R5 | Support plans that include a direct payment for social inclusion should outline some of the expected activities for which this payment can be used, to provide a guide to the Direct Payments Teams, allowing an informed decision to be made as to the appropriateness of spend. |
| R6 | A formal process should be established to enable the Direct Payments Team to liaise with Social Care for clarification when the use of a direct payment, which may be a permitted use of funds, does not appear to be an appropriate use of funds in regards to the service users needs set out in the support plan. |
| R7 | The Team should explore the use of existing software such as Power BI / IDEA to support and increase the efficiency of the various checks being undertaken to ensure compliance with the policy. |

| Finding | |
|---|---|
| <p>The aim of direct payments is to give individuals responsibility for their own arrangements. Where service users opt to self manage their account, they accept a responsibility for meeting statutory obligations as an employer. Whilst liability primarily rests with the service user, it could be argued that the Council retains a duty of care to ensure that Direct Payment recipients are meeting these obligations.</p> <p>The Direct Payments Policy sets out that accounts will be audited quarterly. Audits are crucial for ensuring that accounts are being managed in line with the policy, however auditing the account is a resource intensive process, which requires information and supporting documents to be obtained from the service user. This review has established that full audits where the account is checked in its entirety, including all receipts, balances and checks as to whether the service user is meeting their statutory obligations as an employer, are not currently being carried out. Instead, smaller audits, based on information available on PFS are being completed whenever there is an existing reason to be reviewing the account.</p> | |
| Recommendation | |
| R8 | The practicalities of meeting the frequency of audits set out within the Direct Payment policy should be reviewed. |
| R9 | Reviews of accounts to ensure statutory obligations as an employer are being met should focus on those accounts being self-managed and those accounts managed by Payroll providers whose standard service does not cover all of the statutory obligations the service user is responsible for. |
| Finding | |
| <p>The Direct Payment policy sets out that the Council has the right to take action in the event that direct payments are not being spent / managed appropriately including referring the case to Internal Audit / Fraud. However the policy does not clarify which circumstances would lead to the various actions outlined, and due to the difficulties in determining when spend is appropriate the Councils right to take action is not consistently applied. Action is often to address an individual issue as it arises, such as recovery of inappropriate spend, however there is little evidence that ongoing abuse of accounts / suspicions of fraud are being appropriately escalated for further investigation.</p> | |
| Recommendation | |
| R10 | <p>The Direct Payment Policy should be amended to specifically outline what action will be taken, by the Direct Payments Team, in the following circumstances:</p> <ul style="list-style-type: none"> • Use of fund in ways not permitted by the Policy; • Use of funds not permitted based on the service users needs / support plan; • Suspected fraudulent use of funds. <p>The policy should clearly set out when and how issues will be escalated; including any additional / high-level approval required prior to any action being taken.</p> |

7 Counter Fraud

- 7.1 **Corporate Fraud** - The Council has a zero tolerance approach to fraud and the work of the Fraud Team supports this priority. The team offers both a criminal, proactive and reactive support service. The team have looked into 16 cases this financial year, including current investigations into allegations of purchase card and procurement fraud
- 7.2 **Housing Fraud** - The Council take a zero tolerance approach to tenancy fraud and have 40 open investigations. The team will investigate all allegations of tenancy fraud and take action where we have sufficient evidence that fraud has taken place. This action can include a criminal prosecution and/or a claim for possession of the property through civil courts; we will always look to make a claim for any legal costs occurred as well as any relevant compensation due.
- 7.3 The team check on average 20 RTB applications per month to ensure that the Council are not losing stock fraudulently. Referrals both internally and externally have decreased; to counter this we plan to carry out internal awareness sessions and external marketing campaigns.

8 Risk Management Arrangements

- 8.1 Members will be aware that the revised Risk Management Strategy was submitted to the Audit Committee at the April meeting. It is intended that a Risk Management update will be presented to the Audit Committee at the meeting to be held in October 2019.

9 Governance Arrangements

- 9.1 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.

10 Audit Committee

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

11 Audit work undertaken during 2018/2019

| Audit Title | Status | Opinions |
|---|---------------|-----------------|
| LBH Systems Audits | | |
| Children with Disabilities | Completed | Substantial |
| Financial Monitoring of CAD Placements | Completed | Substantial |
| SEN Transport | Completed | Substantial |
| Care Packages | Completed | Moderate |
| No Recourse to Public Funds (NRPF) Follow Up (Additional Task) | Completed | Moderate |
| Project and Programme Governance Follow Up (Additional Task) | Completed | Substantial |
| Disabled Facilities Grant – Capital Grant Determination 2017/18 (Additional Task) | Completed | N/A |
| Disabled Facilities Grant (Additional Task) | Completed | Moderate |
| IR35 | Completed | N/A |
| Troubled Families (Additional Task) | Completed | N/A |
| Non Contracted Spend (Additional Task) | Completed | N/A |
| Reablement Services | Completed | Moderate |
| Direct Payments | Completed | Limited |
| PMO / Project Management Arrangements | Completed | N/A |
| Replacement for SWIFT | Completed | N/A |
| GDPR | Completed | Moderate |
| Shared Service Audits | | |
| One Oracle Interfaces (2017/18) | Completed | Substantial |
| Financial Controls Phase 1 (forms part of the Key Financial Systems audit allocation) | Completed | N/A |
| Pension Fund Administration | Completed | Substantial |
| LBH Schools | | |
| St Patrick's Catholic Primary | Completed | Moderate |
| Brady Primary | Completed | Moderate |
| Hylands Primary | Completed | Moderate |
| Nelmes Primary | Completed | Moderate |
| St Ursula's Catholic Primary | Completed | Moderate |
| The Learning Federation (Mead & Broadford) | Completed | Limited |
| R.J. Mitchell Primary | Completed | Moderate |
| Parsonage Farm Primary | Completed | Substantial |
| James Oglethorpe Primary | Completed | Substantial |
| Scotts Primary | Completed | Substantial |
| Health Checks (18) | 18 Completed | Various |

Appendix 1 - Audit Committee 25 July 2019

| Audit Title | Status |
|---|--|
| LBH Systems Audits | |
| Payroll (Transactional Services) | For Completion in 2019/2020 |
| Financial Controls Assurance Phase 2 (forms part of the Key Financial Systems audit allocation – Additional Task) | For Completion in 2019/2020 |
| Procurement | For Completion in 2019/2020 |
| Cloud Computing (forms part of the ICT audit allocation) | For Completion in 2019/2020 |
| Economic Development Programme Review | Move to 2019/20 – delayed to allow time for framework to be implemented. |
| General Project Assurance Work | Move to 2019/20 – delayed to allow time for framework to be implemented. |
| Housing – Fixed term tenancy agreements | Move to 2019/20 – Service restructure |
| Corporate Health and Safety | Move to 2019/20 – Medium risk |
| Contract Management | Move to 2019/20 – Medium risk |
| Emergency Planning and Business Continuity | Move to 2019/20 – Service request |
| School Expansion Programme | Move to 2019/20 – Agreement with service |
| Social Care Transitions | Move to 2019/20 – Agreement with service |
| Right to Buy | Move to 2019/20 – Service restructure |
| Private Sector leasing – new payments system | Cancelled – Service request, system now implemented. |
| Homelessness/Housing – new system | Cancelled – Service request, system now implemented. |
| Joint Commissioning Unit | Cancelled – Subject to external service review |
| Housing and Planning Act 2016 | Cancelled – Amended to low risk due to changes to the Act |
| Homelessness – Homelessness Reduction Act | Cancelled – Peer Review |
| Adoption and Permanency Prescription | Cancelled – External review covered planned scope |
| Shared Service Audits | |
| Pension Fund Governance | Move to 2019/20 – Service request due to changes in management |
| Treasury Management | Move to 2019/20– Service request due to changes in management |
| NNDR – Debt Recovery and Write Offs | Cancelled - Now forms part of the Financial Controls Assurance Work |
| LBH Schools | |
| Suttons Primary | Move to 2019/20 – Requested by school, rescheduled for early 19/20 |
| Gaynes Language College | Cancelled – Converted to academy |
| Sanders Drapers | Cancelled - Converted to academy |