

AUDIT COMMITTEE

AGENDA

7.30pm

Thursday,
28 September 2006

Havering Town Hall
Main Road, Romford

Members 8: Quorum 3

COUNCILLORS:

Conservative Group (5)

David Grantham (Chairman)
Frederick Thompson (Vice- Chairman)
Michael Armstrong
Eddie Cahill
David Charles

Residents' Group (2)

Clarence Barrett
Barbara Reith

Rainham and Wennington Independent Residents Group (1)

Mark Stewart

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NOTES ABOUT THE MEETING

1. HEALTH AND SAFETY

The Council is committed to protecting the health and safety of everyone who attends meetings of its Committees.

At the beginning of the meeting, there will be an announcement about what you should do if there is an emergency during its course. **For your own safety and that of others at the meeting, please comply with any instructions given to you about evacuation of the building, or any other safety related matters.**

2. MOBILE COMMUNICATIONS DEVICES

Although mobile phones, pagers and other such devices are an essential part of many people's lives, their use during a meeting can be disruptive and a nuisance. Everyone attending is asked therefore to ensure that any device is switched to silent operation or switched off completely.

3. CONDUCT AT THE MEETING

Although members of the public are welcome to attend meetings of the Committee, they have no right to speak at them. Seating for the public is, however, limited and the Council cannot guarantee that everyone who wants to be present in the meeting room can be accommodated. When it is known in advance that there is likely to be particular public interest in an item the Council will endeavour to provide an overspill room in which, by use of television links, members of the public will be able to see and hear most of the proceedings.

The Chairman of the meeting has discretion, however, to invite members of the public to ask questions or to respond to points raised by Members. Those who wish to do that may find it helpful to advise the Committee Officer before the meeting so that the Chairman is aware that someone wishes to ask a question.

PLEASE REMEMBER THAT THE CHAIRMAN MAY REQUIRE ANYONE WHO ACTS IN A DISRUPTIVE MANNER TO LEAVE THE MEETING AND THAT THE MEETING MAY BE ADJOURNED IF NECESSARY WHILE THAT IS ARRANGED.

If you need to leave the meeting before its end, please remember that others present have the right to listen to the proceedings without disruption. Please leave quietly and do not engage others in conversation until you have left the meeting room.

AGENDA ITEMS

1. CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2. APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS
(if any) - receive.

3. DECLARATION OF INTERESTS

Members are invited to declare any interests in any of the items on the agenda at this point of the meeting. Members may still declare an interest in an item at any time prior to the consideration of the matter.

4. MINUTES

To approve as a correct record the minutes of the Committee meeting held 29 June 2006 and to authorise the Chairman to sign them.

5. RESULTS OF EXTERNAL AUDIT OF ACCOUNTS 2005/06 – appendix to follow

6. AUDIT COMMISSION ANNUAL GOVERNANCE REPORT – appendix to follow

7. ROLE OF THE AUDIT COMMITTEE/COMPLIANCE REPORT

8. TERMS OF REFERENCE FOR INTERNAL AUDIT

9. INTERNAL AUDIT REPORT

10. ISA REPORT

11. CLIENT MANAGER INTERNAL AUDIT REPORT

12. AUDIT & INSPECTION ANNUAL LETTER 2004/05 PROGRESS

13. ANNUAL REVIEW OF SCHOOL'S INTERNAL AUDIT 2005/06

14. URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specified in the minutes, that the item should be considered at the meeting as a matter of urgency.

Stephen Evans
Chief Executive

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
Havering Town Hall, Romford
29 June 2006 (7.30pm – 9.45pm)**

Present

COUNCILLORS

Conservative Group David Grantham (in the Chair), + Robert Benham, David Charles, + Christine Fox, Roger Ramsey and + Melvin Wallace

Residents' Group Clarence Barrett and Barbara Reith

Rainham & Wennington Independent Residents Group Mark Stewart

+ Substitute Members: Councillors Robert Benham (for Michael Armstrong), Chris Fox (for Eddy Cahill) and Melvin Wallace (for Frederick Thompson)

Apologies were received for the absence of Councillors Michael Armstrong, Eddy Cahill and Frederick Thompson.

No member declared an interest in any matter under consideration.

All decisions were made with no member voting against

The Chairman advised everyone present of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

1. MINUTES

The minutes of the meeting held 4 April 2006 were agreed as a correct record and signed by the Chairman.

2. ANNUAL STATEMENT OF ACCOUNTS 2005/06

The Committee considered the statement of internal control 2005/06 which reviews the effectiveness of the Council's system of internal control and includes a statement on internal control with its statement of accounts. Members were reminded by officers that detailed briefing sessions had

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already taken place on the statement of accounts, and that the issues raised at those meetings would form part of the evidence of the Committee's challenge to the accounts.

Members noted that the abbreviated statement of accounts would be publicised and that the audit would be completed in September 2006, upon which a further report would come back to the Committee.

Members commented that the year on year movement on creditors and debtors and noted the explanation of officers that this was due to a decrease in creditors due to an earlier close down of accounts, and an increase in debtors due in the main to moneys owed by the PCT and in respect of NNDR and Council Tax.

Members also requested an explanation of the treatment of the working balance in respect of schools and how the surplus for the year had been dealt with. Officers advised that, whilst the Council's general fund position showed a balance against budget, there was a small surplus on the schools' side. The accounts showed an overall working balance as required by the Audit Commission, with separately figures for the schools and the general fund.

They further commented on the workforce issues reserves and noted that this was primarily in order to deal with the single status requirements of the Council. They queried the decline of Right to Buy sales, which officers advised was due to customer resistance to rising prices. They noted that the realignment reserves referred to the management re-alignment of last October.

Members requested clarification where specific grants featured within the accounts and were advised that those identified were part of the revenue other category. Members were advised that reward grant was part of the LPSA pump priming money.

Officers clarified enquiries that the Council maintains a fixed asset register, of mainly buildings and land, and that inventories are maintained by departments in response to member enquiries. Budget variances were questioned and officers explained that the reasons behind these variances are looked at in detail elsewhere and are also explained in the Council's monthly Performance Packs.

It was noted that the Queen's Theatre was operating at a loss and officers clarified that the Queen's Theatre is subject to financial controls in the same way as any Council function. The total spent on recruitment advertising had decreased due to the increased use of the internet to advertise vacancies.

Members were given clarification on the ex admitted bodies referred to with regard to the Pension Fund accounts.

Members **noted** the report and approved the contents of the Statement.

3. STATEMENT ON INTERNAL CONTROL 2005/6

Officers informed members that there is no formal corporate overview of complaints. This is an area they hope to address in time. The Ombudsman Report would go to the Adjudication and Review Committee in July 2006.

Members noted that the need to address the underlying difficulties within the Adult Social Services budget is being dealt with through regular reviews and a revised monitoring system at service level. The weakness in financial control in the Leisure project was due to one project which is the subject of a detailed audit report. A recovery plan is in progress and action has been taken to ensure this does not recur.

Members **noted** the report.

4. ANNUAL HEAD OF INTERNAL AUDIT REPORT 2005/06

Officers introduced the report and gave an overview of the year and the section's performance. The Committee was informed that there is a good degree of assurance and good systems on internal control.

Following discussion, members **agreed** that the Audit Committee receive a report regarding the financial controls, monitoring and reporting around the overspend following the refurbishment of Hornchurch Sports Centre, in due course.

With regard to the examination of an advance payment to a contractor, officers clarified that advance payments require the permission of the Chief Finance Officer.

Members discussed the advantages and disadvantages of alerting departments to upcoming audits. It was noted that notification of audits is used to aid the work plan and in order to work with managers. In terms of suspected fraud, notice is not given. Officers would review the balance of planned and surprise audits when the Strategy is reviewed in December 2006.

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Officers clarified that the Audit Committee's views would be sought regarding the decision on the future of the internal auditing service although Cabinet would take the final decision.

Members **noted** the contents of the Internal Audit Annual Report.

5. **EXTERNAL AUDIT – AUDIT AND INSPECTION PLAN 2006/2007**

The Committee noted the Audit and Inspection fee and that the Corporate Performance Assessment fee would be a one off due to the CPA taking place in 2006. The Council could take action to decrease its audit fees, such as working more closely with Internal Audit, adopting a proportionate response to audit recommendations and requiring less detailed information in grant claim fees, all of which give scope for savings.

There is a mechanism for appointing auditors and a review takes place very five years. There are areas of recourse and internal quality control mechanisms for the Audit Committee which protect the Council. The Audit Commission contract has been extended for one year and will be reviewed on completion of the period.

Members **noted** the contents of the report from the Audit Commission.

6. **INTERNAL AUDIT REPORT**

Members were concerned about the Internal Auditor's qualified opinion on the use of fuel cards and noted that an audit is being carried out to ensure that Council drivers hold a full driving license.

Members **noted** the contents of the report from the Audit Commission.

7. **CLIENT MANAGER INTERNAL AUDIT REPORT**

Members noted that seven recommendations were highlighted as 'status unknown' and requested positive movement on those Audit recommendations by the next meeting. Overall the level of outstanding recommendations is improving.

Members **noted** the report and attached policies and requested positive movement on Audit recommendations by the next meeting.

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8. AUDIT COMMITTEE WORK PLAN INCLUDING TRAINING PROGRAMME

Members **agreed** the Work Plan for 2006/07 and approved the training arrangements.

The Committee thanked officers for their hard work, especially in relation to the Annual Statement of Accounts, and wished to place on record their appreciation for Ian Beer, the Council's treasury manager, who is retiring in February 2007.



MEETING	DATE	ITEM
AUDIT COMMITTEE	28 SEPTEMBER 2006	5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: RESULTS OF EXTERNAL AUDIT OF ACCOUNTS 2005/06

SUMMARY

- 1.1 The audit of accounts by the Audit Commission is currently in progress. Regulation 11 of the Accounts and Audit regulations require the publication of the statement of accounts after the conclusion of the audit but in any event no later than 30th September 2006. As part of the audit, there is a separate report from the Audit Commission titled "Audit Commission Annual Governance Report". This report is included as the next item on this agenda.
- 1.2 At this stage of the audit no significant issues have been reported. However, as the audit is still in progress, it is possible that changes may be agreed and included in the Auditors report.

RECOMMENDATIONS

- 2.1 To note the contents of this report and
- 2.2 (if required) consider any issues raised by the Audit Commission during the course of the audit of the statement of accounts and to agree the response to be made to any such issues.

REPORT DETAIL

- 3.1 The audit of the 2005/06 accounts is currently in progress with a view to achieving it's completion by 30th September 2006 at the latest. At this stage of the audit no significant issues have been reported. However, as the audit is still in progress, it is possible that changes may be raised in the Auditors' report that require consideration by this Committee.

3.2 Should any issues be raised, a supplementary report will be produced setting out these issues and the proposed response to them (any supplementary report will follow if required).

3.3 As part of the annual audit the Audit Commission are required to report separately to those charged with governance in the form of an "Audit Commission Annual Governance Report". This report is included as the next item on the agenda for consideration by this Committee.

4.0 Financial Implications and risks:

4.1 There are no financial implications or risks resulting directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the Audit Commission will be addressed as part of the Council's response.

5.0 Legal Implications and risks:

On the basis that there are no specific issues raised by the Audit Commission, there are no direct legal implications arising directly from this report.

6.0 Human Resources Implications and risks:

None arising directly from this report.

7.0 Equalities and Social Inclusion implications:

None arising directly from this report.

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STEPHEN EVANS
Chief Executive

Background Papers List

Working papers held within the Finance Sections.

Draft Statement of Accounts 2005/06

Summary Statement of Accounts 2005/06

Report to Audit Committee 29th June 2006 on Draft Statement of Accounts 2005/06



MEETING	DATE	ITEM
AUDIT COMMITTEE	28 SEPTEMBER 2006	6

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: ANNUAL GOVERNANCE REPORT 2005/6

SUMMARY

1.1 The Audit Commission are required by the Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from their audit work. For the purposes of this report, the Authority's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.

1.2 The Audit Commission are required by professional auditing standards to report to the Audit Committee certain matters before they give their opinion on the financial statements. The section of the report covering the financial statements fulfils this requirement.

1.3 The main principles of the report are:

- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the Audit Committee
- to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
- to provide the Audit Committee with recommendations for improvement arising from the audit process.

RECOMMENDATIONS

2.1 To note the contents of the report.

2.2 (If required) To consider any issues raised by the Audit Commission and to agree the response to be made to any such issues.

REPORT DETAIL

3.0 The Audit Commission report is to follow as Appendix A.

4.0 Financial Implications and risks:

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the Audit Commission will be addressed as part of the Council's response.

5.0 Legal Implications and risks:

On the basis that there are no specific issues raised by the Audit Commission, there are no direct legal implications arising directly from this report.

6.0 Human Resources Implications and risks:

None arising directly from this report.

7.0 Equalities and Social Inclusion implications:

None arising directly from this report.

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STEPHEN EVANS
Chief Executive

Background Papers List

Annual Governance Report 2005/06



MEETING	DATE	ITEM
AUDIT COMMITTEE	28 SEPTEMBER 2006	7

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: A REVIEW OF HAVERING'S AUDIT COMMITTEE

1.

SUMMARY

- 1.1 CIPFA has recently published a report entitled Audit Committees: Practical Guidance for Local Authorities. This report summarises the content of the publication and suggests amendments that may be considered to improve our compliance with the guidelines.

2.

RECOMMENDATION

- 2.1 That the Committee considers the summary information from CIPFA's guidance on Audit Committees
- 2.2 That the Committee considers whether further changes should be considered to improve compliance with CIPFA's guidance and increase the effectiveness of the Audit Committee, in particular:
- (i) The 2 non-compliant aspects of the Terms of Reference
 - (ii) The Membership of the Committee
 - (iii) Keeping the Committee independent of other functions
 - (iv) The review of reports by inspection agencies other than External Audit.
- 2.3 That the Committee considers what recommendations to make to the Governance Committee to amend the terms of reference and membership of the Committee.

3.

REPORT DETAIL

3.1 Introduction

CIPFA have recently produced a booklet on Audit Committees entitled Audit Committees Practical Guidance for Local Authorities. This report sets out to provide a summary of the publication and draw attention to any action that should be taken as a result of it.

CIPFA states that their guidance is not intended to be prescriptive but is intended to ensure that all authorities get the best from their Audit Committees by adopting some common features. CIPFA is championing the need for an Audit Committee and sees them as an essential tool for the council to discharge its statutory requirement to:

“Ensure that its financial management is adequate and that it has a sound system of internal control which facilitates the effective exercise of its functions”

However the CIPFA guidance then goes on to be extremely prescriptive in the manner that it describes its ideal Audit Committee. The guidance misunderstands or ignores the statutory divisions between executive and non-executive functions, the concept of the Council as a corporate entity, the statutory allocation of certain functions and guidance on Council constitutions given by the government.

CIPFA identifies the benefits of an effective audit committee and these are:

- Raises greater awareness of the need for internal control and the implementation of audit recommendations.
- Increases public confidence in the objectivity and fairness of financial and other reporting.
- Reinforces the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Statement on Internal Control).
- Provides additional assurance through a process of independent and objective review.

3.2 Committee Membership

CIPFA recommends that in order to be effective, an audit committee needs a chair and membership that has knowledge, experience and interest in the field. It comments that the committee will also benefit from members with financial awareness, independence of thinking and a balanced approach to significant issues and members must understand the value of the audit function.

The Group Leaders have been alerted to this and the Council has accepted that members of the Audit Committee should be wherever possible appointed for the 4 years of a Council.

CIPFA endorses the HM Treasury guidance on the size of audit committees being between 3 and 5 members. At Havering we currently have 8 members which is the standard size of Committees which ensures that 2 opposition groups have representation as well as enabling the best overall political balance in accordance with statutory requirements. To move to a Committee of 3 – 5 members would result (because of Havering's particular political circumstances) in only the administration and main opposition parties being represented and is likely to affect adversely the overall political balance. Therefore there are good local reasons for maintaining the existing number on the Committee. However, members are invited to consider the point further.

3.3 Audit Committee Status

CIPFA recommends that the Audit Committee needs to be recognised as an important body in the council's structure to allow it to provide the essential challenge to the executive when needed. CIPFA states that best practice from the private sector and other parts of the public sector is for an audit committee to report directly to the highest decision making body i.e. full Council, therefore making it independent from the executive and scrutiny functions. Havering's Audit Committee does have the ability to directly report to full Council.

The existing terms of reference for the Audit Committee are shown at Appendix 1 for ease of reference. A comparison has been made of the existing Havering terms of reference (TOR) for the Audit Committee against CIPFA's recommendations. Officers have reviewed the results and amended the existing Terms of Reference where the change will appear to promote clarity and purpose. There are some however, which are more Constitutionally fundamental and have not been included in the new Terms of Reference as yet, due to the need to seek Members views. The overall results are shown in Appendix 2 and the revised Terms of Reference are shown in Appendix 3. The summarised results are highlighted in the tables below:

Compliance under existing TOR	Non Compliance and Partial Compliance under existing TOR	Compliance if new terms adopted
10/17 TOR	3/17 Non compliance 4/17 Partial	88% i.e. 15/17. Council needs to make a decision regarding the other 2 TOR

This table shows the detail of the 2 terms Havering still does not comply with.

Regulatory Framework
10. To maintain an overview of the council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
14. To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

There are two areas that are recommended by CIPFA that are currently not within the proposed terms of reference which need to be considered. In addition,

one of the CIPFA proposals (review of codes of conduct) is contrary to statutory requirements. Members views are requested.

For information the CIPFA guidance does not distinguish between the desirability of a function being independent (or substantially independent) of the Executive and its allocation within the Council Committee structure. The Government in its extensive regulation, direction and guidance on Council constitutions has not sought to restrict the discretion of Councils to allocate non-executive functions as they consider appropriate. The ongoing review of the Council Constitution and Corporate Governance provides sufficient work to justify the existence of the Governance Committee. Also the overview of behaviour is by law, a matter for the Standards Committee, again not referred to in the CIPFA guidance.

3.4 Independence

As mentioned above CIPFA's recommendation is that the Audit Committee is distinct and independent of the executive and scrutiny functions. They see the need for the Audit Committee to have links with other committees but see too much cross-membership as weakening the committee's ability to challenge the executive on issues and to report to it on major issues and contraventions.

In strict terms this would mean independent of Cabinet (those members of the Executive who are able to be decision-making), and of Overview and Scrutiny Committees i.e. Members dedicated to Audit Committee.

It ignores the fact that substantial areas of Council decision making by statute cannot be carried out by the Executive, the main ones being Regulatory Services, Licensing, and Standards. The logic of the position adopted in the CIPFA guidance should mean that the Audit Committee members are not members of those committees either. Indeed certain decision making is the preserve of Areas Committees and full Council, bodies which members of the Audit Committee have to belong to but which to follow CIPFA's position to its logical conclusion, they shouldn't.

Under CPA the Audit Commission had initially had a criteria that : "There is an audit committee which is constituted as a full committee of the council and is independent of both Executive and Scrutiny functions." This has however been amended to remove the requirement for independence from the Scrutiny function.

This approach is sensible. The activities of Scrutiny Committees in investigating matters and reviewing the activities of Cabinet are actually complimentary to and supportive of the activities of the Audit Committee. It is difficult to understand why the CIPFA guidance proposed that there should be complete separation of functions between Audit and Scrutiny. Havering's Audit Committee is independent of the Executive.

Members views are sought on future Membership of the Audit Committee.

3.5 Effectiveness of the Audit Committee

CIPFA has produced as part of its publication a self-assessment checklist so that Audit Committees/ Boards can see if they are effective. This has been reproduced in Appendix 4 and is shown with Havering's compliance and comments. The results are summarised in the tables below.

Compliance	Non/ Partial Compliance at present	Compliance
21	4	84% i.e. 21/25

This indicates that there are possibly changes that need to be made to improve the effectiveness of the Committee. The areas where we are non compliant are listed below

Terms of Reference	With new terms	Action plan
Do the terms of reference follow the CIPFA model?	88% Compliant	See above. Does not because of 2 issues.
External Audit Process		
Are the reports on the work of external audit and other inspection agencies presented to the committee?	Partial	Currently external audit reports are received but not the work of other agencies as these go to Cabinet and/or Overview and Scrutiny. This is a governance issue and Members to decide and advise on future stance.
Membership		
Is the Chair free of executive or scrutiny functions?	No. He is on a Scrutiny Committee.	See above.
Are members sufficiently independent of other key committees of the Council?	Partial.	See above.

The above does assume that training takes place as part of general induction arrangements. The Havering approach is set out in Appendices 5 and 6.

3.6 Conclusion and Recommendations

CIPFA's guidance provides a useful tool to help the council improve the effectiveness of the Audit Committee. It also provides a challenge in respect of determining the independence of members of the Committee. Audit Committee

members comments and decisions on the reports recommendations will be used to take this issue forward.

In order to move closer to the CIPFA's guidance on Audit Committees it is recommended that the revised terms of reference shown in Appendix 3 be adopted.

If the Committee agrees with these proposals they will be reported to the Governance Committee for consideration as changes to the constitution.

4. Financial Implications and risks.

In accepting audit recommendations, managers are obligated to consider financial risks and costs associated with the implementation of the recommendations.

5. Legal Implications and risks:

Some of the recommendations of the CIPFA guidance are at odds with statutory requirements and government guidance on the allocation of Council functions. The CIPFA paper does not justify such departures and in most instances ignores them. To totally follow the (allegedly) non-prescriptive guidance would require the Council to break the law. Accordingly the Council must not follow certain parts of the CIPFA guidance, in particular the proposals on matters relating to the overview of codes of conduct and behaviour.

6. Human Resource Implications and risks:

If the recommendations are agreed then actions will need to be taken to ensure that the proposed changes are made by the appropriate staff.

7. Equality and Social Inclusion implications:

None arising directly from this report

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STEPHEN EVANS
Chief Executive

Background Papers

Audit Committees, Practical Guidance for Local Authorities and Briefing Note for Users of the Guide (CIPFA 2005)

Spectrum (Policy and Technical Perspectives for CIPFA Members and Students - November 2005 Issue no. 10)

LGC Article "Audit Committees Advice May Cause Illegal Decisions" (Issue 1st December 2005).

AUDIT COMMITTEE - EXISTING TERMS OF REFERENCE

(Taken from the Council's Constitution Part 2, Article 8 and Part 3:1 Council Functions)

Membership

6 Councillors, or the number of Councillors determined by Council from time to time.

Internal Control

To consider and monitor the adequacy and effectiveness of the authority's risk management and internal control environment and to make recommendations to full Council where necessary.

External Audit

To monitor the adequacy and effectiveness of the External Audit Service and respond to its findings.

Internal Audit

To support the Group Director Finance & Commercial with his or her delegated responsibility of ensuring arrangements for the provision of an adequate and effective internal audit.

To monitor the adequacy and effectiveness of the internal audit service and to receive and monitor an annual internal audit plan from the audit manager.

To receive and approve the Annual Statement of Accounts

To monitor proactive fraud and corruption arrangements

Table reviewing CIPFA suggested Audit Committee Terms of Reference (TOR) and Havering's compliance.

Old Terms of Reference compliant = 10 (1,2,3,4,5,7,11,15,16,17) Partial = 4 (6,9,13,14,) Old TOR not compliant = 3 (8,10,12,)

Audit Activity	Compliant	Position at Havering
1.To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.	YES See revised TOR	The Annual report from the Audit Service Manager is presented to Audit Committee annually. TOR to become more specific
2.To consider summaries of specific internal audit reports as requested	YES See revised TOR	Summaries of all internal audit reports are presented to members of Audit Committee on a quarterly basis. TOR to become more specific.
3.To consider reports dealing with the management and performance of the providers of internal audit services.	YES See revised TOR	At each committee there is a Client Manager's report covering performance of internal audit. This report also includes anti-fraud activity. TOR to become more specific.
4.To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.	YES See revised TOR	The opening section of the Client Managers report shows internal and external recommendations not implemented within the agreed timescale. TOR To become more specific.
5.To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.	Yes See revised TOR	This report is received annually usually in December. All reports received from External Audit are listed chronologically in their progress reports. The annual letter is reported to Audit Committee along with the Council's resulting action plan. Progress on implementation of the action plan is reported to Committee until fully implemented, or the next annual letter is received. TOR to become more specific.
6.To consider specific reports as agreed with the external auditor.	Partial See revised TOR	External Audit's progress reports show all of the reports that they have issued. TOR to become more specific.
7.To comment on the scope and depth of external audit work and to ensure that it gives value for money.	YES See revised TOR	Members have requested reports covering the quality of external auditors work and the amount of other work performed by the external auditor over and above the external audit. TOR to become more specific.
8.To liaise with the Audit Commission over the appointment of the council's external auditor.	NO See revised TOR	There is no provision for this to occur at present but to go into the revised TOR.

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Regulatory Framework	Compliant	Position at Havering
9.To commission work from internal and external audit	Partial See revised TOR	During 2005/6 two additional briefings/meetings have been held regarding Mobile Phones and Langtons. However, members do have an input into the plans of both external and internal audit. TOR to become more specific.
10. To maintain an overview of the council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour	NO Function of Governance	This is currently a function of the Governance Scrutiny Committee, so adequate arrangements are already in place. Members need to decide whether they want this to continue or to opt for change. (Havering has a financial framework not financial regulations).
11.To review any issue referred to it by the chief executive or a director, or any council body.	YES See revised TOR	No issues have been referred to the Audit Committee for consideration but if appropriate, referrals could be made. TOR to become more specific.
12.To monitor the effective development and operation of risk management and corporate governance in the council.	NO See revised TOR	Members receive regular reports concerning the operation of risk management and corporate governance within the council. To go into revised TOR.
13.To monitor council policies on "Raising Concerns at Work" and the anti-fraud and anti-corruption strategy and the council's complaints process.	Partial See revised TOR	Members have been involved in reviewing the council's counter fraud policies, publicity materials but not the whistle-blowing policy. At present the remit does not extend to the complaints process either. The monitoring of the whistle-blowing policy is allocated to the Standards Committee. TOR to become more specific
14.To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.	Partial Covered elsewhere	These functions are already carried out by the Governance Scrutiny and the Standards Committee. The financial aspects of corporate governance are already covered in the TOR.
15.To consider the council's compliance with its own and other published standards and controls.	Yes See revised TOR	As part of the review of the Statement on Internal Control Members are reviewing the councils control environment. Compliance issues are an integral part of any internal audit and as such are reported to Committee TOR to become more specific
Accounts	Compliant	Position at Havering
16.To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.	Yes See revised TOR	Audit Committee approves the annual statement of accounts and the SIC. The external auditor's report SAS610/Annual Governance Report is also annually presented to the Audit Committee. TOR to become more specific.
17.To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	Yes See revised TOR	Members receive the annual management letter from the External Auditor. TOR to become more specific.

REVISED AUDIT COMMITTEE TERMS OF REFERENCE

Audit Activity

- (a) To consider and make recommendations to full Council on the Annual Audit Services Manager's Internal Audit Report and opinion, and a summary of internal audit activity (actual and proposed), and the level of assurance it can give over the council's corporate governance arrangements.
- (b) To support the Finance and Commercial Group Director, with her delegated responsibility of ensuring arrangements for the provision of an adequate and effective internal audit.
- (c) To monitor the adequacy and effectiveness of the internal audit service and to receive and monitor an annual audit plan from the Audit Services Manager.
- (d) To consider summaries of specific internal audit reports as requested and reports dealing with the management and performance of the providers of internal audit services and reports from Internal Audit on agreed recommendations, not implemented within a reasonable timescale.
- (e) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance and specific reports as agreed with the External Auditor.
- (f) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (g) To liaise with the Audit Commission over the appointment of the Council's External Auditor (currently the Audit Commission).
- (h) To request work from the External Auditor and the Client Manager Internal Audit.
- (i) To receive an annual report on the audits of schools

Risk Management

- (j) To consider the Annual Risk Management Report and the annually revised Risk Management Strategy and Policy Statement
- (k) To consider reports on the Corporate Risk Profile, the review of the Service Risk Registers and the progress of further embedding risk management across the Council.
- (l) To review any issue referred to it by the Chief Executive, Director or any Council Committee

(m) To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.

Anti-Fraud and Corruption

- (n) To consider the Anti-Fraud and Corruption Annual Report and the Anti- Fraud Strategy and Policy Statement.
- (o) To monitor council policies on the Anti-Fraud and Corruption Strategy and the Council's complaints process.
- (p) To consider regular reports on the progress of the effectiveness of counter fraud measures the Anti-Money Laundering Policy Statement and the Procedure Notes.

Accounts

- (q) To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- (r) To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

Self Assessment Checklist produced by CIPFA – Measuring the Effectiveness of the Audit Committee

Results Compliant = 21 Non Compliant/Not Fully = 4

Terms of Reference	Compliant	Position at Havering
1. Have the committee's terms of reference been approved by full council?	Yes	They are approved as part of the Council's Constitution.
2. Do the terms of reference follow the CIPFA model?	In part	See the detailed appraisal of compliance in Appendix 1.
Internal Audit Process	Compliant	Position at Havering
3. Does the committee approve the strategic audit approach and the annual programme?	Yes	Members are presented with the strategic and operational plan for them to comment upon and make recommendations for changes to the Audit Services Manager and the section 151 officer.
4. Is the work of internal audit reviewed regularly?	Yes	Internal Audit's work is reviewed annually as part of the work of the external auditor. The Audit Commission carried out the last strategic review of Internal Audit in 2005 and are in the process of a current review.
5. Are summaries of quality questionnaires from managers reviewed?	Yes	Yes for both systems and for fraud work. The results of the surveys are constantly reported to the Audit Committee.
6. Is the annual report, from the head of audit, presented to the committee?	Yes	This is presented annually to the Audit Committee.
External Audit Process	Compliant	Position at Havering
7. Are the reports on the work of external audit and other inspection agencies presented to the committee?	In part	Yes Members receive reports from the Audit Commission but not necessarily from other agencies.
8. Does the committee input into the external audit programme?	Yes	The external audit plan is presented to members for their comment.
9. Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	Yes	Yes. Heads of Service or deputies attend meetings to answer questions on outstanding recommendations.
10. Does the committee take a role in overseeing: Risk management strategies Internal control statements Anti-fraud arrangements Whistle-blowing strategies?	Yes Yes Yes Yes	These are reported to members as they are produced by the CMIA. - Ditto - Reported to the Audit Committee but produced by Human Resources.
Membership	Compliant	Position at Havering
11. Has the membership of the committee been formally agreed and a quorum set?	Yes	Details of the members and the quorum are printed on the front of Audit Committee reports. There are 8 members and the quorum is set at 3.

Audit Committee, 28 September 2006

12. Is the chair free of executive or scrutiny functions?	No	This is a governance issue to be resolved by the members based on this report.
13. Are members sufficiently independent of other key committees of the council?	In part.	Not necessarily. They may be involved in other activities, but are not members of Cabinet. This is a governance issue to be resolved by the members based on this report.
14. Have all members' skills and experiences been assessed and training given for identified gaps?	Yes	Members have been asked to identify their training needs. This has formed part of the CMIA Committee report. Shortly after the May 06 election, training for new members began.
15. Can the committee access other committees as necessary?	Yes	Other committees can be accessed.
Meetings	Compliant	Position at Havering
16. Does the committee meet regularly?	Yes	Yes. 6 full meetings were held in 2005. January, April, June, July, October and December.
17. Are separate, private meetings held with the external auditor and the internal auditor?	Yes.	They are held on a bi-monthly basis between the external auditors and the Head of Financial Services and the CMIA.
18. Are meetings free and open without political influences being displayed?	Yes	Meetings are free and open. To date political influences have not caused problems.
19. Are decisions reached promptly?	Yes	As soon as reports are presented they are noted. It is a decision making Committee and recommendations are acted upon.
20. Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	Yes	Yes. The constitution requires that papers are sent out 8 working days in advance of the meeting
21. Does the committee have the benefit of attendance of appropriate officers at its meetings?	Yes	Yes. The CFO and the Head of Financial Services, Audit Services Manager and CMIA usually attend. HOS attend (or their representatives) in order to answer questions about recommendations or audit results. The External Auditors usually attend. Sometimes they only stay for their items.
Training	Compliant	Position at Havering
22. Is induction training provided to members?	Yes	This report shows what has been identified as necessary during 2006/7.
23. Is more advanced training available as required?	Yes	Members are given in-house training (next training session will anti-fraud on 28.09.06).
Administration	Compliant	Position at Havering
24. Does the authority's s151 officer or deputy attend all meetings?	Yes	Yes or a deputy section 151 officer. The CFO and Head of Financial Services, are usually both present.
25. Are the key officers available to support the committee?	Yes	Key officers meet with members to support the committee as required.

**AUDIT COMMITTEE MEMBERS TRAINING & AWARENESS
REQUIREMENTS**

	YEAR 1 AND FOR ANY NEW MEMBERS		YEAR 2, 3 AND 4
Timescale	Session	Coverage	
May/June 2006	Session 1	Statement of Accounts <ul style="list-style-type: none"> • What they are • Purpose • Key Matters that arise • Member's role and responsibility 	Refresher session, including <ul style="list-style-type: none"> • Revisit detailed session • Update members on any current issues
May/June 2006	Session 2	Assurance Framework <ul style="list-style-type: none"> • What is it • Audit Committee's role • The Statement of Internal Control 	
August 2006	Session 3	Risk Management <ul style="list-style-type: none"> • An introduction • Risk Management in Havering • Identification of Corporate risk • Audit Committee's role 	
August 2006	Session 4	Internal Audit <ul style="list-style-type: none"> • Roles • Reporting • Planning • Audit Committee's role 	
August 2006	Session 5	External Audit <ul style="list-style-type: none"> • Role • Reporting • Planning • Audit Committee's role 	

	YEAR 1 AND FOR ANY NEW MEMBERS		YEAR 2, 3 AND 4
Timescale	Session	Coverage	
August 2006	Session 6	Fraud and Corruption <ul style="list-style-type: none"> • What, why, who • Types of areas • Preventing/detecting • Investigating • Internal control • Having position • Case example • Audit Committee's role 	Review of Corporate Risk Register annually

The Council undertakes Induction Training of all new members along with refresher training to ensure Members understand such things as:

The Constitution.	(Legal)
Political arrangements in Havering	(Committee Secretariat)
Decision making in Havering	(Legal)
Members Code of Conduct & Protocols.	(Legal)
Whistle-blowing.	(HR)
Fraud Awareness	(Internal Audit)
Risk Management	(CMIA)
Service Continuity Planning	(Emergency Planning Officer)
Statement on Internal Control	(CMIA)

In addition there is specific training relevant to Members of the Audit Committee. The coverage of this is as follows:

Other sources of training and information include:-

1. The council's intranet contains information.
2. The risk management site
3. Financial Services produces an in-house newsletter the Financial Services Briefing to keep staff up to date with the sections activities. This is published quarterly.
4. Audit Commission reports that can be downloaded from their website electronically such as ICT Fraud and Abuse 2004, (published in July 2005). The address is www.audit-commission.gov.uk

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- 5 External courses available via the Better Governance Forum or CIPFA (may be relevant to the Chair).

Audit Committee Member - Skills and Accountabilities

This applies to members and is to be used for the purposes of identifying training needs.

Key Accountabilities:

Working with officers to undertake the following:

- a) To contribute to and promote good governance within the council particularly in relation to internal control
- b) To challenge the councils internal control framework to ensure that it is fit for purpose.
- c) To ensure that the work of internal and external audit are complementary so that resources are used effectively
- d) To critically review the councils accounts and follow up any control issues raised concerning them
- e) To ensure that there is effective and adequate internal audit, counter fraud and risk management provision and ensure rectification where necessary.
- f) To provide independent assurance that recommendations made by internal and external audit have been acted upon.

Skills and experience

Members of the Audit Committee should be familiar with:

- 1. Governance – an understanding of the requirements of legislation and of local arrangements
- 2. Risk management – recognising the requirements of the comprehensive performance assessment for English Authorities.
- 3. Internal control assurance
- 4. The organisations core activities
- 5. Accounting Issues
- 6. Regulation and compliance

Self Assessment.

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Members are expected to regularly carry out a self-assessment and inform officers of their training needs which can then be met. This will be undertaken as part of agreeing the annual work plan.



MEETING	DATE	ITEM
AUDIT COMMITTEE	28 SEPTEMBER 2006	8

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: INTERNAL AUDIT CHARTER AND TERMS OF REFERENCE

1. **SUMMARY**

1.1 It is a requirement of Standard 1, Scope of Internal Audit, taken from the 2003 Code of Practice for Internal Audit in Local Government in the United Kingdom, that there are terms of reference for Internal Audit. The main purpose of this report is to update the existing terms of reference, in accordance with the requirements of the 2003 Code of Practice.

2. **RECOMMENDATIONS**

2.1 That the revised Internal Audit Charter and Terms of Reference are approved.

3. **REPORT DETAIL**

3.1 The Internal Audit Charter and Terms of Reference, are attached as Appendix A.

3.2 The previous terms of reference were based upon the 2000 Code of Practice for Internal Audit in Local Government in the United Kingdom. That code was based upon the Auditing Practices 1990 Internal Auditing Guideline. There have been significant changes in the nature, scope and practice of internal audit throughout the public sector since 1990. For example:

- The Turnball guidance 1999,
- Changes in corporate governance requirements
- The requirement to produce a Statement on Internal Control
- Changes in Risk Management

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- Audit plans and internal auditing have become far more risk based
- A closer alignment by CIPFA with the International Standards of Auditing

3.3 The previous terms of reference also needed updating as they contained constant references to the external company who had previously provided the service when it was externalised. The service is now provided by an in-house team of internal auditors.

4.0 Financial Implications and risks.

There is a risk that if the charter is not up to date the Council would be viewed as being non compliant with best practice.

5.0. Legal Implications and risks:

None arising directly from this report

6.0. Human Resource Implications and risks:

All employees have a responsibility to complete a Declaration of Interest Form, and this process equally applies to members of staff within Internal Audit . In addition as set out in the Terms of Reference any potential conflicts of interest should be considered before each piece of work to be undertaken.

7.0. Equality and Social Inclusion implications:

None arising directly from this report

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STEPHEN EVANS
Chief Executive

Background Papers

Annual Audit Strategy and Strategic Plans
Service Plan for Internal Audit
CIPFA Code of Practice of Internal Audit in Local Government UK 2003
Accounts and Audit Regulations 2003
Role of the Finance Director CIPFA January 2003
Improving The Audit Service- Applying Best Value Principles To Internal Audit,
published by CIPFA April 2001

APPENDIX A

INTERNAL AUDIT CHARTER AND TERMS OF REFERENCE

Definition

1. In accordance with Regulation 6 of the Accounts and Audit Regulations 2003, which require the provision of internal audit and its provision in accordance with “proper internal audit practices”, the London Borough of Havering has adopted the CIPFA Code of Practice for Internal Audit in Local Government in the UK (updated 2003) and its definition of Internal Audit:

Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

2. The Internal Audit Service is responsible for conducting an objective and independent appraisal of all the London Borough of Havering’s activities, financial and otherwise.

3. Internal Audit is required to be a continuous service available to all levels of management but its primary responsibility is to give assurance to Members, the Chief Executive, Assistant Chief Executives and Group Directors on all control arrangements, including risk management and corporate governance.

4. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.

5. It is for management to determine whether or not to accept the audit recommendations and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions.

6. Internal Audit will consider the adequacy of the control environment necessary to secure propriety, strategic management, integrity of information, compliance with laws and regulations and effectiveness of operations in all areas.

Scope

7. All London Borough of Havering’s activities fall within the remit of the Internal Audit Service.

8. Internal Audit will not restrict itself to the audit of financial systems and controls but will cover all operational and management controls.

9. Not all systems will be subject to review each year but they will be included within the overall remit of audit and be subject to the audit needs risk assessment and considered for review as described in the Annual Audit Strategy and Strategic Plan.

10. As Audit can give an opinion on the whole of the system of control it may include areas as diverse as staff turnover, performance management etc. The role of internal audit is to confirm the effectiveness of systems and controls in meeting objectives. It will not make academic or other judgements.

11. It is not within Internal Audit's remit to question the appropriateness of policy decisions. However, Internal Audit is required to examine the arrangements by which such decisions are made, monitored and reviewed.

12. The Internal Audit Service may also conduct special reviews and investigations, (i.e. unplanned work) requested by Members, Chief Executive, Assistant Chief Executives and Group Directors and in particular the Finance and Commercial Group Director (F&CGD); provided such reviews do not compromise its objectivity or independence. The impact on the audit plan must be assessed by the Client Manager Internal Audit (CMIA) and, if necessary, the plan must be reprioritised by the Audit Services Manager (ASM). Any significant changes must be reported back to the F&CGD and Members in the next Audit Committee reporting cycle.

13. The F&CGD may require and direct Internal Audit to undertake special proactive fraud investigations. The CMIA and the ASM must report to the F&CGD any impact of these on the Audit Plan.

14. Fraud prevention and detection is the responsibility of managers. However if Audit detects any suspected irregularities during the course of their activities they will report them to the F&CGD. The ASM may review the system for control weaknesses but the F&CGD may require or direct a special investigation. See paragraph 13. The Council's corporate procedures required that the CMIA or the ASM are kept informed of all suspected, or detected fraud, corruption or impropriety, as this data affects the opinion which is given on the internal control environment.

Independence (See Appendix A)

15. Internal Audit is organisationally independent that is; the Internal Audit Service has no operational responsibilities (with the exception of the annual returns to the Inland Revenue), nor does it have responsibility for the

development, implementation or operation of systems. However, it may provide advice on implementation, control and related matters, subject to resource constraints.

16. Responsibility for internal control rests fully with management who must ensure that appropriate and adequate arrangements exist without reliance on Internal Audit. To preserve the objectivity and impartiality of the auditors professional judgement, responsibility for implementing audit recommendations rests with management without reliance on Internal Audit

17. Internal Audit will be free from interference in setting objectives, scope and priorities for the Audit Plan (although they must have due regard for the Authority's strategic objectives and corporate and service risk registers and consult with Members and Officers charged with governance) and in reporting and carrying out their duties. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

18. Internal Audit is supported by the organisation and its independence is seen as key to providing the London Borough of Havering with an effective service.

19. Internal Audit has direct access to the Chief Executive, the Assistant Chief Executives, all Group Directors, Heads of Services, the Leader of the Council and the Chair of the Audit Committee and report in their own name.

20. The CMIA and the ASM should have sufficient status within the authority to facilitate the effective discussion of audit strategies, plan, results and improvement plans with senior management.

21. In order to maintain organisational independence, Internal Audit has its own budget and is responsible for providing the Internal Audit service within budget.

Access

22. Internal Audit has a right of access to all premises, personnel, documents and information they consider necessary for the purpose of their audits as specified in Financial Procedure Rules Section 6 (b) and to obtain such information and explanations from any employee or member as necessary concerning any matter under review/investigation.

23. Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred.

Reporting

24. The F&CGD has the delegated authority to ensure that there is a current and effective internal audit.

25. The CMIA will report monthly (based upon data provided by the ASM), or as required, to the F&CGD and the Head of Financial Services on significant matters relating to the Audit Plan via Project Board reports or the monthly Head of Service Pack.

26. The CMIA will report monthly, or as required to the Head of Financial Services and the F&CGD on progress to plan and other Audit key performance indicators as shown in paragraph 41.

27. The ASM and the CMIA will report at least annually to the Audit Committee on:

- The Audit Strategy,
- The Audit Charter and Terms of Reference,
- Audit Plan and resources
- Annual Head of Service Report
- Statement on Internal Control

28. The CMIA (based upon data provided by the ASM) will report at least quarterly to the Audit Committee on:

- Progress to plan and any significant changes in priority,
- Assurance on internal control and corporate governance
- Any significant control weaknesses

TERMS OF REFERENCE

Responsibilities of the Audit Services Manager and the Client Manager Internal Audit

The CMIA and the ASM are responsible for:

29. Audit Planning

- Identifying the overall remit of audit activity
- Carrying out an audit needs risk assessment and prioritising into strategic and annual plans in consultation with the Assistant Chief Executives, F&CGD, Group Directors, Heads of Services and Members
- Agreeing any significant changes to the Annual Audit Plan with the Assistant Chief Executives, F&CGD, Group Directors, Heads of Services and Members

30. Corporate Management Reporting

- Producing quarterly interim reports on progress to plan and other key performance indicators as well as an end of year report
- Detailing the Audit Strategy in consultation with the F&CGD, Group Directors and Members
- Alerting the F&CGD to any significant areas of financial weaknesses as per

her s151 role

- Compiling an annual assurance report on the control framework to the F&CGD and Members

31. Maintaining an adequate and effective Internal Audit Service

- Continuously reviewing the quality of the Audit Service
- Continuously reviewing the effectiveness of the Audit Service
- Periodically reviewing the Audit Charter and Audit Strategy for adequacy and effectiveness
- Maintaining a professional audit team with sufficient knowledge skills and experience to carry out the audit plan
- Ensuring compliance with the CIPFA Code of Practice for Internal Audit 2003
- Fostering and encouraging constructive working relationships between auditors, auditees, managers and external auditors and to ensure that Auditors do nothing to damage these relationships
- Chairing the Audit Representatives Group and ensuring that it meets at least twice per year in March and September)
 - Maximising the use of technology for effective service delivery
 - Ensuring follow up Audits are undertaken the following year for all qualified audit reviews
 - Monitoring the implementation of agreed recommendations in conjunction with the Business Management Office
 - Delivering the agreed Audit Plan
 - Carrying out special investigations in accordance with agreed principles
 - Taking part in the annual National Fraud Initiatives.

32. Objectivity and Confidentiality

- The CMIA and the ASM must take all reasonable measures to ensure that all Internal Auditors have an objective frame of mind and be in a sufficiently independent position to be able to exercise judgement with impartiality.
- Maintaining confidentiality is a particular requirement of Internal Audit. Matters that arise during the course of an audit are confidential if they could prejudice the outcome (e.g. fraud) and distribution of reports restricted as far as possible to officers directly responsible for the area being audited unless they agree otherwise. Once completed the results are reported to the Audit Committee. However, all reports and memos are subject to the scrutiny of the s151 officer as the statutory finance officer, as well as the Audit Commission Auditors as the appointed external auditors of the Authority. All Audit reports maybe subject to disclosure under the Freedom of Information Act but this will be agreed with the relevant officers at the time of each specific request.

Responsibilities of Auditors

33. Process

- Give adequate notice of the start of a planned audit (in accordance with the Internal audit protocol)
- Base opinions on facts and evidence
- Provide practical and timely recommendations in a formal report
- Agree a plan of action to remedy control weaknesses

34. Compliance with Auditing Standards

- **Comply with the Audit Manual and Protocol for Internal Audit**
- Maintain professional independence, objectivity, integrity and confidentiality
- All auditors must inform the Audit Services Manager of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity
- Maintain proper documented files supporting conclusions
- Hold in safe custody any documents or property or other material obtained for audit use or investigation
- Act with due care to provide “reasonable” assurance on the adequacy of control
- Foster good working relationships with auditees, external auditors and managers

Responsibilities of the Finance & Commercial Group Director (F&CGD)

35. The F&CGD has the delegated authority for the provision of the Audit Service. The F&CGD must ensure that:

- The Audit Service is complying with their responsibilities as detailed within this charter and are providing an adequate and effective service
- Any suspected irregularities are properly and appropriately investigated and action taken
- She is satisfied that the control assurance statement either on its own or as part of a combined statement of assurance, reflects accurately the position of the internal control framework
- The section is properly and efficiently resourced to give effective coverage

Responsibilities of Members

36. The Members as the corporate body have the responsibility to ensure that there is a current and effective internal audit function. These responsibilities include ensuring that:

- The function complies with the CIPFA Code of Practice for Internal Audit in Local Government in the UK (updated 2003)
- Audit's status is sufficient within the organisation, is independent organisationally and in its reporting and free to set its priorities
- There are strategic and annual plans focused on the risk and control framework
- Audit is properly and sufficiently resourced to give effective coverage
- Significant weaknesses identified by audit are addressed
- Agreed recommendations are implemented
- They comply with the Internal Audit Protocol

Responsibilities of Auditees

37. In accordance with Financial Procedural Rules 6 (b) Managers must ensure that:

- They maintain a constructive approach to Internal Audit
- They make available employees, documents, computerised systems and information in a timely manner to allow the audit to progress within agreed timescales
- They respond promptly and formally to audit reports within the agreed timescale
- They implement agreed recommendations and within an agreed timed action plan.

External Audit

38. External Audit has rights of access to all premises, personnel, documents and information they consider necessary for the purpose of their audit as specified in Financial Procedural Rules 6 (b).

39. The Internal Audit Protocol defines their respective responsibilities, co-operation arrangements and the performance areas of Internal Audit that will be reviewed and evaluated by the External Auditors. Internal Audit is expected to co-operate and regularly liaise with external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.

40. External Auditors have a responsibility to assess whether Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

Effectiveness of Internal Audit – Key Measures

40. The effectiveness of Internal Audit will be measured by:
- KPI 01 The no. of audit briefs produced each month compared to target
 - KPI02 The no. of draft reviews produced each month compared to target
 - KPI03 The no. of final reviews produced each month compared to target
 - KPI04 the no. of audits completed to draft report stage within agreed timescales
 - KPI05 The percentage of system audit questionnaires returned each month
 - KPI06 The percentage of fraud audit questionnaires returned each month
 - External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority's accounts.

The Internal Audit Charter and Terms of Reference have been approved by the Audit Committee (DATE TO BE INSERTED).....

Related Papers:

- Audit Strategy and Audit strategic and annual plans
- CIPFA Code of Practice of Internal Audit in Local Government UK 2003
- Accounts and Audit Regulations 2003
- Role of the Finance Director CIPFA January 2003
- Improving The Audit Service- Applying Best Value Principles To Internal Audit, published by CIPFA April 2001

APPENDIX A

DEFINITIONS OF INDEPENDENCE AND DECLARATIONS OF INTEREST

The CIPFA definition of internal audit includes the phrase “independent appraisal function”. All guidance on best practice insists that the key to audit effectiveness rests with its independence and status.

[Taken from *Improving The Audit Service- Applying Best Value Principles To Internal Audit*, published by CIPFA April 2001] Independence covers the following areas:

Access: the Head of IA should have direct access to and freedom to report to all senior management, including the chief executive and members

Reporting: the Head of IA should have the right of reporting without editing under his or her own name

Independence from line operations: IA should be completely independent of all financial and operational systems within the organisation. **The test for Internal Audit’s independence from line operations is that, if it were not present in a system or procedure, that system or procedure would continue without interruption**

Position: Organisational status should be such that IA operates independently of personnel directly responsible for the operations under review. If part of the finance department, the Head of IA should be accountable and be managed by and report directly to the s151 Officer.

Independence of mind: The internal auditor should have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgement, express opinions and present recommendations with impartiality.

Scope: The scope of the IA function should provide an unrestricted range of coverage of the organisations operations and the internal auditor should have sufficient authority to allow them access to the records, assets and personnel as necessary to properly be able to fulfil their duties. IA should be free from the interference of others.

Status: The status of IA should enable it to function effectively. The support of management is essential. IA should be involved in the determination of its own priorities, in consultation with management.

2. OBJECTIVITY

As part of independence of mind as mentioned on the previous page, the Internal Auditor should have an objective attitude of mind, be in a sufficiently independent position to be able to exercise judgement, express opinions and present recommendations with impartiality.

In order to achieve this objectivity in approach Internal Auditors should:

Be free from any conflict of interest arising from either professional or personal relationships or from pecuniary or other interests in an organisation or activity that is subject to audit

Be equally free from any undue influences that might affect the way in which reviews are undertaken, findings are interpreted and recommendations formulated

Not allow their objectivity to be impaired when auditing an activity for which they have had authority or responsibility in the past

Not normally undertake non-audit duties but where they do so exceptionally, they should ensure that management understands that they are not then functioning as internal auditors. Any such activity will be at arms length from IA and not under the direction of the Audit Manager.

3. DECLARATION OF INTEREST

Internal Auditors must declare an interest in an audit area, if they are either asked to carry out the review or can influence (e.g. as lead auditor etc) the review, if they:

Have had responsibility for a line operation within the last 12 months

Have close family ties with any of the managers or senior employees under audit review i.e. people who are in a position to influence the direction of operations

Have strong personal relationships with any of the managers or senior employees under audit review i.e. people who are in a position to influence the direction of the operations

Have other links to any of the managers or senior employees under their direct audit review, some examples being: serving on the same committee of an outside organisation, they are next door neighbours or their families have a close personal tie etc.

Work for an outside organisation that could be subject to audit review by London Borough of Havering

If in doubt Internal Auditors should consult with the Audit Services Manager.

4. AUDIT MANAGEMENT ACTIONS

After discussions with the Auditor concerned management actions could include:

If the reason given or relationship is not considered to be significant enough to impact on the objectivity of the Auditor, the Manager may decide to put a note on file giving reasons and allowing the Auditor to carry out the review

If the reason given, or relationship, is not considered to impact on the objectivity of the Auditor but others outside the Section may view it as being partial, the Manager may decide to allow the Auditor to assist with the review, but another Auditor/Manager will carry out its supervision and direction.

If the reason given is significant or the relationship is so close (e.g. parent and child or husband and wife etc.) that partiality could be an issue, the Manager will ensure that another Auditor carries out the review. This does not preclude the declarer from giving advice on the area being reviewed if the Manager considers it to be appropriate.

In any case, if there is no other available resource, the Manager may decide to allow the Auditor to carry out the review but declare the interest to the Head of Service responsible for the activity under review, stating the reasons for the declaration. The F&CGD will also be notified. The declaration will also state why there will still be impartiality/objectivity and that the Audit manager will manage and direct the review. If there is any objection the F&CGD must decide on what action to take.

5. REPORTING ANY INTERFERENCE ON INDEPENDENCE

The Auditor must report to the CMIA or the ASM any blockages or interference by anyone that prevents them from carrying out or fulfilling their duties or from being independent e.g.;

Being denied access to any person or records/ documents etc under review

Reports are withdrawn or pressure is brought to bear to change facts and alter opinions that the Auditor considers to be correct

Blocks are put on starting reviews or there is a refusal to allow a review or progress of a review is halted without good reason.

Audit Committee, 28 September 2006

The CMIA and/or the ASM (or if they are the problem the auditor) will try and resolve the issues but if not, depending upon the level at which the interference occurs and its severity, may report the matter to any or all of the following:

- Head of Financial Services (Line Manager)
- The Finance & Commercial Group Director (s151 Officer)
- The Chief Executive
- The Assistant Chief Executives
- Group Directors
- The Leader of the Council
- The Audit Committee
- The Audit Commission.



MEETING	DATE	ITEM
AUDIT COMMITTEE	28 SEPTEMBER 2006	9

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: INTERNAL AUDIT PROGRESS REPORT 01 APRIL 2006 – 30 JUNE 2006 AND OUTSTANDING REPORTS FOR 2005/06

SUMMARY

This report advises the Committee of audit issues from internal audit activities for the period 01 April 2006 to 30 June 2006 and outstanding reports for 2005/06 . It includes management summaries from internal audit work.

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise any issues of concern.

REPORT DETAIL

1. **2005/2006 and 2006/07 Audits**
 - 1.1 Schedule 1 details the remaining final reports for 2005/06 together with details of the work completed to the draft and final stages for the period 01 April to 30 June 2006 .
 - 1.2 Schedule 2 contains the management summaries for the remaining 2005/06 audits together with those completed to final report stage between 01 April and 30 June 2006.

- 1.3 Where a final report has been qualified the relevant Head of Service will advise Members at the Audit Committee meeting of the actions being taken to address the main weaknesses identified.

2. Fraud and Investigation Work

- 2.1 A brief synopsis of the fraud and investigations work between the 01 April and 30 June 2006 are shown in Schedule 3. Included in the summary are the results of the investigations and actions taken.

3. Financial Implications and risks:

- 3.1 Recommendations may arise from any audit 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. There are no financial implications or risks arising directly from this report.

4. Legal Implications and risks

None arising directly from this report

5. Human Resource Implications and risks

None arising directly from this report

6. Equality and Social Inclusion implications

None arising directly from this report

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STEPHEN EVANS
Chief Executive

Background Papers

Internal Audit reports
Internal Audit database

Final reports 2005/06

Report	Issued	Internal Auditor's Opinion	Recommendations				Ref
			High	Med	Low	Total	
New Employees Pro-Active	13/6/06	Unqualified	0	2	0	2	Sch 2 (a)
Housing Rents & Arrears	22/6/06	Qualified	1	2	3	6	Sch 2 (b)
Change Control	30/8/06	Unqualified	0	6	0	6	Sch 2 (c)
Swift	31/8/06	Unqualified	0	2	0	2	Sch 2 (d)
Servitor	1/9/06	Qualified	2	6	0	8	Sch 2 (e)
Academy	1/9/06	Unqualified	0	0	0	0	Sch 2 (f)
Remote Access	4/9/06	Unqualified	0	6	0	6	Sch 2 (g)
TOTALS			3	24	3	30	60

Audits Completed To Final Report Stage: 01 April – 30 June 2006

Report	Issued	Internal Auditor's Opinion	Recommendations				Ref
			High	Med	Low	Total	
Tendering Processes	7/6/06	Unqualified	0	2	2	4	Sch 2 (h)
Certificate Payments	22/6/06	Unqualified	0	3	4	7	Sch 2 (i)
TOTALS			0	5	6	11	22

Pro-Active Audits Completed To Final Report 01 April – 30 June 2006

Report	Issued	Recommendations				Ref
		High	Med	Low	Total	
Travel /Subsistence & Car Allowances	26/6/06	0	1	3	4	Sch 2 (i)
TOTALS		0	1	3	4	8

Follow Up Audits Completed 01 April – 30 June 2006

Report	Issued **	Progress Towards Implementation	Ref
NO reports issued to final in this period			

Audits Completed to Draft Report Stage as at 30 June 2006

Report	Draft Issued	Head of Service	Executive Director
PASC's	9/6/06	Dylan Champion	Cynthia Griffin
Insurance	21/6/06	Mike Stringer	Rita Greenwood
Housing Aid Follow up	30/6/06	Barry Kendler	Mark Gaynor
Final Accounts Follow up	19/6/06	Barry Kendler	Mark Gaynor
Reimbursement of personal calls (pro-active)	14/6/06	Mike Stringer	Rita Greenwood

New Employees Pro-Active	Schedule 2(a)
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1. Management Summary

1.1 Introduction

1.1.1 The 2005/2006 Internal Audit plan includes a pro-active audit into New Employees, including References and Leavers.

1.2 Key Areas Reviewed

1.2.1 A list of new employees for the financial year 2005/2006 was obtained from Human Resources. From this list a sample of 25 new employees was selected at random. For each of the samples selected the corresponding HR file was obtained. The files were reviewed to identify whether the following was in place:

- Adequately completed and bona fide application forms for each of the samples selected.
- Bona fide references, as recorded on the application form, had been obtained for each new employee.
- Evidence of qualifications has been retained on file.
- Adequate Criminal Bureau Checks have been undertaken where applicable.
- Adequate Medical Checks have been undertaken.
- Each new employee had been given Induction training.

1.2.2 In addition to the sample of new employees, a list of all leavers for the financial year 2005/2006 was obtained. A sample of 25 leavers was selected at random. For each of the samples selected the corresponding HR file was obtained. The files were review to identify whether the following was in place:

- All equipment / assets were returned by the employee.
- An appropriate exit meeting was held with the employee.
- Checks were undertaken to ensure that no payments were either due or owed.
- The employee had only taken leave they were entitled to.
- The employee's flexi record was not in deficit.
- Notification was sent to computer services to stop access to the Council's computer systems and e-mails.
- The employees ID / Car Park Pass were cancelled.
- All keys (where necessary) were returned by the employee and signed for.

1.2.3 During the audit review it became apparent that induction information for new employees would be held by the relevant line manager and not in the HR file. In addition, all of the above leaver's information, except the check on payments due / owed, would also be retained by the relevant line manager. For this reason, in addition to reviewing the files within HR, 50 line managers needed to be contacted in order to obtain the additional information.

1.3 Significant Issues

1.3.1 The following significant issues were noted during the audit review:

- 25 induction documents were requested from line managers. 7 cases were returned and adequate induction documents received. In 3 cases probation sheets, not initial induction documents, were received and in 15 cases nothing was received.
- Of the 25 new employees selected, 4 were agency staff. Probation documentation was received for 2 of these officers. Corporate inductions were carried out with the remaining 2 officers, although the corresponding documentation was not completed. An email dated 10th April 2006 sets out that a change in legislation now states that agency staff are not to be treated in the same way as permanent staff. This would affect things such as induction, health and safety etc. This legislation may affect the implementation of this recommendation for agency staff, although it is still expected that agency staff would need to be made aware of a number of corporate issues.
- As with the above induction documents, information was requested from the line managers of 25 leavers. The review identified that there is not a checklist in place to ensure that all appropriate action is taken when employees leave the Authority. When speaking to line managers / staff members, it became apparent that all of the questions being asked by Audit could not be fully answered.
- In addition it was noted that in 1 case an application form was not retained on file as the employee had been employed via a new pilot scheme, where the application was carried out in a different manner. There was nothing on file to support the pilot scheme or the lack of an application form.
- The review found that there would appear to be a lack of understanding by Managers of the procedures required to be adhered to for both new employees and for employees leaving the Authority.
- The controls within Human Resources in respect of consistency of files and the level of documentation retained was adequate, however it was established that there is a lack of control over the request of information that is the responsibility of line managers to obtain. Due to the recent restructure of the Directorates, it became apparent that whilst line managers are responsible for completing staff inductions and for ensuring that appropriate action is taken when employees leave the Authority, there is a lack of control when there is no relevant line manager in post or if they have left documentation for the staff they were responsible for cannot be found.
- Due to the level of checking required for this audit (700 checks in HR and 50 line managers to be contacted) and the time availability it was not possible to continue to chase outstanding documents.

1.4 Summary of recommendation(s)

1.4.1 This report contains two recommendations, both of a medium priority.

1.5 Audit Opinion

1.5.1 The audit opinion is that there are weaknesses in the controls relating to:

- Procedures to be followed by line managers in the recording of prime information relating to starters and leavers;
- Managers are not collating and retaining prime documentation.
- When line managers have left it is not possible to locate staff records for whom they were responsible.

1. Management Summary

1.1 Introduction

1.1.1 As at 1st April 2006 the value of housing stock for the London Borough of Havering was £530,298,563.86.

This reflects the total number of Council owned dwellings which as at the 1st April 2006 numbered 10,923 properties, 2830 garages and 75 hostels.

As at the 1st April 2006 tenant arrears (both current and former) totalled £1,315,236.

1.1.2 Housing rents are administered using the Anite system.

1.1.3 During the 2004 / 2005 audit it was noted that there were delays in passing financial data from Anite to FIS. A recommendation was made regarding an automatic interface between Anite and FIS. At the time of the audit review it was established that work was underway and will require an Anite Consultant to complete the interface.

1.2. Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- Financial procedures and relevant housing legislation are not being adhered to.
- Council rent is not charged in respect of all properties leading to subsequent loss of income.
- Council tenants are not legally notified of rent increases leading to loss of income.
- Inadequate segregation of duties between collection and recording of rent resulting in an increased risk of errors and misappropriation of funds.
- Failure to accurately record rent collected and monitoring of collection rates.
- Rents charged and income received are not accurately reflected in the Council's financial accounts.
- Void properties are not dealt with in a timely and efficient manner resulting in a loss of rental income.
- Rent arrears are not identified / monitored and recovery action is not taken in accordance with internal procedures and relevant legislation.
- Authorised documentation is not retained to support tenant refunds.

- Procedures for dealing with write-offs of outstanding rent are not being adhered to.
- Debt recovery procedures are not followed, resulting in possible regulatory risk and financial loss.
- Inadequate identification, reporting and record keeping of former tenant arrears and payments.
- Cases are not managed and followed up and progressed timely resulting in financial loss.
- Ineffective use of resources by pursuing small amounts of money outstanding.

1.3 Critical issues that require immediate management attention

1.3.1 The audit review identified one critical issue relating to the need for Use and Occupation letters to be issued to all individuals residing in Council properties, without any rights to the succession of the property. Without this document, the Authority cannot legally pursue the individual for any charges on the account, resulting in increased write off levels and financial loss for the Authority.

1.4 Significant issues that require management action to improve the control environment.

1.4.1 The audit review identified two significant issues that require management action to improve the control environment. These were:

1.4.2 Access permission for users of the Anite Housing System have not been restricted. Each user should only have access to those parts of the system applicable to their position within the section.

1.4.3 Reconciliations of Anite-FIS undertaken by the Housing Accountancy section are not signed or dated by either the producing officer or the certifying officer.

1.5 Other matters identified that require management attention to ensure “good practice” within the control environment

1.5.1 The audit review identified three areas where it was felt that the system was operating adequately but could be improved to make it work more efficiently and effectively. These were;

1.5.2 Notification letters issued to tenants, informing them of any rent increases are not formally reconciled to the number of tenants recorded on the Anite system.

1.5.3 The original authorised Payment Request Forms, for tenant refunds, are stored in a garage at the Gooshays site. The documents are put onto the floor in no order, the only protection from water etc are the batch holders (brown envelopes) that they were sent back to Gooshays in. It must be highlighted that staff were not aware of the location of these documents and several attempts were made to locate them, before they were eventually located at Gooshays.

1.6 Summary of recommendation(s)

1.6.1 The report contains three low recommendations, two medium recommendations and one high recommendation.

1.7 Audit Opinion

1.7.1 A qualified audit opinion must be given due to the significant financial risk to the Authority in relation to the lack of Use and Occupation letters issued to individuals residing in properties without rights to the succession of the property. Without evidence of this document being issued to the individual, the Authority cannot legally pursue the debt. This increases the number of write offs and does not give an accurate reflection of legitimate rent write offs.

1. Management Summary

1.1 Introduction

- 1.1.1 Change Control concerns the management of ICT system changes within the Council's IT environment. This seeks to ensure that changes to the IT infrastructure are managed, authorised and recorded according to a standard process that ensures an effective, efficient and managed environment to allow ICT systems to be migrated between versions. This also ensures that changes in the overall ICT infrastructure are managed.
- 1.1.2 The management of Change Control within the London Borough of Havering "Havering" is supported by three groups within the Council's ICT Division - overall change control operations are managed by the technical support team and this is supported and driven by information contained on the Council's IT Service Desk which manages user issues via the track-it software. This also includes the facility to log and manage change requests. Changes to applications supplied by Third Parties are managed by in house departmental and application support teams. This audit reviewed the adequacy and effectiveness of the control environment established over change control within the Council.
- 1.1.3 There is a standard change control procedure that has been put in place by the Council's AD&S service. This is a single control sheet circulated around all departments and intends to direct the development, test, production and training environments of individual applications. This covers the request, development and implementation of changes within IT systems not directly managed by IT.
- 1.1.4 Management plans to review the change control process to ensure that best practice standards such as ITIL are in place to manage changes in Council systems and this includes a new policy that is consistent with the ITIL guidance on Service Delivery.
- 1.1.5 The review process for the documented change standard is currently managed by the AD&S Service Manager. This project is controlled by the Operations and Service Manager.
- 1.1.6 Although there are corporate change control processes, this was not found to extend to all Council systems and we found exceptions in the management of change on the Environmental Flare system.
- 1.1.7 Anticipated changes are managed by the Council's Helpdesk software called track- it, which records all details for changes according to change severity. A summary of all changes and helpdesk calls is presented at the monthly IT Service Managers meeting when helpdesk calls and changes are presented and reviewed for their impact.
- 1.1.8 For major applications there is a test environment where changes are tested prior to being put into the live environment. It was also identified that systems can be rolled back using back up copies.

1.2 Key Risk Areas reviewed

- 1.2.1 If change control standards do not exist for amendments to the IT environment, there is the risk of inconsistencies, misinterpretations and the absence of best practice standards in the execution of the change functions. Changes may also not be authorised.
- 1.2.2 If change control standards are not regularly reviewed there is the risk that they will be outdated and may not reflect current best practice.
- 1.2.3 If general maintenance work is not controlled, there is a risk that urgent work may be delayed because it is allocated to inexperienced staff. IT support staff may undertake amendments that have an adverse effect on the integrity of systems. Furthermore, unless undertaken in separate environments, such work may adversely affect live records.
- 1.2.4 If Change Control Standards do not address emergency changes, there is a risk that they may not be adequately assessed and tested resulting in inappropriate changes to the IT environment.
- 1.2.5 In the absence of checks to ensure that amendments have been correctly undertaken, there is the risk that errors will go undetected and resources will be wasted in identifying errors at a later date.
- 1.2.6 If the record of employees authorised to request for change is not kept up to date, there is a risk that requests are processed from employees who are no longer permitted to authorise changes.
- 1.2.7 In the absence of checks completed to ensure that amendments are bona fide, there is the risk that invalid requests will be accepted, as requests made by inappropriate staff will be accepted. Furthermore staff will gain access to inappropriate/sensitive areas; and proposed amendments may have adverse effects.
- 1.2.8 If documentation supporting the amendments that have been completed is not maintained, there is the risk that inappropriate and unwarranted amendments and errors may go undetected. Furthermore, records to refer to in case of a query to determine at what point problems started to occur will be lacking.
- 1.2.9 If relevant records are not updated to record changes made, there is the risk that there will not be documentation available in respect of latest amendments made and users will be unable to resolve queries.
- 1.2.10 If the record of employees authorised to authorise requests for change is not kept up to date, there is the risk that requests are processed from employees who are no longer authorised.

1.3 Critical issues that require immediate management attention

- 1.3.1 There were no critical issues raised as part of the audit.

1.4 Significant issues that require management action to improve the control environment.

- 1.4.1 A review of the change control function identified that there are no documented standards in place to cover all systems, and responsibility to coordinate change has not been defined for all applications. Not all changes are reviewed by senior management

and some manuals are not up to date to reflect recent changes. A “Medium” category recommendation has been raised to address these issues.

- 1.4.2 There is currently no formalised impact assessment or lessons learned exercise carried out for major changes to the IT environment. A “Medium” category recommendation has been raised to address these issues.
- 1.4.3 A formal record is not maintained for those officers who can authorise requests for change and the departmental hierarchy is used to manage this process. A “Medium” category recommendation has been raised to address the issue.
- 1.4.4 Project plans for system testing of changes are established with the assistance of business users. A risk assessment exercise was not completed for the changes to the BACS project.
- 1.4.5 A review of the documents used to control change control revealed that the reasons for changes have not been adequately documented. A “Medium” category recommendation has been raised to address the issue.
- 1.4.6 Audit testing was unable to identify before and after print images for changes completed of the samples tested. A “Medium” category recommendation has been raised to address the issue.

1.5 Other matters identified that require management attention to ensure “good practice” within the control environment

1.5.1 There were no issues raised.

1.6 Summary of recommendation(s)

1.6.1 The report contains six “Medium” category recommendations.

1.7 Audit Opinion

1.7.1 An unqualified audit opinion can be given as Audit is satisfied that a strong control environment was established over the change control practices.

However to further improve the control environment, management need to ensure that:

- a Change Control function with the responsibility to coordinate the review, monitoring and authorisation of change control standards and procedures is established;
- an impact assessment review, system and data owner sign off, and communication of scheduled changes to stakeholders be formalised;
- change effects to existing systems be formalised;
- a list of those authorised to prepare request for changes should be established and reviewed periodically;
- documentation recording the details of changes made should be recorded and authorised for completeness; and
- before and after printouts are retained to show the effects of changes carried out.

1 Management Summary

1.1 Introduction

- 1.1.1 The SWIFT system was implemented as a replacement for the Social Service Information Database (SSID). SWIFT is installed on Citrix file servers and is a Windows based product running on an Oracle Database.
- 1.1.2 SWIFT is the key database used by Social Services to manage and control their client database. System implementation is ongoing, with version 20 intended to be released during 2006.
- 1.1.3 SWIFT is supplied by ANITE Public Sector Services, who provide a high degree of system support in conjunction with the Council's ICT Services.

1.2 Key Risk Areas reviewed

1.2.1 The audit reviewed the following key risk areas:

- Unauthorised or inappropriate transactions or reference data are input to the system;
- Transactions are not authorised, complete, accurate, timely and input once only;
- Appropriate levels of controls are not maintained during processing to ensure completeness and accuracy of data;
- There are no controls to ensure the accuracy, completeness, confidentiality and timeliness of output reports and interfaces;
- There is no complete audit trail maintained which allows items to be traced from input through to its final resting place, and a final result broken down into its constituent parts;
- No arrangements exist for creating back-up copies of data and programs, storing and retaining them securely, and recovering the Swift applications in the event of failure; and
- There is no escrow agreement to ensure that the Swift application source code is available in the case of the failure of the Swift supplier.

1.2.2 The audit also reviewed follow up points as raised in the Final Audit Report: SWIFT System, dated 4 April 2005, reference ACIT/MW/T5FAAG. This found that four recommendations had not been implemented. These have not been raised in this report.

1.3 Critical issues that require immediate management attention

1.3.1 We identified three critical areas during our review that required management attention. These issues were raised in the draft consultation report and management have already taken action to address these concerns. The application currently allows users to delete system notes that are contained in mandatory fields.

1.4 Significant issues that require management action to improve the control environment.

1.4.1 Reports of modifications to static data are not produced and consequently not reviewed for accuracy and adequacy.

1.4.2 An audit trail is not produced by the SWIFT system. An adequate audit trail should be maintained to include all system activity.

1.5 Other matters identified that require management attention to ensure “good practice” within the control environment

1.5.1 There are no low risk recommendations.

1.6 Summary of recommendation(s)

1.6.1 This report contains no High risk recommendations

1.6.2 The report contains two Medium risk recommendations,

1.6.3 The report contains no Low risk recommendations.

1.6.4 Four recommendations from the previous audit report on Swift were also found not to have been implemented. These have already been reported to Audit Committee and have not been re-raised in this report

1.7 Audit Opinion

1.7.1 An unqualified audit opinion can be given as Audit is satisfied that there is now a strong control environment within the Swift Application after management action.

To improve the control environment, management need to ensure that:

- Records for changes to reference tables are to be maintained;
- An adequate audit trail is maintained of changes to the Swift application

1 Management Summary

1.1 Introduction

1.1.1 The DSO Servitor application is used for the management of DSO operations within the London Borough of Havering. The use of the application is split between the following areas for the management of work orders and to record DSO activity:-

- Fleet Management
- Repairs Management, Vehicle and Council House Repairs
- Highways and Streetcare
- Stores

1.1.2 The application is supplied by RAC Software Solutions who provide management software for local authority DLO/DSO's and the application is currently in use in over 40 sites in the UK.

1.1.3 Servitor I was implemented at London Borough of Havering in April 1992. In July 2005, Servitor II was installed. Servitor II is a bespoke system that can be tailored to suit individual business requirements.

1.1.4 The Servitor application is run on a Unix P670 server maintained by ICT which is backed up on a daily basis.

1.1.5 Servitor contains a number of interfaces of data between Council applications. There are the interfaces with Anite Housing for details of Housing repairs. Updating the General Ledger with payments and costings and Oracle Financials for the details of payments to contractors.

1.1.6 The application manages the process of recording work orders and managing their completion and associated costing information.

1.2 Key Risk Areas reviewed

1.2.1 The audit reviewed the following key risk areas:

- Unauthorised or inappropriate transactions or reference data are input to the system.
- Transactions are not authorised, complete, accurate, timely and input once only.
- Appropriate levels of controls are not maintained during processing to ensure completeness and accuracy of data.
- There are no controls to ensure the accuracy, completeness, confidentiality and timeliness of output reports and interfaces.

- There is no complete audit trail maintained which allows items to be traced from input through to their final resting place, and a final result broken down into its constituent parts.
- No arrangements exist for creating back-up copies of data and programs, storing and retaining them securely, and recovering the Servitor applications in the event of failure.
- There is no escrow agreement to ensure that the DSO Servitor application source code is available in the case of the failure of the DSO Servitor supplier (RAC).

1.3 Critical issues that require immediate management attention

1.3.1 User access has not always been allocated to users in line with their job functions. This also includes the use of generic system accounts.

1.3.2 There are several GROUPS namely XFERS, WALKTHROUGH, TEST01, DSOENG and DSOENGLISH, all of whom have access to system tables and parameters.

1.3.3 The following two high category recommendations have been made to address these issues:

- Access to System Tables, parameters and other DSO security and administration features, should be restricted to appropriate personnel such as System Administrators.
- A full Group/User review should be performed to ensure that each Group and each individual user within those groups have appropriate functionality in accordance with their job function. Users, including the Systems Administrator utilise only their individual user name and password to access Servitor. The usage of certain high level accounts be investigated and if deemed appropriate, these accounts be locked or disabled if no longer required. If high level accounts do need to be used for an appropriate reason, then their usage should be logged and monitored and access to these accounts should be under the control of the Systems Administrator or other appropriate Security officer.

1.4 Significant issues that require management action to improve the control environment.

1.4.1 No Systems Administrator activity log is maintained for a timely review of the appropriateness of supervisor activity.

1.4.2 The All DSO Servitor usernames have the password set to the match the username and then the letters SRVL. All DSO Servitor users are aware of setup.

1.4.3 The Systems Administrator does not undertake any deletion of users, or general Systems Administration housekeeping.

1.4.4 The system does not lock the user out following 3 attempted invalid logons. The system will allow user concurrent logons. ie. a user can log onto to a second machine

whilst still being logged on to the first machine. Whilst this weakness exists, when a user logs on more than once there is lack of user accountability.

1.4.5 No log of security violations is maintained. Consequently, no timely review of a security violation report is undertaken.

1.4.6 An audit trail is not produced by the Servitor system.

1.4.7 Three significant matters relating to the Escrow agreement, batch processing and Disaster Recovery have been addressed by management since the issue of the Draft Report.

1.5 Other matters identified that require management attention to ensure “good practice” within the control environment.

1.5.1 There are no low risk recommendations.

1.6 Summary of recommendation(s)

1.6.1 The report contains two high risk recommendations.

1.6.2 The report contains six Medium risk recommendations.

1.6.3 The report contains no low risk recommendations.

1.7 Audit Opinion

- A qualified audit opinion is given as there are weaknesses in the main system of control. However this is mainly due to weaknesses in system functionality. The application has limited use within the Council and risk is for the effective operation of the application.

To improve the control environment, management need to ensure that:

- Activity is recorded and reviewed to ensure that changes made on the application are appropriate.
- User rights on the application are reviewed for accuracy and permissions for users are only in line with job functions. This should include a review of which users have access to system tables and parameters and be removed if inappropriate.
- Access to System Tables, parameters and other DSO security and administration features should be restricted.
- A review of older users is undertaken and any users who no longer require access to the system, or whom have left Havering are removed.
- System lock out thresholds are enforced.
- There is a restriction of concurrent system logins.
- A log of security violations is maintained and reviewed.
- An adequate audit trail is activated and maintained of changes to the DSO Servitor application.

Academy	Schedule 2(f)
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1 Management Summary

1.1 Introduction

- 1.1.1 The Academy system was introduced in 1999, initially to support Housing Benefits for the provision of the payment of Housing Benefits to private landlords. In 2001 the application use was expanded to allow for the payment of Housing Benefit to residents paying for rent from Council owned Housing. More recently, a Quality Assurance module has been implemented, which currently manages the data quality process for Housing Benefit Claims.
- 1.1.2 Academy is an integrated database supplied by Academy Information Systems that are owned by Capita. The application has widespread use within Local Government. The application runs a shared Ingres database for the processing of Housing Benefit, Council Tax and National Non-Domestic Rates (NNDR). The application runs on a Unix Operating System managed by IT. This audit reviewed the adequacy and effectiveness of the control environment established over the Academy application within the Council.
- 1.1.3 The Academy application is split into 3 constituent parts for the management of Revenues and Benefits within the Council. The application is backed up centrally using the Tivoli tape management system and System Access is managed by a central Administrator permission.
- 1.1.4 The Housing and Council Tax Benefit module of the application has been developed to log application details and support the efficient and accurate payment of Housing Benefit claims within the Council. The application also comprises a separate overpayments module that is used for the reclaiming of Housing Benefit overpayments to residents of the Borough.
- 1.1.5 The Council Tax section of the application shares a common database with Housing Benefits and this also provides an internal interface for the payment of Council Tax Benefit. The Council Tax Academy application supports the ad hoc and annual billing of Council Tax for Havering residents. This also supports the periodic updating of property details with the Valuation Office. The application also supports the recovery of unpaid Council Tax.
- 1.1.6 National Non Domestic Rates use similar processes to the Council Tax application and provides the management and functionality for the identification of liability of business properties for the billing process.
- 1.1.7 The Academy application also relies on a number of interface processes to support its billing and to transfer financial information. There are automated interfaces that have been developed between the following applications, Housing, Creditors, Debtors, Cash Receipting, General Ledger and BACS.
- 1.1.8 Currently, the system processes details of around 98,000 properties, associated with which are approximately 100,000 Occupier accounts. There are circa 17,500 Housing Benefit Claims currently live on the system. Each month, approximately 2,000 BACS payments are made, as are around 3,500 payment cheques. On average, around 1,500 Summonses per month are issued for continued non-payment.

1.2 Key Risk Areas reviewed

- 1.2.1 This audit reviewed the following key risk areas:

- a. Unauthorised or inappropriate transactions or reference data are input to the system.
- b. Transactions are not authorised, complete, accurate, timely and input once only.
- c. Appropriate levels of controls are not maintained during processing to ensure completeness and accuracy of data.
- d. There are no Controls to ensure the accuracy, completeness, confidentiality and timeliness of output reports and interfaces.
- e. There is no complete audit trail maintained which allows items to be traced from input through to its final resting place, and a final result broken down into its constituent parts.
- f. No arrangements exist for creating back-up copies of data and programs, storing and retaining them securely, and recovering Academy C Tax/NNDR & Benefits applications in the event of failure.
- g. There is no escrow agreement to ensure that the Academy C Tax/NNDR & Benefits application source code is available in the case of the failure of the Academy C Tax/NNDR & Benefits application developer.

1.3 Critical issues that require immediate management attention

1.3.1 We identified three critical areas during our review that required management attention. These issues were raised in the draft consultation report and management have already taken action to address these concerns.

1.4 Significant issues that require management action to improve the control environment.

1.4.1 We identified three significant areas during our review that required management attention. These issues were raised in the draft consultation report and management have already taken action to address these concerns.

1.5 Other matters identified that require management attention to ensure “good practice” within the control environment

1.5.1 There are no low risk recommendations

1.6 Summary of recommendation(s)

1.6.1 This report contains no High risk recommendations

1.6.2 The report contains no Medium risk recommendations,

1.6.3 The report contains no Low risk recommendations.

1.7 Audit Opinion

- 1.7.1 A unqualified audit opinion can be given as Audit is satisfied that there is generally a strong control environment associated with the use of ACADEMY within the Council Tax, NNDR and Housing Benefits departments following management actions.

1. Management Summary

1.1 Introduction

1.1.1 Remote Access within Havering is split into two areas. Namely the infrastructure that allows Havering users to access their work via a remote connection to the Havering network and file servers. This has resulted in the ability for Havering users to “work at home” when required achieving greater flexible working practices. Secondly remote access allows suppliers to the Authority to access Havering servers to provide support for applications in use at the Council.

1.1.2 There has recently been a Homeworking policy and procedure written which sets out the intended rules governing the working from home including the benefits of the scheme and likely issues to be encountered when implementing a home working policy. Part of this will feed into the accommodation strategy review that is being carried out to identify the requirements of Havering for the future. The developments in home working have occurred as the use of fast internet connections becomes more commonplace in the home through the use of Broadband.

1.1.3 Remote access by suppliers is commonplace with most support arrangements with suppliers including the facility to support services remotely. As Havering services are managed by a number of applications purchased by business users there is often a requirement for suppliers to have a direct link into the Havering network to allow them to have access onto the application for fixing logged faults and for the management of upgrades.

1.1.4 Remote access into Havering's networks is made using four routes:

- Citrix Secure Gateway – allows remote access via the internet utilising RSA secure ID tokens;
- IP Stream – BT Wholesale via a users own home Broadband connection;
- Dial Back access- the user dials in and authenticates to the system, the system disconnects the user, dials them back and authenticates to user again to a pre-defined telephone line; and
- Dial In – a user is issued with a telephone number to access the system.

1.2 Key Risk Areas reviewed

1.2.1 The audit reviewed the following key risk areas:

- To ensure that due care in managing remote access to corporate resources is exercised.
- To ensure that all hosts on the corporate network are authorised and accounted for.
- To ensure that all modems connected to the corporate network are identified and authorised.

- To ensure that all dial up remote access is authorised and logged.
- To ensure continued availability of remote access resources.

1.3 Critical issues that require immediate management attention

1.3.1 We identified one critical area during our review that required management attention. This issue was raised in the draft consultation report and management have already taken action to address this concern.

1.4 Significant issues that require management action to improve the control environment.

1.4.1 Generic dial in accounts are in use and as such have no individual accountability, in addition, there are several “historic” user dial in accounts that are no longer required

1.4.2 With the exception of the five Connect accounts maintained by the Helpdesk, audit trails for all other dial in access are not maintained and are not monitored for suspicious usage and hacker attempts

1.4.3 BIOS (Basic Input Output System) passwords and screen savers are not used with laptops. BIOS passwords are required to be entered prior to the laptop loading the operating system and programs.

1.4.4 There are no encryption standards in use by dial in users.

1.4.5 There are several IT Security related policies in force at Havering. However, there is no specific remote access policy. Documentation does not include sufficient information regarding remote access in relation to how remote access works. Some IT Security Policies that have elements of remote access usage are in draft format.

1.4.6 For laptops, there is no network authorised banner presented to users before authentication to advise them that access is restricted to authorised users who agree to abide by the corporate IT security policy.

1.5 Other matters identified that require management attention to ensure “good practice” within the control environment

1.5.1 There are no low risk recommendations.

1.6 Summary of recommendation(s)

1.6.1 The report contains no high risk recommendations.

1.6.2 The report contains six medium risk recommendations.

1.6.3 The report contains no low risk recommendations.

1.7 Audit Opinion

1.7.1 An unqualified audit opinion can be given as Audit is satisfied that there is a strong control environment within Remote Access

To improve the control environment, management need to ensure that:

- A review of all Dial-in accounts is undertaken and all generic dial in accounts are disabled or reassigned to an individual to ensure user accountability. In addition, all accounts no longer in use should be deleted.
- BIOS and power on passwords are in place for all laptop PCs.
- Encryption software be utilised for dial in accounts.
- Audit trails for all dial up access are maintained and monitored for appropriate or suspicious usage and remedial follow up action should be taken.
- A remote access policy should be produced and distributed to all appropriate personnel forthwith and all other related policies that are currently in draft format, be formalised.
- An appropriate Network authorised users login banner be installed on all laptops.

MANAGEMENT SUMMARIES SYSTEM AUDITS 2006/07

Tendering Processes	Schedule 2(h)
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1. Management Summary

1.1 Introduction

1.1.1 In order to try to reduce the administration and overall cost of repairs and maintenance to the Council it is normally beneficial and best practice for there to be schedule of rates contracts for maintenance and repair works. This will avoid having to constantly tender or seek quotes for the repairs and maintenance works as well as avoiding having various companies undertaking similar types of works to the same location over a period of time. The largest repairs and maintenance contract is the contract with Morrison's for the repairs and maintenance of Housing Buildings. There are also contracts with Castlepoint and Interserve for the installation of central heating and mechanical maintenance of the Council Housing Stock.

1.1.2 The Council has also entered into a window replacement programme with another contractor. As a result of the above Housing now only tender the large maintenance or replacement contracts every couple of years or when they need to undertake specialist projects such as CCTV installations. Areas where Housing continue to seek quotes and tenders is for repairs caused by fire damage and where there is a large amount of repairs/re-decoration required to void properties.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- No separation of duties.
- Quotations/Tenders being opened before the due date .
- Tenders and quotations not being held securely and safely allowing unauthorised access.
- Tenders/ quotations not being properly assessed to identify the best offer for the Council.
- Late offers being accepted.

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified within this report.

1.4 Significant issues that require Management action to improve the control environment.

1.4.1 There is a concern over the lack of procedures which officers identified was a risk and have taken action to ensure that this has been addressed during the review. This will include the treatment of errors, return and storage of quotations, when offers are to be returned to Corporate Procurement and the treatment of late offers.

1.4.2 There is also some concern over the completeness of records when offers are being assessed on both price and quality that could make it difficult for officers to defend their actions.

1.5 Other matters identified that require Management attention to ensure “good practice” within the control environment.

1.5.1 There is no formal tender approval form being used to confirm that offers were being fully evaluated before one is being accepted or a tender log book being maintained. This is not in accordance with best practice and it also makes it more difficult to obtain management information on the performance of tenderers.

1.6 Summary of recommendation(s)

1.6.1 The report contains two medium priority recommendations and two low priority recommendation.

1.7 Audit Opinion

1.7.1 As there were no critical areas and the items requiring attention were only to improve the level of management information and existing controls an unqualified opinion can be given.

1. Management Summary

1.1 Introduction

1.1.1 The contract conditions used by the Council in respect of construction contracts allow for the contractor to be paid for the work completed in instalments. This is particularly important on larger contracts as to pay the contractor only when the works are completed is likely to lead to significant cash flow problems and lead to higher prices.

1.1.2 There is also a need to ensure that the contractor is not over paid as this may result in him not completing the work or should he go into liquidation there will be insufficient money left to complete the project within the existing approved budget. There is, therefore, a need to ensure that sound systems are in place for valuing the amount of work completed and to ensure that the contractor is paid in accordance with the contract conditions.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- Certificates not being supported with the relevant documentation leading to overpayment or for work that has not been undertaken.
- Certificates not being properly authorised resulting in non-approved items being included on the valuation and certificate leading to overpayment.
- Payments not being made in accordance with the contract conditions resulting in late payment and the risk of claims for loss of interest.
- Management information systems not being updated with payment details thereby weakening budgetary control arrangements.

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified within this report.

1.4 Significant issues that require Management action to improve the control environment.

1.4.1 There were weaknesses in monitoring in that the current process does not allow managers to readily identify the anticipated final cost on a project. This prevents them and clients from being informed of potential overspends at an early stage so that they can take appropriate action.

1.4.2 There was also a weakness that on some of the projects being managed by the partner that the relevant valuation details are held in other offices. This prevents managers, when authorising the certificates, from confirming that there are relevant valuation details made to support the amount on the certificate without having check the amount being paid from other sources.

1.5 Other matters identified that require Management attention to ensure “good practice” within the control environment.

- 1.5.1 There were several administrative areas that could be improved by the relevant officers holding contract conditions to allow them to confirm payment dates, or identify when certificates are being paid late.
- 1.5.2 Officers are not fully completing the certificate or entering in the date the certificate has to be paid. This could result in the early payment and so result in the loss of interest and managers being unaware of any weakness in raising certificates on projects and taking the appropriate action.

1.6 Summary of recommendation(s)

- 1.6.1 The report contains three medium risk and four low risk recommendations.

1.7 Audit Opinion

- 1.7.1 As there were no critical areas and the items requiring attention were only to improve the level of management control and information an unqualified opinion can be given.

MANAGEMENT SUMMARIES OF PROACTIVE AUDITS 2006/07

Travel & Sub & Car Allowances Pro-active	Schedule 2(j)
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1. Management Summary

1.1 Introduction

1.1.1 The 2006/2007 Internal Audit plan includes a pro-active audit into Travel/ Subsistence & Car Allowances. As part of this review the Head of Financial Services requested a check of payments made to Leavers to ensure that the payments were in respect of mileage etc. undertaken prior to the employee leaving.

1.2. Key Areas Reviewed

1.2.1 An Oracle Discoverer report was produced for Subjective 146 - Car Allowances for Period 8, 2005/2006 to Period 1, 2006/2007.

1.2.2 Records were then checked to ensure that Council employees had not been paid Car Allowances by submission of a claim to Systems and Payments via Petty Cash.

1.2.3 An Oracle Discoverer report was produced detailing all travel, subsistence and car allowance claims paid in April (Period 12, 2005/2006) via CYBORG (Payroll).

1.2.4 Using IDEA a random sample of fifty (50) travel, subsistence and car allowance claims was then obtained and checked to ensure that the claims:

- Appeared legitimate and reasonable;
- Had been completed on the correct claim form;
- Mileage appeared reasonable (Checked to AA Route Planner);
- Had been certified by an authorised signatory;
- Were supported by receipts and vouchers, where applicable;
- Had been submitted within three (3) months; and
- Were relevant to the Council's requirements.

1.2.5 Of the original fifty (50) payments:

- Six (6) were in respect of the Essential Users lump sum element;
- Three (3) were in respect of claims for fares processed on the employees timesheet.
- One (1) was in respect of Redeployment/Location allowance.

This reduced the sample to forty (40).

1.2.6 A list of employees who have left the Council since January 2006 was obtained from Human Resources and compared, using IDEA, to the Oracle Discoverer report showing payments via CYBORG (See 1.2.3 above). It was found that six (6) payments had been made to leavers.

1.2.7 The travel, subsistence and car allowance claim forms were obtained for the six (6) leavers and included in the overall test sample. Therefore, the test sample being forty six (46) claims.

Significant Issues

- 1.3.1 In nine (9) cases it would appear that the shortest possible route had not been taken. Of these the mileage on three (3) claims would appear to be far greater than the mileage that should have claimed.
- 1.3.2 In twelve (12) cases it was not possible to ascertain if the shortest mileage had been taken because the claim did not show the road name, only the town i.e. Hornchurch.

1.4 Summary of recommendation(s)

- 1.4.1 All four (4) recommendations made in the draft report have been actioned.

1.5 Audit Opinion

- 1.5.1 The review found that on the whole claims had been completed in accordance with Council procedures although in common with other reviews of travel, subsistence and car allowances certain parts of the claim form are not always being fully completed.

MANAGEMENT SUMMARIES FOLLOW UP AUDITS 2006/07

NO reports issued to final in this period

Work completed during period 01 April - 30 June 2006

Ref	Description	Result of audit/Action taken
1.	(T8gaap) Fraud Hotline	3 cases reported and subsequently investigated.
2.	(T8gaao) Fraud Hotline – Allegation of over claiming overtime not being worked.	Insufficient evidence to dismiss. Improved control in relation to authorising time sheets and overtime working.
3.	(T8gaat) Fraud Hotline – Allegation that member of staff was misusing and abusing pc – desktop during working day.	Insufficient evidence – member of staff warned about future conduct.
4.	(T8haag) Fraud Hotline – Allegation of fraudulent insurance claim.	Allegation unfounded agreement with Council insurers that claim made was legitimate.
5.	(T8faag) Complaint/allegation re payment of personal allowance at residential home.	Report completed and agreement reached with family. Controls improved.
6.	(T8faam) Allegation referred to laptops being misplaced.	Allegation unfounded.
7.	(T8faao) Contract payment abuse.	£10,000 recovered following advance payment. Insufficient evidence to prosecute. Member of staff resigned.
8.	(T8gaad) Capital overspend – Hornchurch Sports Centre.	Overspend confirmed. Staff to be interviewed in relation to additional expenditure. Interim Project Manager contract not renewed.
9.	(T8gaam) Hornchurch Sports Centre – Review of income.	Income levels agreed prior to SLM contract.
10.	(T8gaag) Fraudulent letter received by member of the public	Confirmation that letter was fraudulent but insufficient evidence to pursue.
11.	(T8gaar) Inappropriate images on mobile telephone.	Member of staff dismissed.
12.	(T8gaas) Cheque fraud - HB	Evidence passed to HB Fraud for prosecution.

As at 30th June 2006, the following cases were being progressed

Ref	Description
1.	(T8caai) National Fraud Initiative – Final stages of exercise. HB cases pending review.
2.	(T8faaq) Review of overtime and on-call payments.
3.	(T8gaae) Marriage Rooms Licence – Review pending subject to further instructions.
4.	(T8gaah) Misuse and abuse of pc.
5.	(T8gaap) Fraud Hotline Requests – One case currently being investigated.
6.	(T8gaax) National Fraud Initiative 06/07 – Data collection
7.	(T8gaaz) Review of specifications and tenders for asbestos contracts.
8.	(T8haaa) Review of duplicate payments to Agencies
9.	(T8haab) Post review of contract and quotation process for equipment purchased.
10.	(T8haac) Alleged sub-let and possible RTB
11.	(T8haad) Examination of £35k duplicate payments identified during NFI exercise 04/05
12.	(T8haaf) Overview of Surf Control evidence in relation to misuse and abuse of pc during the working day by staff.
13.	(T8haah) Pro active audit of travel, subsistence and car allowances claims have identified further requirement to investigate claims in detail.
14.	(T8haai) Following the completion of the audit relating to overspends further investigation required relating to costs of certain items of work.
15.	(T8haaj) Examination of possible duplicate payments.



MEETING	DATE	ITEM
AUDIT COMMITTEE	28 SEPTEMBER 2006	10

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: INTERNATIONAL STANDARDS OF AUDITING: REVIEW OF MAIN INFORMATION SYSTEMS

SUMMARY

As a result of the introduction of the International Standards of Auditing (ISA's), External auditors need to understand all of the main information systems that drive the balances and disclosures within the financial statements and evaluate whether those systems are operating as designed. Both the Audit Commission and Internal Audit have undertaken work to document and flow chart the 18 main information systems. Internal Audit have carried out 12 of the ISA reviews and the Audit Commission have carried out 6.

RECOMMENDATION

That this report be noted.

REPORT DETAIL

- 1. International Standards of Auditing: Review of the Main Information Systems**
 - 1.1 Due to the introduction of the International Standards of Auditing for the UK & Ireland External auditors are having to ensure that they have reviewed each of the main information systems that drive the balances and disclosures within the financial statements. This became a requirement from the 15th December 2004, which means that it affects the 2005/06 accounts.

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- 1.2 18 key information systems have been identified with the external auditor as requiring an ISA review in order for reliance to be placed upon them when the review of the 2005/06 financial accounts is undertaken.
- 1.3 In order for a full understanding to be obtained it has necessitated that a flow chart be produced for each system with a narrative documenting how the system operates and the key controls in place, be they manual or automatic. Each of the systems was then subjected to a “walk through” test which meant that a transaction was followed from start to finish through the system to determine that the flowchart was correct and that the controls were operating as expected.
- 1.4 It has to be emphasised that the main purpose of the walk through test was to ensure that there was a working control in place. Substantive testing has not been carried out to fully test the effectiveness of the control. This work is undertaken during the normal systems audit process.
- 1.5 This work has now been completed and the attached Appendix 1 shows the audit opinion of the 12 reviews undertaken by Internal Audit.
- 1.6 The External Auditor will not be producing 6 individual ISA reports unless they have identified any significant issues. Significant issues would then be reported via the Annual Governance Report (if the issue fell into the category of one they are required to report to those charged with Governance) or an accounts memo.
- 1.7 The systems documentation and flow charts , produced by both Internal & External Audit, will be distributed to the appropriate Heads of Service as they will be responsible for their maintenance and updating. They will also be responsible for informing Internal audit of any future amendments that may have been made and new systems that they have had to prepare documentation and flow charts for.
- 1.8 Internal Audit will carry out an annual review to ensure that the flowcharts and system documentation are being maintained correctly and updated for any changes to systems and processes.
- 1.9 Corporate Finance will also need to carry out an annual review to determine if there are any new systems that need reviewing or existing systems that either need to be reviewed, as they now meet the materiality levels, or no longer need to be maintained, as they no longer meet the materiality levels. This should form part of the annual close –down process and be time-tabled to allow necessary reviews to be undertaken, by the appropriate Head of Service, before the close of the financial year.

2. Financial Implications and risks.

- 2.1 The cost of carrying out this work covered both the 2005-06 and 2006/07 financial years. The costs have been met from within the Internal Audit Services budgets but this has necessitated the re-allocation of audit resources and changes to the 2006/07 Audit Plan which will be reported upon separately

3. Legal Implications and risks:

None arising directly from this report

4. Human Resource Implications and risks:

Agency staff have been appointed to assist with the ISA work undertaken by Internal Audit.

In future years it is expected that Internal Audit will be able to appoint permanent staff to vacant posts and the annual review of the ISA work is expected to be met from existing resources within Service Departments.

5. Equality and Social Inclusion implications:

None arising directly from this report

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STEPHEN EVANS
Chief Executive

Background Papers

International Standards of Auditing – Using work of Internal Audit

Code of Audit Practice 2005 – For Local Government Bodies: Issued March 2005

Statement of Responsibilities of Auditors and Audited Bodies: Issued March 2005

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System	Reviewer	Audit Opinion	Recommendations
Payables	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	No recommendations made
Purchase Cards	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	No recommendations made
Sundry Debtors	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	No recommendations made
Treasury Management	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	No recommendations made
Schools (SIMS)	Internal Audit	An unqualified audit opinion has to be given as reliance can be placed upon the key controls due to the evidence provided through the walk through tests with the exception of the recommendation made.	There must be a spot check of the all calculations allocating budgets to schools to ensure that any formulas, allocations and any additional elements are accurate within the schools' budgets.
Cash Receipting	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	No recommendations made.
Insurance (LACHS)	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	No recommendations made.

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Highways & Fleet Costs (Servitor)	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	No recommendations made.
Fixed Asset Register	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	No recommendations made.
Council Tax (Academy)	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	A statement of declaration by the visiting officer would confirm that any works have been undertaken for the entitlement of the disabled banding reduction.
NNDR (Academy)	Internal Audit	A qualified audit opinion has to be given as reliance cannot be placed due to the weaknesses found during this exercise and the systems audit report issued on the 27 th April 2006.	Service should monitor and control all debts passed to the Bailiffs. Management need to know how many debts have been passed and resolved. Details of the monitoring must include: How many have been partially paid; and Bailiff action regarding the age analysis of debts in progress.
Repairs (Anite)	Internal Audit	Based on the evidence provided by the walk through test, the systems of controls identified are in place and as such an unqualified opinion can be given.	No recommendations made



MEETING	DATE	ITEM
AUDIT COMMITTEE	28 SEPTEMBER 2006	11

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: CLIENT AUDIT MANAGER'S REPORT

(The external and internal audit recommendations shown in appendix 1 and 2, are extracted from the June '06 Head of Service Packs).

SUMMARY

This report contains information on:

- Implementation of Audit Commission's recommendations
- Implementation of Internal Audit recommendations
- Internal Audit Key Performance Indicators
- Comparative Analysis of Internal Audit Plan
- Internal Audit Customer Survey Results
- Statement on Internal Control Action Plan
- Anti-Fraud and Corruption (Inc. 2006/7 Campaign and New Fraud Bill)
- Budget Analysis
- Risk Management
- Benefits Investigation
- Forward Committee Plan & Member Training

RECOMMENDATION

1. To consider the contents of the report.
2. To raise any matters of interest.
3. To raise any matters of interest with Heads of Service in relation to outstanding recommendations or qualified audits.

4. To note the Anti-fraud Campaign activities planned for 2006/7.

REPORT DETAIL

1. Implementation of Audit Commission's recommendations

1.1 Appendix 1 gives full details of all the outstanding recommendations from 2003/4 to date, showing the actual recommendations, the position currently being reported and the target date that was given for each recommendation to be completed.

1.2 The Committee should also note that there are other recommendations which are not reported, as they are being implemented within agreed timescales.

1.3 Summary of the Audit Commission's activities since the last Committee meeting

The Audit Commission has issued the Annual Governance Report since the 29th June 2006 meeting, which is item number 5 on the agenda.

2.0 Implementation of External Audit recommendations

2.1 Summary of 2003/04 outstanding recommendations

As of the end of June 2006, there were 3 outstanding 2003/04 External Audit recommendations. The details are shown in Appendix 1 and it can be seen that implementation is in progress. These are recommendations that have missed their implementation deadline by more than one month.

Description	High	Medium	Low	Total
Total no. of recommendations issued for 2003/04	94	88	18	200
Total no. of outstanding recommendations for 2003/4.	1	2	0	3

2.2 Summary of 2005/06 outstanding recommendations

As of the end of June 2006, there were 5 outstanding 2005/06 External Audit recommendations. The details are shown in Appendix 1 and it can be seen that implementation is in progress.

Description	High	Medium	Low	Total
Total no. of recommendations issued for 2005/06	23	11	4	38
Total no. of outstanding recommendations for 2005/6	2	1	2	5

3. Implementation of Internal Audit recommendations

3.1 Summary of 2003/04 outstanding recommendations

As of the end of June 2006, there were 6 outstanding 2003/04 Internal Audit recommendations. The details are shown in Appendix 2 and it can be seen that implementation is in progress.

Description	High	Medium	Low	Total
Total no. of recommendations issued for 2003/04	30	261	107	398
Total no. of outstanding recommendations for 2003/4.	1	5	0	6

3.2 Summary of 2004/05 Internal Audit (IA) recommendations

As of the end of June 2006, there were 23 outstanding 2004/5 Internal Audit recommendations. The details are shown in Appendix 2.

Description	High	Medium	Low	Total
Total no. of recommendations issued for 2004/05	42	221	71	334
Total no. of outstanding recommendations for 2004/5	5	13	5	23

3.3 Summary of 2005/06 Internal Audit (IA) recommendations

As of the end of June 2006, there were 47 outstanding 2005/06 Internal Audit recommendations. The details are shown in Appendix 2.

Description	High	Medium	Low	Total
Total no. of recommendations issued for 2005/06	10	162	45	217
Total no. of outstanding recommendations for 2005/6	4	30	13	47

3.4 As of the end of June 2006, there were no outstanding 2006/07 Internal Audit recommendations.

4. Performance Indicators – Latest Position on Completion of 2006/07 audits

4.1 Committee members will note that there are 6-Key Performance Indicators (KPI) in Appendix 3. These indicators are focused on measuring the efficiency and effectiveness of Internal Audit activities. All work relating to 2005/6 has now been completed.

4.2 An analysis of the KPI's shows (KPI 01) and (KPI 02), 120% and 233% respectively. Therefore the number of audit briefs issued and reviews

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completed to draft stage are exceeding target. (KPI 03) and (KPI 04), are 300% and 100% respectively. This shows that the number of reviews completed to final stage is exceeding target and no reviews have taken longer than 50 days to complete. (KPI 05) shows that 50% of the survey forms for general systems work, issued to auditees by 30.06.06 have been returned. No 06/07 survey forms were issued in the first quarter for fraud work.

4.3 The following table shows the latest position relating to Internal Audit's performance from 1st April to 30th June 2006:-

	Definition	Annual Cumulative Target	Performance 30.06.06
KPI 01	The total number of audit briefs issued as a percentage of the total annual number of planned reviews (84).	100 %	120%
KPI 02	The number of audit reviews completed to draft stage as a percentage of the total annual number of planned reviews (84).	100 %	233%
KPI 03	The number of audit reviews completed to final stage as a percentage of the total annual number of planned reviews (84).	100 %	300%
KPI 04	Performance against target time: 50 days max to complete an audit from start to release of a consultation draft	100 %	100%
KPI 05	Survey Forms assessed for the system audits	75%	50%
KPI 06	Survey Forms assessed for the fraud audits	75%	0%

4.4 At the end of June '06, 4% of the plan had been completed (planned 0%) and 8% of the plan was at draft report stage (planned 4%).

5. Survey Questionnaire Analysis

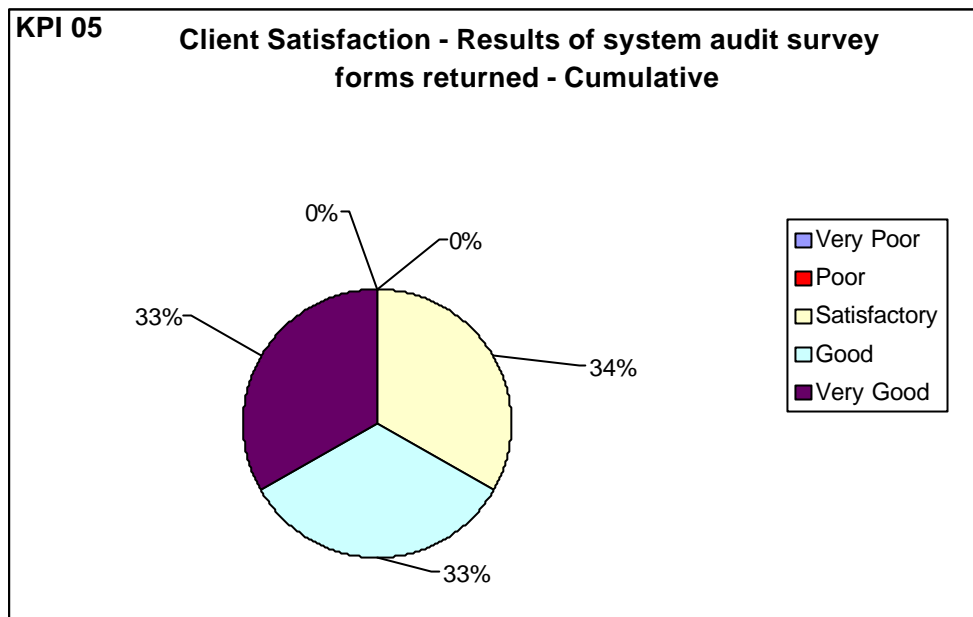
5.1 The Survey Analysis of Internal Audit's Systems work, asked respondents to assess the Internal Auditor's performance on a scale of 1– 5 (very poor - very good) in the following areas:

- Audit Planning
- Quality of draft report
- Quality of final report
- Communication
- The Auditor

5.2 Survey results of Internal Audits Systems work

34% of the survey returns reported a satisfactory review, 33% reported a good review and 33% reported a very good audit experience. It is pleasing to note that all managers were satisfied with the internal audit process for 2006/7.

GENERAL SURVEY



5.3 As at 30th June 2006, no fraud surveys for 2006/7 had been issued or returned.

6. Comparative analysis between the Internal Audit Plan for 2005/06 and 2006/07

6.1 Appendix 4 provides the status of Internal Audit's efforts in implementing the 2006/07 annual plan, and data from 30th June 2005 which provides valuable comparative information.

6.2 For the period ended 30th June 2006, Internal Audit completed 3 reviews (4%), and 4 reviews (5%) were at the consultation/final draft stage. For the period 30th June 2005, Internal Audit had completed 2 reviews (2%), and 9 reviews (10%) were at the consultation/final draft stage. A lesser number of reviews have been completed this year, because time had to be spent in the first quarter, completing work relating to 2005/6. This was an unfortunate outcome arising from the termination of the outsourced audit contract in October 2005. Work which ordinarily would have been carried out by the contractor, had to be completed by Internal Audit.

7. Statement of Internal Control Action Plan

7.1 Appendix 5 presents the Statement on Internal Control (SIC) action plan for 2005/6. The SIC is signed by the Leader of the Council, the Chief Executive, and the Finance and Commercial Group Director and forms part of the 2005/06 Statement of Accounts. The SIC action plan is continuously updated and progress reported to the Committee. This provides assurance for both corporate governance and internal control purposes.

7. Anti-Fraud and Corruption

7.1 Summary of calls on the fraud hotline log (as of 30th June 2006)

<u>Source of calls</u>	<u>No.</u>	<u>Actions</u>	<u>Status</u>
Member of staff	1	1 case – allegation against a member of staff, that hours paid exceeded the number of hours worked. Lack of records maintained, so allegation could not be proved but record keeping has. (001)	Completed and signed off.
Member of staff	2	1 case – allegation against staff re- use and abuse of pc. Insufficient evidence to proceed. Staff member interviewed and reminded about the council’s corporate policies and employee codes of conduct. (002)	Completed and signed off.
Member of the public	3	1 case –allegation of a fraudulent insurance claim. Preliminary finding showed that there was no substance to claim. (003)	Completed and signed off.
	3	HOTLINE TOTAL	

There were 17 special investigations in progress and 15 were completed by the end of June 2006.

7.2 Anti-fraud Campaign 2006/7.

The Council has a clear focus on fraud prevention and annually the Council produces an anti-fraud campaign. The campaign forms an essential weapon in the constant fight against crime, financial and otherwise. Therefore as one campaign reaches its conclusion, a new one begins. This helps the Council to maintain an anti-fraud culture in which every act of fraud is taken very seriously. Every reported incidence is subject to screening checks, risk assessed and investigated if warranted. The anti-fraud campaign for 2006/7 was approved by the Risk Management Group on 17th July 2006. Details of the actions and activities to be undertaken can be seen in Appendix 6.

7.3 New Fraud Bill

A new Act – currently a bill working its way through Parliament, should make it easier for the authorities to prosecute fraud cases. It will remove one significant obstacle. Fraud does not actually exist in current criminal law, instead suspects are prosecuted for offences such as theft or deception. This makes cases complicated and expensive to prosecute and is one of the main reasons why the police are notoriously reluctant to investigate fraud.

Audit Committee, 28 September 2006

7.4 The new offence of fraud can be committed in three ways:

- By false representation
- By failing to disclose information
- By abuse of position

Those convicted face a maximum penalty of 10 years imprisonment. Organisations can receive an unlimited fine.

7.5 There are two other new offences:

- Obtaining services dishonestly
- Possessing, making and supplying articles for use in fraud.

These carry a maximum sentence of five years in custody.

7.6 Another important change is that the new offence of fraud relies on the proof of dishonest intent on the part of the defendant, rather than the effect of any representations made on the mind of the victim, as in traditional offences of deception. Much hi-tech crime escapes prosecution because it involves tricking a computer which does not have a mind under the law and so cannot be deceived.

7.7 The Act should make it easier to prosecute fraudsters and may deter potential offenders. As experts in control issues, internal auditors can play an important role in helping to maintain an anti-fraud culture and raising awareness of fraud risks. However, the Audit Committee should remember that management is responsible for detecting and preventing fraud, not internal audit.

8. Year to Date (YTD) Budget Analysis

8.1 The revised budget figure for Internal Audit (2006/07) is £438,590. Appendix 7 provides a graphic summary of Internal Audits YTD expenditure from 01 April to 30th June 2006. As of 30th June 2006, YTD actual (£20,964) is below the budgeted sum of (£110,045). This is due to a provision of £82,044 which has been set aside to meet any claim from the Administrators of pps-Acit.

9.0 Risk Management

9.1 Appendix 8 shows the corporate risk register. The new version of the corporate register and the business risk scenarios, enable the Council to demonstrate that greater emphasis has been placed on the delivery of the Council's priorities.

9.1 The organisation needs to and will as necessary address:-

- Risk that is high in likelihood and impact (red) to ensure mitigation is in place
- Risks where it is believed that there is scope for improvement.

9.3 An external review of risk management is currently taking place by the Audit Commission. Results are expected towards the end of September 2006.

Audit Committee, 28 September 2006

9.4 The next review of the service risk registers is due to begin at the end of September 2006.

10. Benefits Investigation

10.1 A report on Benefits Investigations is shown at Appendix 9.

11. Audit Committee Work Plan

11.1 The Committee has a clear work plan and a training programme for 2006/7. See Appendix 10.

12. Financial Implications and risks:

Recommendations may arise from any audit undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, managers are obligated to consider financial risks and costs associated with the implementation of the recommendations. The cost of providing the Internal Audit service for 2005/6 was within budget. There are no other financial implications or risks arising directly from this report.

13. Legal Implications and risks:

None arising directly from this report.

14. Human resource Implications and risks:

None arising directly from this report.

15. Equality and Social Inclusion implications:

None arising directly from this report.

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STEPHEN EVANS
Chief Executive

Background Papers

Internal Audit reports & database
2005/06 Statement on Internal Control
Corporate Risk Register
Housing Benefits report
NFI – National Report May 2006

APPENDIX 1 - Outstanding External Audit Recommendations – 03/04 & 05/06

(As at end JUNE 06)

(There are none outstanding for 04/05 and 06/07)

HIGH PRIORITY RECOMMENDATIONS					
Reports	Recommendations	Date Due	HoS Responsible	Current Position	Classification
Democratic Renewal (Report issued 03/04)	R20 Improve member attendance at training sessions to ensure they develop the core skills necessary to carry out their roles effectively.	1/2/04	David Ede	Action being pursued before the target date (31/10/03) and continues. Overall responsibility for member training allocated to HR under the Corporate Governance Action Plan (June 2004). Action being pursued	In progress
Final Accounts Memorandum 2004/05 (Report issued 05/06)	R4. Officers should ensure that checklists distributed as part of working paper requirements are completed, cross referenced to supporting evidence, and included in working paper files.	30 June 2006	Mike Stringer	Agreed with audit that previous year checklists to be used. Once available, where changes are made to current year checklists, audit should bring these to the Council's attention as soon as possible.	In Progress
Final Accounts Memorandum 2004/05 (Report issued 05/06)	R13. The Council should ensure that appropriate checks are carried out on the membership numbers used to calculate FRS 17 costs to ensure the actuary has used data supplied and that the data is still materially valid as at the year-end.	30 June 2006	Mike Stringer	Delays in receiving membership information on pensions has impacted on the testing of FRS17 data. This is to be reviewed as part of the 05/06 audit	In Progress

MEDIUM PRIORITY RECOMMENDATIONS					
Reports	Recommendations	Date Due	HoS Responsible	Current Position	Classification
Democratic Renewal (Report issued 03/04)	R4 Develop future training sessions to provide a greater insight into the roles of the Cabinet.	31/10/03	David Ede	Action being pursued before the target date (31/10/03) and continues. Overall responsibility for member training allocated to HR under the Corporate Governance Action Plan (June 2004). Action being pursued.	In progress

Corporate Governance 2002/03 (Report issued 03/04)	R3 Staff should formally sign up to the model code of conduct once it is issued by the Office of the Deputy Prime Minister and adopted by the Council. Appropriate training should be given to staff on conduct issues. When the Council adopted the current code of conduct, staff were not required to acknowledge receipt of the code in writing.		Assistant Chief Executive Corporate Human Resources (David Ede)	Agreed This recommendation is agreed and will be implemented once the model code of conduct has been agreed. The OPDM issued the draft code for consultation purposes with a response deadline of 19 th November. ACEs (HR and Legal) jointly prepared a response on behalf of the authority. Currently awaiting further instruction from ODPM.	In progress
Final Accounts Memorandum 2004/05 (Report issued 05/06)	R5. The revenues and benefits section should be encouraged to respond to audit queries within the agreed two day turn around period and to take greater ownership of queries raised.	30 June 2006 and ongoing throughout the audit	Mike Stringer	Agreed. Awaiting queries to be raised by external audit before any assessment of progress can be made.	In Progress

<u>LOW PRIORITY RECOMMENDATIONS</u>					
Reports	Recommendations	Date Due	HoS Responsible	Current Position	Classification
Final Accounts Memorandum 2004/05 (Report issued 05/06)	R12. The capital creditors balance should include the full amount payable to suppliers including the VAT payable.	30 June 2006	Mike Stringer	No further guidance was received from external audit prior to closedown. To be discussed as part of 05/06 audit	In Progress
Final Accounts Memorandum 2004/05 (Report issued 05/06)	R18. The insurance reserve has been called upon extensively this year being reduced by 40 per cent. We would urge a review of the reserve to ensure the Council has adequate cover.	30 June 2006	Mike Stringer	Agreed, the reserve is under review. The outcome of the review will be reflected within the MTFS process.	In Progress

APPENDIX 2 - Internal Audit Outstanding Recommendations – 2003/4, 2004/5, 2005/6

		Outstanding					
Review in 2003/4	HoS Responsible	High	Medium	Low	Position as at end JUNE 06		
					In Progress	Not Started	Position/ Status Unknown
Community Care Packages	Peter Brennan		1		1		
Homecare	Peter Brennan		1		1		
Community Care Placements	Peter Brennan	1	3		4		
Total		1	5	0			

		Outstanding					
Review in 2004/05	HoS Responsible	High	Medium	Low	Position as at end JUNE 06		
					In Progress	Not Started	Position/ Status Unknown
Tendering Processes	Mike Stringer		1		1		
Training Children & Families	David Ede		1		1		
Petty Cash	Mike Stinger		1		1		
Crime & Disorder Reduction CCTV	Christine Dooley	1	3	1	5		
Landscape Works A1306	Trevor Davies	1			1		
Consultants Fees	Christine Dooley		1				1
Child Protection	Ruth Jenkins			1	1		
Capital & Repair Work Pro-Active	Mike Stringer			1	1		
Business Continuity	David Ede			1	1		
(2004/05) Rent Accounting (& Collection Arrears)	Mike Stringer		1		1		
New Employees (Including References) Pro Active	David Ede	1	2				3
Home Care Providers Pro Active	Peter Brennan		1	1			2
(2004/05) Quality & Contract Management in Care for the Elderly	Peter Brennan		1		1		
Partnership Arrangements	Trevor Davies	2	1		3		
Total		5	13	5			

Review in 2005/6	HoS Responsible	Outstanding			Position as at end JUNE 06		
		High	Medium	Low	In Progress	Not Started	Position/ Status Unknown
Counsel Payments & Legal Services Contract Monitoring	Christine Dooley		3	4			7
Approved Lists & Contracts Register	Mike Stringer – 2 Med In Prog Mike Stringer/Trevor Davies – 1 Med In Progress		3		3		
Fraud Policy & Response Plan	Mike Stringer – 1 Med, 1 Low both In Progress David Ede - 1 Med, P/S unknown		2	1	2		1
Prov of Services Learning Disabilities	Peter Brennan		2	4			6
Main Accounting 04/05	Mike Stringer			1		1	
Hospitality & Gifts Registers	Chris Dooley – 1 Low, P/S unknown David Ede – 1 Low, P/S unknown			2			2
Climate Change Levy	Don Stewart/Mike Day		1		1		
Stock & Plant Pro-Active	Peter Brennan		3				3
Personnel	David Ede		2				2
Agencies Pro-Active	Mike Stringer	1	1		2		
Project Assessment & Monitoring	Mike Stringer – 1 Med in Progress		1		1		
Placements Pro-Active	Peter Brennan	2	1		3		
Consultants	David Ede – 1 Med, P/S unknown		1				1
Health & Safety	Trevor Davies		1	1	2		
Grants to Voluntary Organisations	Peter Brennan		2				2
Use of Fuel Cards	Peter Brennan	1	6				7
Housing Rents & Arrears inc FTAs	Mike Stringer		1		1		
Total		4	30	13			

(There are currently no outstanding Internal Audit Recommendations for 06/07)

Categorisation of recommendations:

High: Fundamental control requirement needing implementation as soon as possible

Medium: Important Control that should be implemented

Low: Pertaining to Best Practice

Appendix 3 Key Performance Indicators

KPI	Definition	Target	Qtrs 1	Qtrs 2	Qtr 3	Qtr 4	
KPI 01	The total number of audit briefs agreed as a percentage of the total annual number of planned reviews (84). Compute, Total number of audit briefs issued in the period /Total number of briefs planned to be issued in the period based on the original estimate.	Actual	24	24			
		Planned	20	38	61	84	
		80% each period 100% by end of year	120%				
		Actual	7				
KPI 02	The number of audit reviews completed to draft stage as a percentage of the total annual number of planned reviews (84). Compute, Total number of audit reviews completed to final stage in the period/Total number of reviews planned to be completed in the period based on the original estimate.	Planned	3	27	50	84	
		80% each period 100% by end of year	233%				
		Actual	3				
		Planned	0	20	38	84	
KPI 03	The number of audit reviews completed to final stage as a percentage of the total annual number of planned reviews (84) Compute Total number of audit reviews completed to final stage in the period/total number of reviews planned to be completed in the period, based on the original estimate.	90% each period 100% by end of year	300%				
		Actual	3				
		Planned	0	20	38	84	
		70%	100%				
KPI 04	Performance against target time: 50 days max to complete an audit from start to release of a consultation draft. Compute, number of days from start date of audit to release of consultation draft should be 50 days. This KPI shows those audits completed in the period that met or missed this target. Achievement target is that 90% are completed in the timescale	Within 50 days	7				
		Outside days	0	0	0	0	
		75%	50%				
KPI 05	System Audits Survey Forms. Compute, the total no of survey forms collected to total number of survey forms distributed. Results analysed over categories.	75%	0				
KPI06	Fraud Audits Survey Forms. Compute, the total number of survey forms collected to total number of survey forms distributed. Results analysed over categories.	75%	0				

APPENDIX 4 Comparative Analysis of Internal Audit Plans

Latest position for the year ended 2006.

Detail	Systems	Contract	Computer	Pro-Active	Follow ups	Totals	%age
Original number of audits	35	10	11	14	29	99	100
Final Number of Audits	35	8	11	18	12	84	100
Audits Completed to date	0	2	0	1	0	3	3.57
Audits at Formal draft stage	1	0	0	0	0	1	1.19
Audits at Consultation draft stage	1	1	0	0	1	3	3.57
<i>Briefs issued</i>	7	2	0	4	4	17	20.24
<i>Still to be started</i>	26	3	11	13	7	60	71.43
Total	35	8	11	18	12	84	100.0

Last years position as at 30th June 2005

Detail	Systems	Contract	Computer	Pro-Active	Follow ups	Totals	%age
Original number of audits	37	9	11	17	25	99	100
Final Number of Audits	37	11	11	17	25	101	100
Audits Completed to date	1	0	0	0	1	2	1.98
Audits at Formal draft stage	0	2	0	0	0	2	1.98
Audits at Consultation draft stage	4	0	0	1	2	7	6.93
Briefs Issued	14	3	3	4	3	27	26.73
Still to be started	18	6	8	12	19	63	62.38
Total	37	11	11	17	25	101	100

APPENDIX 5 – STATEMENT ON INTERNAL CONTROL 2005/06 ACTION PLAN

Significant Issue	Action	Responsibility	Time-scale	Progress
1. Continue to improve the recovery of debt	<ul style="list-style-type: none"> • Continue to focus on reducing arrears and recovering debt promptly. • Corporate debt management standards are set and a corporate policy is in development. • Regular monitoring of debt is taking place at the highest level in the authority. 	Debt management Board and Group Director Finance & Commercial	Ongoing	<ul style="list-style-type: none"> • Meetings held regularly to review, assess and act • Debt Management Policy in place. • Corporate contract for credit card progressed however former delayed due to charges issue. • Decision on Bailiff arrangements made • Targets set for main areas of income. • Services assessed themselves against corporate standards. • Quarterly report to Lead Member. • Information sharing being resolved. • Monitoring information is included on Intranet.
2. Succession and continuity plans	<ul style="list-style-type: none"> • Service business continuity plans are in place throughout the calendar year. • Continue to work on ensuring up to date documented procedures are in place. 	Emergency Planning & Business Continuity Manager Officer	Ongoing	<ul style="list-style-type: none"> • Business Continuity policy, Strategy and Plan at the corporate level complete. • Most Business Impact Analyses now complete and Priorities clarified. • HOS have templates to start own Service Level Continuity Plans with assistance from Business Continuity

				<p>Specialist.</p> <ul style="list-style-type: none"> • Audit of procedures in place commenced
<p>3. The consultation strategy has been implemented; there is a need to publish and get adherence to corporate standards from all service areas.</p>	<ul style="list-style-type: none"> • Implement the consultation strategy developed by Communications. • Ensure that the consultation strategy contains effective monitoring and reviewing procedures. 	<p>ACE Strategy & Communications</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Communications champions network being reviewed by Corp Communications. Report out for consultation with that group before going to SMT via CLT. • Monthly corporate complaints report agreed; yet to be implemented with Customer Services. • Consultation Toolkit to be finished and published on the Intranet. • Organise a 'Consultation Launch' where the range of tools, standards & resources available are demonstrated & explained.
<p>4. Whilst monitoring systems exist at a service level for all complaints and corporately for certain complaints, these need to be pulled together to form a single monitoring system. Whilst monitoring systems exist at a service level for all complaints and corporately for certain complaints, these need to be pulled together to form a single monitoring system.</p>	<ul style="list-style-type: none"> • Implement a single corporate system for monitoring complaints 	<p>Head of Customer Services</p>	<p>March 2006</p>	<ul style="list-style-type: none"> • A roll out of CRM functionality to support complaints monitoring has been completed: being presented to Customer Standards Panel March '06 for decisions on taking forward.

<p>5. There is a need to address the underlying difficulties in balancing the Social Services budget.</p>	<ul style="list-style-type: none"> • Actions have eradicated some weaknesses, but underlying problems with income systems remain. 	<p>Group Director Sustainable Communities</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Meetings continuing • Special reporting in place • Actions being monitored • Action to ensure that systems are reconciled is underway.
<p>6. There is a need to address the underlying difficulties in balancing the Social Services budget.</p>	<ul style="list-style-type: none"> • Continue with special monitoring. • Progress actions identified to reduce overspends. • Assess the position for 2006/07 budget process. 	<p>Group Director Children's Services</p>	<p>March 2007</p>	<ul style="list-style-type: none"> • Meetings continuing • Special reporting in place • Actions being monitored • The action plan has been re-drafted to be more specific and more rigorous. It was agreed by members at the Social Services finance meeting on 09.03.06.
<p>7. Disaster recovery and business continuity plans.</p>	<ul style="list-style-type: none"> • Strategy and resources for full disaster recovery in place. 	<p>Business Continuity Group and Group Director Finance & Commercial</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Overall Council continuity plan in place as draft • Full disaster recovery solution Identified and approval process commenced. • Ensuring all business critical activities have up to date procedures • Work on documenting key feeder systems to Statement of Accounts, will support continuity planning
<p>8. Important partnerships and their activities are being mapped and being defined and scrutinised to ensure that their accountability and risk management arrangements are adequately controlled,</p>	<ul style="list-style-type: none"> • An internal review of partnerships is planned for August 2006. • Internal Audit will make use of a checklist published by the Audit Commission in order to enable the Council to carry out a self-assessment of its partnership 	<p>ACE Strategy & Communications</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • The Head of Financial Services has produced and distributed the partnership risk report. • Toolkit/checklist being produced for partnerships to be self-evaluated, by

monitored and reviewed.	<p>arrangements.</p> <ul style="list-style-type: none"> • Services are reviewing significant partnerships to ensure compliance with the audit commission self-assessment. • The Head of Financial Services is to produce a report addressing the risks associated with partnerships. 			<p>December '06</p> <ul style="list-style-type: none"> • Internal Audit underway and due to end October '06.
9. There have been some financial control weaknesses in Leisure projects/activities which are the subject of formal reports.	<ul style="list-style-type: none"> • Review by relevant Overview and Scrutiny or Audit Committee • Independent review to ensure remedial action is effective 	Public Realm Group Director	March '06	<ul style="list-style-type: none"> • Action has been taken to prevent a re-occurrence. Corporate and local systems changed as a result. All projects now subject to regular review with Group Director.
10. There has been an issue in respect of premises licensed for marriage, due to an oversight in licensing arrangements.	<ul style="list-style-type: none"> • Significant action has been taken including discussions with the Registrar General and Counsel and a test court case. 	Public Realm Group Director	Ongoing	<ul style="list-style-type: none"> • Court case held with all couples written to with outcome in Council's favour and supporting the advice given by Council & GRO

Appendix 6

Planned	Fraud Campaign To Do list 2006/07	Cost/ Recharge
April '06	Annual Letter to Staff & Members (resent after May elections to Members)	
April '06	Hotline Response Survey Benchmarking	
11 April '06	Team Brief Article, Talking point no 24	
09/10 May '06	Members Stalls (Fraud & Corruption)	
31 May '06	Existing Fraud Leaflets to be provided to HR for Induction Courses	
31 May '06	Review of a Neighbouring Authorities Campaign (Newham)	
06 June '06	NFI presentation to staff	
22 June '06	Discuss possibility of future bus advertising with VIACOM	
23 June '06	Notice Board Poster at Upminster Station (Housing Benefits paid £895)	
30 June '06	Global Email	
01 July '06	Annual Payslip Message (July 06 payslip)	

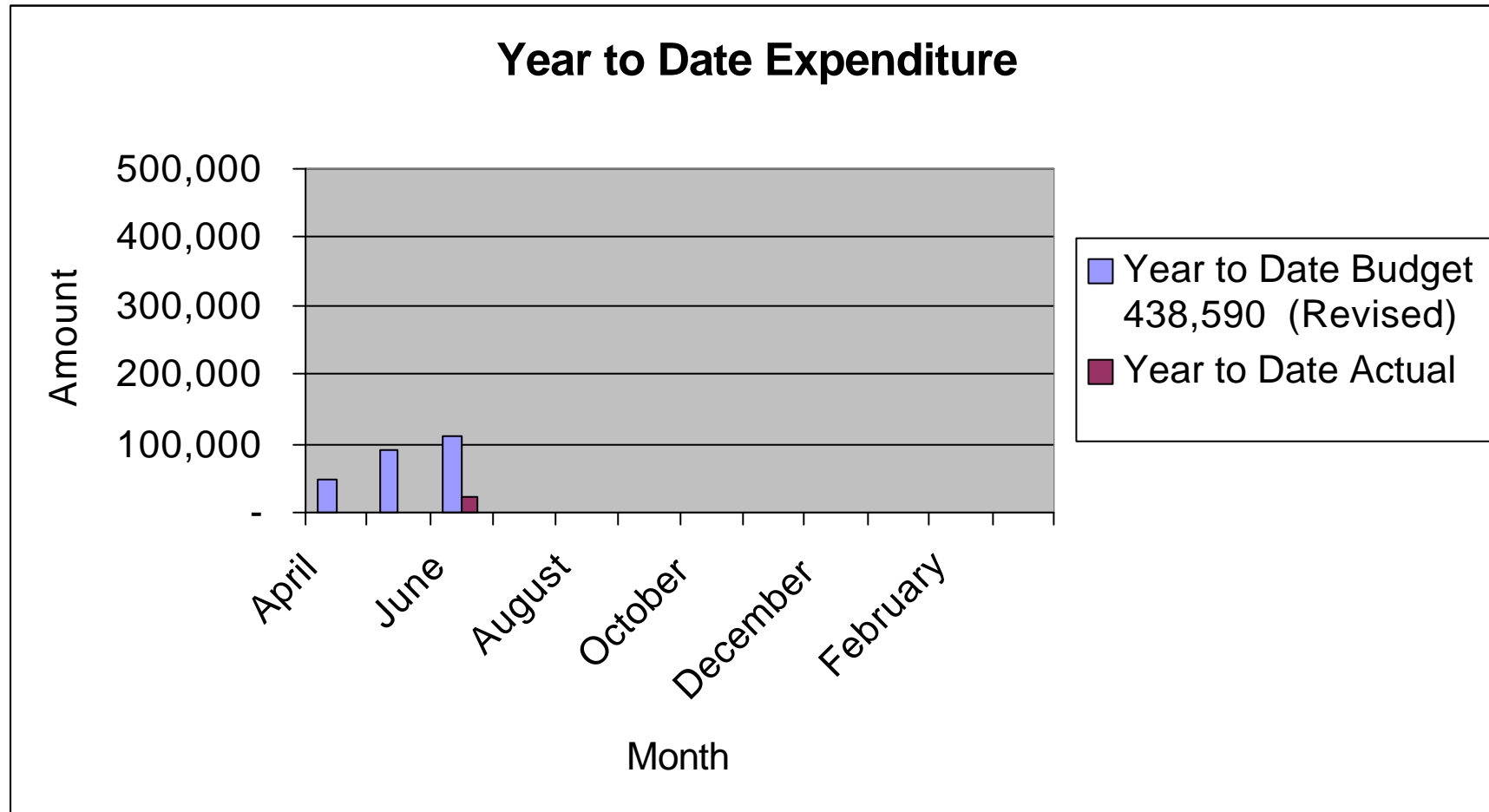
01 August '06	FSB Article Identity Fraud - Awaiting future publication	
01 August '06	Financial Services Briefing Parper (National Fraud Initiative article August 2006 issue)	
Sept '06	Refresh artwork & print 9,500 Anti-Fraud leaflets	£484.00
Sept '06	LBH Street Guide Advert	£495.00
22 Sept '06	Attendance at meeting held by the Home Office to benchmark Anti-fraud practices and activities	
28 Sept '06	Audit Committee Members Fraud Training Session	
1st Oct '06	Fraud Savings & Success Stories on Intranet Awaiting authorisation from F&C GD	
4th Oct '06	Attend meeting with other Local Authorities to benchmark anti-fraud practices	
24 Oct '06	70 x Posters for J C Decaux Boards/Sites	£648.00
	50 Local Notice Boards at Parks (including artwork for 300 posters)	£270.00
31 Oct '06	Refresh/revise Posters placed strategically in existing work areas	

	and in the new SCIMITAR House	
31 Oct '06	Second Payslip Message and Fraud Leaflet	
31 Dec '06	Establish Clear front page link to Fraud Hotline popup on web site	

Appendix 7 2006/2007 Budget Analysis

Internal Audit's Year to Date Expenditure (Cost Centre F620)

	April	May	June
Year to Date Budget	47,127	89,664	110,045
Year to Date Actual	-1,723	-12,991	20,964
Variance	48,850	102,655	89,081



Appendix 8

CORPORATE RISK REGISTER		MARCH 2006	GRAPHICAL SUMMARY OF CORPORATE RISKS		
IMPACT	4			<p>2. Succession Planning (David Ede) - 2</p> <p>3. London Olympics (Cynthia Griffin) - 3</p>	
	3		<p>5. CPA Inspection (Jonathan Owen) - 2</p> <p>18. Contract Dependency (Rita Greenwood) - 2</p>	<p>1. Recruitment and Retention (David Ede) - 2</p> <p>4. Organisational capacity/capability (Stephen Evans) - 2</p> <p>11. Health Restructuring (Mark Gaynor) - 2</p> <p>16. Partnerships (Jonathan Owen) - 3</p> <p>9. Lack of Infrastructure Development (Mark Gaynor) - 3</p> <p>13. Business Continuity and Emergency Planning (Rita Greenwood) - 3</p>	
	2		<p>10. Breakdown in Social Cohesion (?) - 2</p> <p>12. Poor Management of Council's Assets (Rita Greenwood) - 3</p> <p>16. Financial Arrangements (Rita Greenwood) - 2</p> <p>19. Compliance with New Legislation (Christine Dooley) - 2</p>	<p>6. Causing harm to people we owe a duty of care (Rita Greenwood) - 2</p> <p>8. Community Safety (Christine Dooley) - 3</p> <p>14. Perception of the Organisation and Poor Reputation (Jonathan Owen) - 3</p> <p>17. ALMO/Decent Homes Standard (Mark Gaynor) - 3</p>	
	1			<p>7. Every Child Matters (Andrew Ireland) - 3</p>	
		1	2	3	4
LIKELIHOOD					
Significant scope for improvement of risk response		Moderate scope for improvement of risk response		Risk response is sufficient	

Appendix 9 Benefit Investigations 1st April 2006 – 30 June 2006

The results against targets for the above period are:

	2006/7 Target	YTD Target	Achieved
Official Cautions administered	54	13	6
Administrative Penalties administered	54	13	1
Administrative Penalties value	£16,200	£4,050	£1162
Summonses Issued	24	6	6
Prosecutions (convictions)	24	6	4
Prosecution Costs	- £19,440	- £4860	- £4707

Targets

Unlike previous years, there are no monetary values set against these targets due to the changes made by the Department for Work and Pensions in funding arrangements. There are now no direct reward payments for sanctions and prosecutions.

However, Administrative Penalties are an additional income to the Authority when collected following full recovery of the associated benefit overpayment. The Sanctions Policy shows that an Administrative Penalty will be considered where, amongst other things, the overpayment is between £500 and £1500. An Administrative Penalty is set by legislation at 30% of the overpayment, giving an average penalty of £300 based on an average overpayment of £1000.

Performance in the areas of Administrative Penalties and Official Cautions is disappointing, although several more were prepared in the period but not administered due to failures to attend interview. Furthermore, an Administrative Penalty cannot be finalised until 28 days after it has been accepted by the customer.

BVPI 76

Currently, there are no national targets set for this BVPI, only local.

Description	Annual Target	Average @ 1 st Quarter
- Number of claimants visited, per 1,000 caseload	210	163
- Number of fraud investigators employed, per 1,000 caseload	0.35	0.35
- Number of fraud investigations, per 1,000 caseload	50	26
- Number of prosecutions and sanctions, per 1,000 caseload	6	2.5

AUDIT COMMITTEE – FORWARD PLAN 2006/07
BOLD = COMPLETED

FORWARD PLAN	TOPIC
12 December 2006	<ul style="list-style-type: none"> • Annual Review of Anti Fraud and Corruption Arrangements (30/11/06 needed) • Audit Commission Progress/Work • IA Client Report • Internal Audit work including Quarter 2 2006/07 Audit Reports • Annual Letter Progress • Audit Plan Strategy 2007/08 • Annual Grants Performance/Co-ordinator effectiveness • Annual Review of Risk Management Arrangements •
1 March 2007	<ul style="list-style-type: none"> • Agree Audit Plan 2007/08 • Annual Letter Progress • IA Client Report • Internal Audit work including Quarter 3 2006/07 • Audit Commission Progress/work •
24 April 2007 Check annual review of ongoing recommendations in place	<ul style="list-style-type: none"> • Agree Committee Annual Report • Receive Annual Letter 2005/06 • Audit Commission Work Plan

NB : Annual Report to Council after May each year unless election

AUDIT COMMITTEE MEMBERS TRAINING/AWARENESS

	YEAR 1 AND FOR ANY NEW MEMBERS		YEAR 2, 3 AND 4
Timescale	Session	Coverage	
September 2006	Session 6	Fraud and Corruption <ul style="list-style-type: none"> • What, why, who • Types of areas • Preventing/detecting • Investigating • Audit Committee's role 	Review of Corporate Risk Register annually



MEETING	DATE	ITEM
AUDIT COMMITTEE	28 SEPTEMBER 2006	12

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: AUDIT AND INSPECTION ANNUAL LETTER 2004/05 – ACTION PLAN

SUMMARY

The 2004/05 Audit and Inspection Annual Letter was considered by Cabinet on 15 February 2006 and shared with members. It was subsequently considered by the Corporate Overview and Scrutiny Committee on 13 April 2006.

The letter recommends actions to be taken. To help members an Action Plan has been prepared. This reports progress on the actions contained within the Annual Letter and is attached as Appendix A.

Your Committee previously considered this Action Plan on 4 April 2006. This report updates the Action Plan on activities since then.

RECOMMENDATION

That the Committee note the contents of the Action Plan and the progress made to date.

REPORT DETAIL

1. The 2004/05 Audit and Inspection Annual Letter, prepared by the Audit Commission, was considered by Cabinet on 15 February 2006, the Corporate Overview and Scrutiny Committee on 13 April 2006 and by the Audit Committee on 4 April 2006.

The letter is positive in tone, with its key messages being;

- Havering has been assessed as a one-star council that is improving well.
- A range of priority areas have been addressed, including levels of public satisfaction, children's social care, housing and the environment.
- Other improvements were noted in the areas of partnership collaboration, improving access to vulnerable groups and in reducing the level of staff sickness.
- Overall there has been a positive shift in organisational culture.

2. The Letter also set out specific recommendations for members:

- Monitor closely the programmes for securing further improvements in the weaker performing service areas such as housing and adult social care;
- Ensure effective arrangements are in place and monitored, to ensure the 2005/06 earlier accounts deadline is achieved and that the internal timetable for the production of accounts and working papers is met;
- Ensure that appropriate action is taken to ensure that the personal social care budget is set at an appropriate level and that spending is tightly managed; and
- Continue to monitor arrangements to improve income collection performance, taking into account the costs of collection.

3. It was agreed by the Audit Committee that they would receive regular reports so that they could monitor the progress of the Action Plan.

4. The regulations required publication of the Annual Letter, and in line with good practice, the Council's response was also published. The updated Action Plan will be placed on the council's website.

Financial Implications and risks:

In accepting audit recommendations, managers are obligated to consider financial risks and costs associated with the implementation of recommendations.

Legal Implications and risks:

No direct legal implications arise from this report.

Human Resources Implications and risks:

HR will continue to support management in maintaining the improvement in sickness absence and developing organisational culture. .

Equalities and Social Inclusion implications:

No direct legal implications arise from this report.

Audit Committee, 28 September 2006

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STEPHEN EVANS
Chief Executive

Background Papers List

Report to Audit Committee 4 April 2006.

ANNUAL AUDIT & INSPECTION LETTER 2004/05 ACTION PLAN as at

Recommendation & Key Tasks	Priority 1 = Low 2 = Med 3 = High	Lead Officer	Comments; including progress & Next Steps	Timescale
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Actions needed by members are as follows:

- Recommendation 1: Monitor closely the programmes for securing further improvements in the weaker performing service areas such as housing and adult social care*
- Recommendation 2: Ensure effective arrangements are in place and monitored, to ensure the 2005/06 earlier accounts deadline is achieved and that the internal timetable for the production of accounts and working papers is met.*
- Recommendation 3: Ensure that appropriate management action is taken to ensure that the personal social care budget is set at an appropriate level and that spending is tightly managed.*
- Recommendation 4: Continue to monitor arrangements to improve income collection performance, taking into account the costs of collection.*

Detailed actions to deliver recommendations

Housing Management				
• Ensure all offices comply with the requirements of DDA		B. Kendler	Achieved. All District Housing Offices closed apart from Elm Park which is due to close on Friday 28 th July 2006. All housing offices are now DDA compliant.	July '06
• Provide greater clarity in response to domestic violence, and racial harassment.		B. Kendler	Achieved	
• Better information on welfare benefits		B. Kendler	Achieved.	
• Address inconsistencies in the provision of caretaking and grounds maintenance		B. Kendler	Caretaking Review agreed by Cabinet in September 2005. Service Changes pending.	Sept. '06
• Address inconsistencies in the treatment of waiting list, transfer list applicants and visiting new tenants		B. Kendler	Achieved April 2005	
• Improve tenant participation structures		B. Kendler	Restructure of Tenant Participation agreed in December 2005 by Cabinet. Current structure was replaced from 3 rd April 2006.	June '06
• Reduce the number of temporary staff usage.		B. Kendler	Progressing.	On-going
Supporting People				
• Improve engagement with service users		B. Kendler	Audit Commission Inspection report in draft form. We will comment by 31 st July 2006	June '06
• Improve customer care, access to services and information		B. Kendler	Audit Commission Inspection report in draft form. We will comment by 31 st July 2006	June '06
• Improve the level of understanding of and provision for the needs of BMEs		B. Kendler	Audit Commission Inspection report in draft form. We will comment by 31 st July 2006	June '06
• Improve management and monitoring arrangements		B. Kendler	Audit Commission Inspection report in draft form. We will comment by 31 st July 2006	June '06
Adult Social Care				
• Improve performance on direct payment		P. Brennan	Now over 100 people receiving Direct Payments which is above Key Threshold indicators	On-going
• Improve the number of service users who receive care reviews		P. Brennan	Improvements in numbers of people receiving reviews are being achieved	On-going

ANNUAL AUDIT & INSPECTION LETTER 2004/05 ACTION PLAN as at

Recommendation & Key Tasks	Priority 1 = Low 2 = Med 3 = High	Lead Officer	Comments; including progress & Next Steps	Timescale
<ul style="list-style-type: none"> Monitor performance information 		P. Brennan	Performance information is monitored monthly. Now an integrated Management Structure has been achieved, action as a result of monitoring is more robust. A mistake was made in the submission to CSCI of high-level performance information which has skewed one indicator. Systems are now in place to prevent such a problem recurring.	Achieved
<ul style="list-style-type: none"> Ensure better budget setting and financial management in care provision 		P. Brennan	The costs of care are under robust review with plans to adopt a more systematic monitoring approach in high cost services.	On-going
<ul style="list-style-type: none"> Improve recording of ethnicity 		P. Brennan	Management action improving the situation.	On-going
Accounts & Governance				
<ul style="list-style-type: none"> Strengthen internal audit and disaster recovery arrangements 		R.G/ M. Stringer	Internal Audit strategy and plan 06-07 agreed by Audit Committee. International Auditing Standards being reviewed and implemented. Report being prepared on CIPFA compliance. Business Continuity Group is in place and project plan developed to deliver an approach to internal disaster recovery including IT. Draft Business Policy Strategy and Plan in place. Major Emergency Plan reviewed and launched.	On-going
<ul style="list-style-type: none"> Ensure further strengthening of the accounts closedown processes. 		M. Stringer	Post closedown debrief 04-05 action plan produced and incorporated in closedown plan for 05-06. Timetables in place for 05-06. Monthly reports being submitted to Project Board	On-going
Use of Resources / Financial Standing				
<ul style="list-style-type: none"> Ensure financial and performance information is more fully integrated. 		R. Greenwood J. Owen	Budget analysis being undertaken to assess key areas of spend and review against performance information. Reviewing local budget books to assess performance / activity information.	On-going

ANNUAL AUDIT & INSPECTION LETTER 2004/05 ACTION PLAN as at

Recommendation & Key Tasks	Priority 1 = Low 2 = Med 3 = High	Lead Officer	Comments; including progress & Next Steps	Timescale
<ul style="list-style-type: none"> Ensure that appropriate management action is taken to manage personal social care budget and spending 		R. Jenkins	Budget analysis undertaken on a regular basis; monthly budget monitoring meetings with managers, weekly meetings with Finance, plus detailed action plan with timescales and actions identified, monthly meetings with members.	continuous
<ul style="list-style-type: none"> Ensure Star Chamber & Commissioner Board explicitly confirm value for money improvements as part of achieving stronger monitoring and scrutiny. 		R. Greenwood J. Owen	This will be addressed as part of the corporate VFM strategy being formulated. 2006 service plans and 2006 Head of Service packs will be used which will include VFM issues.	April '06
<ul style="list-style-type: none"> Assist service areas to identify cost drivers and monitor them. 		M. Stringer / J. Owen	MTFS 07-08 planning underway. CPA action plan being refreshed to ensure clearer links between service plans and MTFS.	June '06
Customer Access to Services				
<ul style="list-style-type: none"> Establish baseline data to enable measurement of benefits and monitoring of published customer standards and targets. 		D. Champion	Customer standards and targets reviewed by customer services standard board; report produced and considered by SMT proposing quarterly cycle of monitoring performance against standards	On-going
Performance Information				
<ul style="list-style-type: none"> Further strengthen the Council's performance reporting quality assurance process. 		J. Owen	Steps have been taken to implement the recommendations in the BVPI audit report, including those covering the production of out-turn figures and the sign-off requirement by senior managers. Need to ensure that all HoS have QA arrangements in place. Current inspection taking place.	Ongoing

ANNUAL AUDIT & INSPECTION LETTER 2004/05 ACTION PLAN as at

Recommendation & Key Tasks	Priority 1 = Low 2 = Med 3 = High	Lead Officer	Comments; including progress & Next Steps	Timescale
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Education and Children Social Services				
<ul style="list-style-type: none"> Develop a wider range of preventative services to reduce the number of looked after children and children on the child protection list. 		R. Jenkins S. Allen	Part of CSCI Action Plan and ECM actions (e.g. development of schools; Children's Centres; CWD Review; Early Support Service) Local Safeguarding Children Board is established and its business plan is being finalised.	Ongoing
<ul style="list-style-type: none"> Develop more opportunities to ensure the 'voice' of children and young people develop 		R. Jenkins S. Allen	Progressing through consultation of CYPP; development of Children's Trusts and Young Peoples Participation Board. Dialogue with young people has formed strategy for the voice of children and young people, which includes model to establish Participation Board as part of Children's trust.	(Oct 06)
Capital Programme				
<ul style="list-style-type: none"> Ensure that robust business cases including fully costed option appraisals and whole life costings are consistently produced in all projects 		R. Greenwood	Overall project management arrangement reviewed with a toolkit approach. Forms have been reviewed. Final part is to merge capital programme and incorporate whole life costing. The Procurement Framework and Strategy is being refreshed to reflect whole life costings considerations.	August '06
<ul style="list-style-type: none"> Produce monitoring information to evaluate the effectiveness of all recovery actions and the associated costs 		J. Potter	Monitoring information is in place and recovery strategies being reviewed. Regular meetings with Customer Services to evaluate effectiveness of various recovery actions. Also looked at by Debt Management Board. Budget system changed to enable identification of costs of various recovery action easier.	On-going

ANNUAL AUDIT & INSPECTION LETTER 2004/05 ACTION PLAN as at

Recommendation & Key Tasks	Priority 1 = Low 2 = Med 3 = High	Lead Officer	Comments; including progress & Next Steps	Timescale
<ul style="list-style-type: none"> Continue to improve income collection performance, taking into account the costs of various collection methods 		J. Potter	Targets being set for all areas and collection initiatives under constant review. Income Collection is improving in most areas and there is regular monitoring taking place via Debt Management Board, Internal Service Performance Reviews and one – off initiatives such as working with Barking & Dagenham to improve NNDR collection rates.	On-going



MEETING

DATE

ITEM

AUDIT COMMITTEE

28 SEPTEMBER 2006

13

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: REVIEW OF SCHOOLS INTERNAL AUDIT: 2005/06

SUMMARY

To report to the Committee on the findings from internal audits carried out in Havering's schools during academic year 2005/06.

RECOMMENDATION

To note the contents of the report.

REPORT DETAIL

1. Audit Arrangements

Academic year 2005/06 was the second year of the revised internal audit arrangements in schools. These include a robust, risk based triennial audit by auditors appointed through competitive tender (currently Deloitte and Touche) and an annual health check audit provided as part of Children's Services' School Funding and Assurance section.

Under each audit, schools are given a level of assurance as an overall assessment of the internal controls in place and the effectiveness of the operation of those controls. These levels are summarised below:

Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
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Substantial Assurance	While there is a basically sound system, there are weaknesses which put some of the system objectives at risk, and/or there is
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evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Limited Assurance Weaknesses in the system of controls are such as to put the system objectives at risk, and /or the level of non-compliance puts the system objectives at risk.

No Assurance Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Levels of assurance are determined by the classification of the priority levels of the recommendations made as follows:

- Priority One: Major issues for the attention of senior management (LA)
- Priority Two: Recommendations for local management action (school)
- Priority Three: Minor Matters

The new arrangements also include follow up and support to ensure schools address the issues raised leading to an improvement in subsequent years.

2 Findings

Overall findings from the reports reviewed are shown in tabular format in Appendix 1.

83 of the 86 Havering schools received an internal audit during the academic year, two having had their audit postponed until early autumn 2006 due to unavoidable pressures within the individual schools

The table below summarises the audit opinion for the 83 schools reviewed. The spread of audit opinion is similar to that of the previous year.

Audit Opinion	Full Assurance	Substantial Assurance	Limited Assurance	No Assurance	Total schools
2005/06	2	74	7*	0	83
2004/05	8	72	4	0	84
2003/04	4	78	1	0	83

* 1 Secondary school
6 Primary Schools

In the previous academic year (2004/05) there were only four of our schools with limited assurance but it should be borne in mind that the new audit programme is more demanding than the previous one. It is therefore a measure of more rigorous testing rather than a decline in financial control. Audit testing has also taken into account the need to prepare schools for the future requirement to comply with the new Financial Management Standard in Schools (see section 3 below).

Audit Committee, 28 September 2006

It is considered that the schools with limited assurance have capacity to improve and support will be provided by the Schools Financial Support Team to ensure they address the issues raised.

No school was considered to have weaknesses that would result in "No Assurance".

The revised audit programme has produced a substantial increase in the number of recommendations in schools but with increased support and follow up it is anticipated that these will reduce significantly by the end of 2007.

Summary of recommendations

	No of recommendations	Av per school	Max no per school	Priority 1 recommendations
2005/06	891	11	24	180(20%)
2004/05	557	7	19	27 (5%)
2003/04	289	3.5	12	19 (7%)

Appendix 2 summarises some of the findings resulting in priority 1 recommendations.

The review of the audit reports has highlighted a number of common recommendations in each area of audit scope such as:

- Organisation and Accountability
 - Incomplete minutes and records of Governing Body and Sub-Committees
 - Difficulty in recruiting school governors.
 - Failures to have an up to date school finance policy or approved delegation limits
 - Incomplete registers of financial interests
- Internal Financial Control
 - Incomplete Inventory Lists
 - No disposal Policy
 - Inadequacy of Security Marking of Assets
 - Lack of annual inventory checks
 - Incomplete records of loaned equipment
- Budgets
 - Budgets not updated in SIMS (accounting system)
 - Budget Virements and adjustments not approved within delegation authorities
- Purchasing
 - Copy orders not properly marked as "copy"
 - Delivery notes not signed to confirm delivery of goods or services
- Personnel
 - Cancellation and control of timesheets
- Income
 - Identification of income streams other than LEA funding
 - Updated Charging policy within the school

- Banking Arrangements/Cheque Book Scheme.
Confirmation of regular and frequent banking arrangements
- Petty Cash
Timely reconciliations, cancellation of receipts after payment of expense has been made.
- Recommendations from previous audits
Recommendations made in previous audits have not been followed up and implemented. In particular, recommendations on Inventory control have not been complied with and Finance Policy in draft format.

Audit Committee will continue to receive an annual report on matters arising from the audit of schools.

3 Financial Management Standard in Schools

In conjunction with the Institute of Public Finance (IPF), the DfES has developed a Financial Management Standard and Toolkit, which is intended to help schools in evaluating the quality of their financial management and to aid in training staff to become better financial managers. Consequently, schools will be able to manage their resources more efficiently, leading to an increase in value for money.

The standard itself is a simple statement of what a school that is managed well financially would look like. Good practice in a school, which meets the Standard, can be analysed under five headings as follows:

- Leadership and Governance
- People Management
- Policy and Strategy
- Partnerships and Resources
- Processes

Compliance with the Standard will reassure parents, governors, headteachers, finance committees, local authorities and OfSTED that steps are in place to ensure sound financial management.

Schools will be required to undertake a self assessment of their financial management which will be externally assessed. The DfES expects all secondary schools to comply with the Standard by the end of the current financial year (31 March 2007) with primary and special schools to follow in later years.

Financial Implications and Risks:

Costs

	£
Annual cost of the Triennial Audit currently delivered by Deloitte and Touche	37,500
Annual Health checks including review, supervision and	53,800

Audit Committee, 28 September 2006

contract monitoring	
Total	91,300

Funded By

	£
School Audit Budget (E523)	37,500
Proportion of School Financial Support Budget (E293)	53,800
Total	91,300

The entire internal audit process is risk based and the arrangements in place ensure that schools have adequate internal controls in place to mitigate the risks.

Human Resources Implications and Risks:

None arising directly from this report.

Legal Implications and Risks:

None arising directly from this report.

Equalities and Social Inclusion Implications:

None arising directly from this report.

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STEPHEN EVANS
Chief Executive

Background Papers:

School Internal Audit reports

AUDIT FINDINGS

1. Submission of Reports

83 of the 86 Havering schools received an internal audit during the academic year, three having had their audit postponed until early autumn 2006 due to unavoidable pressures within the individual schools

2. Audit Opinion and level of Assurance given

The table below summarises the audit opinion passed for the 83 schools reviewed.

Audit Opinion	Full Assurance	Substantial Assurance	Limited Assurance	No Assurance	Total schools
Number of Schools	2	74	7	0	83

3. Audit Recommendations

The tables below summarise the total recommendations identified and agreed by schools management.

Priority of Recommendation	Primary Schools	Secondary Schools	Special Schools	Totals	Max no. per school
Priority 1	112	58	10	180	7
Priority 2	481	163	22	666	18
Priority 3	37	6	2	45	3
Total Recommendations	630	227	34	891	
Average Recommendations per school	11	12	11		

Area of Recommendation	Primary Schools	Secondary Schools	Special Schools	Totals	Max no. per school
Organisation & Accountability	90	26	2	118	4
Internal Financial Controls	165	70	12	247	9
Compliance previous audit	96	33	9	138	6
Budget	76	20	2	98	3
Purchasing	60	17	1	78	4
Personnel	20	7	1	28	4
Income	50	23	3	78	7
Banking / Petty Cash	16	9	1	26	2
Others	57	22	3	80	5
Totals	630	227	34	891	

4. Common Recommendations and Related Risks

The following table lists common findings and recommendations and highlights the potential risk of non-compliance:

Findings / Recommendations	Potential Risk
<p>Organisation and Accountability</p> <p>Terms of Reference for Committees not documented or documentation being out of date.</p> <p>Signed copies of minutes not held at school or minutes not signed</p> <p>Vacancies in Governing Bodies</p> <p>Lack of a documented Finance Policy or lack of regular review</p> <p>Register of Business Interests not updated, with some staff and governors not included</p> <p>Scheme of delegation, delegated authorities are not up to date or are not made available to staff. In one case there was no evidence of a documented policy</p>	<p>Committee Terms of Reference must be clearly documented to ensure that the committee has the authority to make decisions on issues raised.</p> <p>There is a risk of errors or omissions being incorrectly recorded with required actions not being completed correctly</p> <p>There is a risk of insufficient representation in meetings to ensure all points of view are considered.</p> <p>The finance policy of the school must be documented to ensure transactions are kept in line with the procedures and regulations that relate to them. There is a risk that the school is not operating within a control environment, which represents good practice and guides the Governing Body in fulfilling its responsibilities.</p> <p>Everyone who participates in either the decision making or transaction processing of public (school) funds should declare their interests in any potential supplier. Non compliance risks loss of good practice and best value and removes a control against biased decisions being taken.</p> <p>Without a controlled delegated authorities process, the school is open to financial loss through inappropriate or improper expenditure</p>
<p>Compliance with previous audit recommendations</p> <p>Recommendations not fully implemented include : -</p>	<p>Risk of poor governance in the school which may result in misappropriation of school</p>

Audit Committee, 28 September 2006

<p>Finance Policy in draft format</p> <p>Scheme of Delegation not up to date</p> <p>Asset Register incomplete</p> <p>Asset Register not presented to governors</p> <p>School Fund account not independently audited</p>	<p>funds and assets</p>
<p>Budgets</p> <p>Budget Virements or adjustments not reported to Finance Committee or Governing Body</p> <p>Budget held on SIMS not reconciled to original approved budget</p>	<p>Risk of inappropriate transfer of funds to cover overspends</p> <p>Risk of errors in budget monitoring and decision making</p>
<p>Purchasing</p> <p>Lack of segregation of duties in ordering and receiving goods (particularly in small schools)</p> <p>Copy Orders are not marked as such</p> <p>Approval of invoices by staff without the correct level of delegated authority</p> <p>Lack of third party evidence of creditors</p> <p>Lack of evidence of best value being obtained for public funds.</p>	<p>Risk of potential misuse of funds</p> <p>Risk of duplicate orders being delivered</p> <p>Risk of potential misuse of funds</p> <p>Risk that school's creditors are understated</p> <p>Risk of inappropriate contractors being appointed and the school not obtaining VFM</p>
<p>Personnel</p> <p>Personnel records inadequately maintained</p> <p>Pay Policy not up to-date</p>	<p>Risk of salary budget not matching grade and years of service not known</p> <p>Risk of non-compliance with best practice</p>
<p>Income</p>	<p>Risk of loss of income if charging policy is</p>

Audit Committee, 28 September 2006

School's charging policy not reviewed or updated Lack of daily income register & audit trail Invoices raised not authorised and no debtors control.	not up to date Risk of missing potential profits in lettings of school facilities Risk of incomplete record of income Loss of income to the school and incorrect invoices being raised
Petty Cash Payments made not signed as paid or not signed by recipient Receipts not marked as paid or cancelled Copy receipt used as evidence of expense Reconciliation of Petty Cash not carried out regularly	Risk of dispute of payment and could lead to financial loss Risk of duplicate payments Risk of duplicate payments Risk of potential over /under payments not being identified
Others Lack of Gift & Hospitality Register Not investing surplus funds	Risk that staff could be accused of being influenced by supplier School not maximising interest receivable

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS AND FINDINGS

The following table summarises audit recommendations that were deemed to require senior management action in ensuring compliance .

Recommendation/ Finding	Type of School	Level of Assurance within school where recommendation was made	Auditor
No evidence of Scheme of Delegation. No evidence of budget monitoring throughout year. Lack of consistency in security marked of assets	Primary	Limited	Deloitte & Touche
Lack of independent review of School Fund Account	Primary	Substantial	Deloitte & Touche
Lack of up to date Pay Policy. Asset control for non IT equipment	Secondary	Substantial	Deloitte & Touche
Several previous audit recommendations not fully implemented. Committee minutes not detailed. Base financial records not presented to governors. School Fund account not independently audited.	Secondary	Limited	Internal audit
Finance Policy and Scheme of Delegation not final. Non-compliance with previous audit recommendations	Secondary	Substantial	Internal audit.
Pecuniary interest register incomplete Terms of reference out of date Budget virements not advised to governors Access user rights on SIMS not up-to-date	Secondary	Substantial	Internal audit

AUDIT COMMITTEE

SUPPLEMENTARY

AGENDA

7.30pm	Thursday, 28 September 2006	Havering Town Hall Main Road, Romford
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This report is submitted with the agreement of the Chairman as an urgent matter, pursuant to Section 100B(4) of the Local Government Act 1972

6. AUDIT COMMISSION ANNUAL GOVERNANCE REPORT – Appendix attached

For information about the meeting please contact: Tomi Rotowa (01708) 432032
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Annual Governance Report

September 2006



Annual Governance Report

London Borough of Havering

Audit 2005-2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our Annual Governance Report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
 - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
 - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Authority's financial statements; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 7 Our risk assessment and planned response to the key audit risks was summarised in our 2005/06 Audit and Inspection Plan. A summary of our responsibilities and audit approach is included in Appendix 1. The Annual Governance Report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter early next year.
- 8 We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

Key messages

Financial statements

- 9 Our work on the financial statements is now complete. We anticipate being able to issue an unqualified opinion by 29 September 2006 (a draft report is attached at Appendix 5).

Use of resources

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We anticipate being able to issue an unqualified conclusion on the use of resources by 29 September 2006 (a draft report is attached at Appendix 5).

Financial statements

- 11 We are required to give an opinion on whether the Authority's financial statements present fairly:
- the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and
 - the financial transactions of its Pension Fund during the year ended 31 March 2006 and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Status of the audit

- 12 Our work on the financial statements is now complete. We anticipate being able to issue an unqualified opinion by 29 September 2006 (a draft report is attached at Appendix 5).

Matters to be reported to the Audit Committee

- 13 We have the following matters to draw to the Audit Committee's attention.

Expected modifications to the auditor's report

- 14 On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

Uncorrected misstatements

- 15 Our audit did not identify any misstatements in the financial statements, excluding those misstatements that are 'clearly trivial' (as defined in professional auditing standards), that management decided not to adjust.

Adjusted misstatements

- 16 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. There have been no material adjustments to the draft accounts submitted by the Audit Committee on 29 June 2006.

Qualitative aspects of accounting practices and financial reporting

- 17 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.
- 18 The Authority's 2005/06 financial statements complied with financial reporting standards and were supported by comprehensive working papers. Year on year, there has been an improvement in the quality of the closedown processes due to the efforts of Financial Services. For 2006/07, there will be some changes in personnel responsible for key elements of the Accounts preparation. While the Authority has commenced succession planning, it will need to ensure that there are robust handover arrangements, so that the progress made continues in future years.

Recommendation

R1 Ensure there are robust handover arrangements for changes in the staff responsible for preparing the Accounts.

- 19 Changes to the Local Government Pension Scheme involving the commutation of benefits led to advice from CIPFA's Local Authority Accounting Panel (LAAP) concerning disclosures under FRS17 in the form of LAAP Bulletin 65. One firm of actuaries, Hewitt Associates, as used by the Council, has not followed the LAAP Bulletin. Instead of treating the effect of the commutation of benefits as a negative past service cost, it has treated it as a change in actuarial assumptions after the benefits have changed. Consequently, the saving arising from commutation has been included within the Statement of Total Movements in Reserves rather than Non-Distributed Costs within the Consolidated Revenue Account.
- 20 We understand that Hewitts have advised the Council that, on the basis of their assumption, the average impact of the commutation is an overall reduction of FRS17 liabilities of 3%, but have not separately reported the value of the saving for individual clients. However, this approach does not impact on the overall liabilities at 31 March 2006, nor does it impact on the bottom line of the Consolidated Revenue Account.

Material weaknesses in internal control identified during the audit

- 21 Our audit has not identified any weaknesses in systems of accounting and financial control which we should report to you. We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

Matters specifically required by other auditing standards

- 22 Other auditing standards require us to communicate with you in other specific circumstances including:
- where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.

We have no such matters to report to you.

Any other matters of governance interest

- 23 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 1 below.

Table 1 Other matters of governance interest

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	The SIC complies with CIPFA guidance and is consistent with the financial statements and our understanding of the Authority.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation	The Authority has completed its consolidation pack and submitted it for audit.

Area	Auditor responsibility	Impact
	pack with the statutory financial statements.	

Letter of representation

- 24 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

Next steps

- 25 We are drawing these matters to the Audit Committee's attention so that:
- you can consider them before the financial statements are approved and certified; and
 - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements.

Use of resources

Value for money conclusion

- 26 The Code requires us to reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion). In meeting this responsibility, we review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 27 We have now completed our work in order to form a value for money conclusion in relation to the use of resources. While we have not identified any weaknesses in the Authority's arrangements that would give rise to a qualification of the value for money conclusion, we have identified areas where existing processes can be strengthened or improved and these are reported in Table 2 and the text below.

Table 2 Value for money arrangements

The Authority satisfied all the criteria

Criteria	Satisfied?
The Authority has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	✓
The Authority has put in place channels of communication with service users and other stakeholders, including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	✓
The Authority has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	✓
The Authority has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	✓
The Authority has put in place arrangements maintain a sound system of internal control.	✓
The Authority has put in place arrangements to manage its	✓

Criteria	Satisfied?
significant business risks.	
The Authority has put in place arrangements to manage and improve value for money.	✓
The Authority has put in place a medium-term financial strategy, budgets and a capital programme that is soundly based and designed to deliver its strategic priorities.	✓
The Authority has put in place arrangements to ensure that its spending matches its available resources.	✓
The Authority has put in place arrangements for monitoring performance against budgets.	✓
The Authority has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	✓
The Authority has put in place arrangements for the management of its asset base.	✓

Source: Audit Commission

- 28 In addition to the summary comments in Table 2, we have some more detailed observations to draw to your attention below:

Data quality

- 29 The Authority has raised the profile for ensuring the completeness and accuracy of its best value performance indicators (BVPIs) and the outcome is evidenced in a reduction on the number of audit reservations on these indicators. Our work has found that there is now scope to formalise the Authority's approach to data quality. This should now be proportionately extended to all performance monitoring data and not just the published BVPIs.

Recommendation

R2 Document formally the Authority's data quality policy and processes and ensure that this is proportionately applied to all performance information.

Internal control

- 30 The Authority is currently reviewing options for the provision of internal audit services. The Authority will need effective monitoring arrangements to ensure that the new internal audit service complies with professional standards and delivers its annual audit plan. There have been some gaps in internal audit coverage in recent years.

Recommendation

R3 Ensure that arrangements are in place for monitoring internal audit's compliance with professional standards and the delivery of the internal audit annual plan.

Use of auditors' statutory powers

- 31 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 3 below.

Table 3 Use of statutory powers

Insert text

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/06.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no section 11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/06 Best Value Performance Plan (BVPP) was reported in the 2005 Annual Audit and Inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

Closing remarks

- 32** This report has been discussed and agreed with the Group Director, Finance and Commercial. A copy of the memorandum will be presented at the Audit Committee on 28 September 2006.
- 33** The report makes a number of recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.
- 34** The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

Jon Hayes
District Auditor

28 September 2006

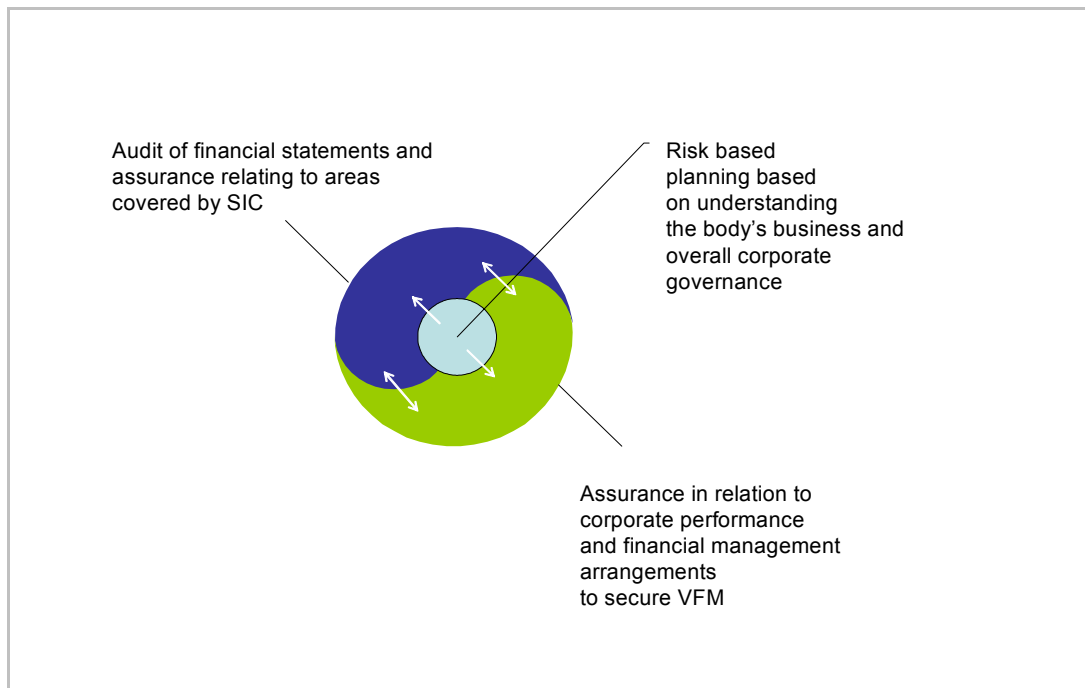
Appendix 1 – Audit responsibilities and approach

Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - reliance on internal audit;
 - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.

Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
 - corporate performance management; and
 - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.
- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, we considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
 - the Authority's whole system of internal control as reported in its statement on internal control;

- results from statutory inspections or the work of other regulators, for example, corporate assessments and service assessments (whether by the Commission or other regulators);
- work specified by the Audit Commission, for example, the use of resources assessments and data quality work;
- links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
- other work necessary to discharge our responsibilities.

Appendix 2 – Audit reports issued

Table 4

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and Inspection Plan 2005/06	April 2005	April 2005	Audit Committee
Use of resources assessments 2005	November 2005	November 2005	Management
Statutory Report on the 2005/06 BVPP	December 2005	December 2005	The Authority
Human Resources follow-up review	August 2006	September 2006	Management
Performance Management follow-up review*	August 2006	August 2006	Management
Project Management follow-up review*	September 2006	September 2006	Management
Annual governance report	September 2006	September 2006	Audit Committee
Opinion on financial statements	September 2006	September 2006	The Authority
Value for money conclusion	September 2006	September 2006	The Authority
Partnership Review*	September 2006		Management
Final accounts memorandum	November 2006		Management
Relationship Management Letter	February 2007		The Authority

* date draft report issued

Appendix 3 – Fee information

Table 5

Fee estimate	Plan 2005/06	Actual 2005/06
Accounts*	£205,000	£215,000
Use of resources	£137,000	£137,000
Total audit fees**	£342,000	£352,000
Voluntary improvement work	£0	£0

* An additional fee of £10,000 had to be raised for further audit work required in documenting material systems that had not been covered by internal audit.

** The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter.

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1** We are required by the standard to communicate the following matters to the Audit Committee:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

Appendix 5 – Independent auditor’s report to the Members of London Borough of Havering

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of the London Borough of Havering for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to the London Borough of Havering in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Group Director Finance and Commercial and auditor

The Group Director Finance and Commercial's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003’ published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and

- the pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Jon Hayes
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London, SW1P 4HQ

29 September 2006

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, the London Borough Havering made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2005/06 on 20 December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London, SW1P 4HQ

29 September 2006

Appendix 6 – Letter of representation

To: Jon Hayes, District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London, SW1P 4HQ

London Borough of Havering - Audit for the year ended 31 March 2006

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of the London Borough of Havering (the Authority), the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2006.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which are presented fairly and for making accurate representations to you.

Annual Governance Report

I acknowledge the issues set out in the Annual Governance Report presented to the Audit Committee on 13 September 2006.

Supporting records

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority and related information, including minutes of all Board meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and,
- no financial guarantees have been given to third parties.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error. There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Board, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of the London Borough of Havering:

Signed

Name

Position Chair Audit Committee Chief Executive Group Director Finance & Commercial

Date

Appendix 7 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Ensure there are robust handover arrangements for changes in the staff responsible for preparing the Accounts.	2				
12	R2 Document formally the Authority's data quality policy and processes and ensure that this is proportionately applied to all performance information.	2				
13	R3 Ensure that arrangements are in place for monitoring internal audit's compliance with professional standards and the delivery of the internal audit annual plan.	2				