

AUDIT COMMITTEE

AGENDA

7.30pm	Thursday, 29 June 2006	Havering Town Hall Main Road, Romford
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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

**For information about the meeting please contact:
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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 4 April 2006 and to authorise the Chairman to sign them.

5 ANNUAL STATEMENT OF ACCOUNTS 2005/2006 – Report to follow.**6 STATEMENT ON INTERNAL CONTROL 2005/2006****7 ANNUAL HEAD OF INTERNAL AUDIT REPORT 2005/2006****8 EXTERNAL AUDIT - AUDIT AND INSPECTION PLAN 2006/2007****9 INTERNAL AUDIT REPORT****10 CLIENT MANAGER INTERNAL AUDIT REPORT****11 AUDIT COMMITTEE WORK PLAN INCLUDING TRAINING PROGRAMME**

Audit Committee, 29 June 2006

12 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
4 April 2006 (7.30pm – 9.00pm)**

Present:

Conservative Group	Councillors Graham Price (in the Chair), Eddie Cahill and Roger Ramsey
Residents' Group	Councillors Gillian Ford and Malvin Brown
Labour Group	Councillor Wilf Mills

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.

45. MINUTES

The minutes of the meeting held 9 February 2006 were agreed as a correct record and signed by the Chairman.

Arising from the minutes Officers advised the Committee that they were awaiting a response from the Department for Environment, Food and Rural Affairs (Defra) to know if the Council would be exempted from the climate change levy.

Secondly, with regards to the fraud hotline, following investigations of other boroughs it was noted that a low response to the fraud hotline was common and that most calls related to housing benefit concerns, this it was noted was what was happening in Havering.

The Group Director, Public Realm agreed to send a copy of the briefing note relating to Licensing issues to Councillor Malvin Brown.

As this was the last meeting before the local elections, the Chairman expressed his appreciation to Councillor Wilf Mills who was retiring as a Councillor and to Officers for their invaluable advice and support over the years.

46. AUDIT COMMISSION PROGRESS REPORT APRIL 2006

A report updating the Committee on work completed by the Audit Commission since the last meeting of the Committee and of work to be completed during the rest of the financial year was presented.

It was noted that the 2004/2005 financial statements had been finalised and that the Financial Statements for 2005/2006 was currently on target.

The external auditors commented that the audit of the accounts had been completed and an unqualified opinion was issued in October 2005. Furthermore, that working papers submitted were of a better standard than in previous years and answers to audit queries were provided on a timely basis.

They further remarked that improvements could still be made in a number of areas, especially in undertaking analytical reviews and ensuring compliance with new accounting requirements.

Members commented that a number of deadlines for the audit of the 2005/2006 accounts seemed to be close together and sought reassurance from Officers that this would not have an adverse effect on the signing off of accounts on 30 June. Officers confirmed that processes, procedures and resources were in place to handle the situation, particularly as it was very close to 4 May local elections.

Officers advised the Committee that it had been agreed at Council that as much as possible there would be continuity in membership of the Committee once its membership was established after the election. An immediate training regime would commence once the Membership of the Committee was known.

In relation to the above, the external auditors offered their assistance to further enable a smooth transition period.

In seeking further clarity from the report, Members wanted to know why a reduction in the insurance reserve was deemed a low priority. The external auditor responded that it had not been deemed a material problem by the Audit Commission, hence was be classed as a low priority. The Group Director also explained that regular reviews took place.

Members further sought responses on why a number of target completion dates had not been decided. Again, the external auditor commented that a number of the key areas of the audit plan had been scheduled to fit in with the Council's Corporate Assessment, hence the target completion dates being left off.

In response to a question, the external auditors confirmed that in situations where Officers were not receptive of their recommendations, resolutions were reached through mutual agreement and this was a legitimate part of the process. Furthermore that the Audit Commission was obliged to point out and make recommendations. However, the Council was within its right to accept or reject the recommendations. In situations where the recommendations were deemed to be material, further discussion would take place.

Members **noted** the report.

47. AUDIT COMMISSION GRANTS REPORT MARCH 2006

A report covering the audit of grant claims for the financial year 2004/05 was presented to the Committee by the external auditors.

The external auditors confirmed that as set out in their report, that the Council had slightly improved their timeliness of submission of claims when compared with the previous year.

In response to a question, it was confirmed that no grant funds had been withheld so far.

With regards to issues raised relating to Housing Services, the Head of Housing suggested that acceptance of the recommendations were optional, as they were for guidance purposes and should therefore not be imposed on them by the Audit Commission.

The external auditor responded that they were working to ODPM guidelines, hence they could not offer any further comments or advice regarding the above mentioned issue.

Following further discussion, it was suggested that the Group Director for Finance and Commercial would raise the issue mentioned above with the appropriate and relevant Professional and Corporate bodies.

Members **noted** the report.

48. AUDIT COMMISSION AUDIT AND INSPECTION ANNUAL LETTER 2005

The Audit and Inspection Annual Letter incorporating the Annual Audit Letter for 2004/2005 was presented to the Committee.

It was noted that the overall corporate governance arrangements were satisfactory and there was a strong risk management culture in the Council. Also, that the system of internal control was considered generally sound. Furthermore that the Council had been assessed as a

one-star council that was improving well under the new CPA framework.

In response to a question, it was explained that the Childrens' Services overspend had been addressed in the budget and that the issue of having an overspend was not peculiar to Havering but a concern nationally.

Members **noted** the report.

49. REPORT OF GRANT CLAIMS AND RETURNS 2004/2005

A report updating the Committee of the position regarding the final version of the 2004/2005 audit report of grant claims and returns and the subsequent Action Plan for the 2005/2006 grants process was presented.

Members **noted** the areas of improvement and that it would be brought back to the Committee on a yearly basis.

50. AUDIT AND INSPECTION ANNUAL LETTER 2004 – ACTION PLAN

An Action Plan responding to the recommendations agreed at the 26 April 2005 meeting when the 2003/2004 Audit and Inspection Letter was considered, was presented to the Committee.

Members **agreed** the Action Plan arising from the 2004/2005 Audit and Inspection Annual Letter.

51. AUDIT AND INSPECTION ANNUAL LETTER 2005 – ACTION PLAN

The 2004/2005 Audit and Inspection Annual Letter was presented to the Committee for information purposes.

It was noted that the Annual letter had been considered by Cabinet at their 15 February 2006 meeting and that it would further be considered by the Corporate Overview and Scrutiny Committee at their 13 April 2006 meeting.

Members **agreed** the Action Plan arising from the 2004/2005 Audit and Inspection Annual Letter and the action needed to be taken by Members.

52. BVPP/BVPI 2004/2005 PERFORMANCE INDICATORS

The Best Value Performance Plan (BVPP) and the Best Value Performance Indicators (BVPI) 2004/2005 was presented to the Committee.

As background information, the Committee were reminded that Best Value Legislation placed the Council under a duty to seek continuous improvement in the way in which it exercised its functions. It was noted that the statutory performance indicators had to be published annually and an assessment be done on whether the Council was meeting its duty of continuous improvement.

Members **noted** the report and the work done to ensure compliance of the indicators.

53. INTERNAL AUDIT PROGRESS REPORT 1 JANUARY 2006 – 28 FEBRUARY 2006

A report advising the Committee of audit issues from internal audit activities was presented.

Members noted the progress made and areas which needed further improvement.

It was noted that there were now systems in place in most of the areas identified as needing further improvement and that it would be continually reviewed.

The Cabinet Member for Resources advised that in respect of Service Agreements and Contracts, the Head of Adult Social Services was meeting regularly with the Cabinet Member for Adult Social Services and himself, and that the issue regarding Financial Assessments was constantly reviewed. Members of the Committee noted that the Audit Review had highlighted weaknesses in records being kept as they appeared not to be adequately maintained.

Following discussion, Members of the Committee **agreed** to have a session with the Head of Adult Social Services outside the meeting to discuss the issue further and see if the resolution reached by the Service was adequate.

The Committee also agreed to receive further progress report on improving the procedures for appointing consultants.

54. CLIENT AUDIT MANAGERS REPORT 1 JANUARY 2006 – 28 FEBRUARY 2006

A report containing information on;

- Implementation of Audit Commission's recommendations
- Implementation of Internal Audit recommendations
- Internal Audit Key Performance Indicators
- Comparative analysis of Internal Audit plan
- Statement of Internal Control Action plan
- Budget Analysis
- Benefits Investigation
- Forward plan

was presented to the Committee.

Members noted that a number of the outstanding recommendations at the previous meeting had now been completed and that those that had not reached this stage were in progress.

Officers advised the Committee that there was now a new initiative in place which enhanced the review process. Recommendations and outstanding reports were advised to the Strategic Management Team each month. This ensured continual focus.

Members **noted** the report.

55. ANNUAL REPORT ON THE WORK OF THE AUDIT COMMITTEE

A report seeking the Committee's approval to circulate a report on the work and the related outcomes of the Audit Committee over the last year to all Council Members was presented.

It was noted that this was deemed good practice.

Members **agreed** that the annual report it be circulated to all council members.

56. WHISTLEBLOWING REPORT

A report updating Members on the revised confidential reporting policy which had been reviewed and renamed the Whistleblowing/Confidential reporting policy was presented.

Officers commented that there were other avenues to report issues and that often it was often a last resort policy, hence its infrequent use. However, the policy had now been reviewed and both staff and the Community made aware of it and how it could be used.

Members **noted** the policy.



MEETING	DATE	ITEM
AUDIT COMMITTEE	29 JUNE 2006	6

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: STATEMENT ON INTERNAL CONTROL 2005/6

SUMMARY

The Statement on Internal Control (SIC), for 2005/6 is attached as Appendix 1.

RECOMMENDATIONS

To consider whether the Statement is complete having regard to the work of the Audit Committee during the year

To approve the contents of the Statement

To amend or add to the 2005/6 Statement resulting from the members review of the:-

- Statement on Internal Control
- Financial Statements (of which the SIC is an integral part)
- Annual Head of Internal Audit Report
- Any matters Members believe are control weaknesses resulting from the self-assessment questions that Members should ask themselves." (Training delivered on 22.06.06, on the Good Governance Standard for Public Services)

REPORT DETAIL

1. The Accounts and Audit Regulations 2003 require the Council to review at least annually the effectiveness of its system of internal control and to include a statement on internal control with its statement of accounts. This duty has been delegated to this committee.

2. The document sets out the control environment, the effectiveness of the control environment and details any significant control issues.

The Chartered Institute of Public Finance and Accountancy has produced guidance on how the statement should be prepared and its contents. The Council has prepared the statement in accordance with this guidance. This has amongst other things included reviewing each Service and Directorate Statement of Internal Control; completing the Corporate Governance Gap Analysis reviewed by Governance Committee and the Internal Audit Annual Report; agenda item 7.

The Committee has throughout the year been reviewing various aspects of the Council's internal financial controls. In considering the Statement proposed it should be mindful of the contents of the reports received during the year and the briefings provided on the purpose of such documents.

Financial Implications and risks:

The SIC sets out issues which impact on the Council's internal control environment. A number of actions may arise from the SIC. Managers are obligated to consider financial risks and costs associated with action plans, to ensure they are met from the existing budget. There are no financial implications or risks arising directly from this report.

Legal Implications and risks:

The consideration by the committee of the effectiveness of the system of control and the approval of the statement fulfil the Council's statutory obligations.

Human Resources Implications and risks:

None arising from this report.

Equalities and Social Inclusion implications:

None arising from this report.

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STEPHEN EVANS
Chief Executive

Background Papers List

The Statement on Internal Control “A Rough Guide for Practitioners” (CIPFA Financial Advisory Panel publication).

The Statement On Internal Control In Local Government “Meeting the requirements of the Accounts and Audit Regulations 2003”. (CIPFA publication).

Corporate Governance in Local Government “A keystone for Community Governance. (CIPFA, SOLACE publication).

The Good Governance Standard for Public Services (OPM & CIPFA)

Governing Partnerships – Audit Commission

Annual Head of Audit Report 2005/6 (Audit Services Manager)

Hallmarks for Delivering Effective Local Public Services (CIPFA)

Improving Corporate Governance, Audit & Risk Management (SLACIAG)

Scope of Responsibility

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Havering is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the London Borough of Havering's functions and includes arrangements for the management of risk.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at the Council for the year ended 31st March 2006 and up to the date of approval of the annual accounts.

The Internal Control Environment

Establishing and monitoring the achievement of the authority's objectives.

The Corporate Plan 2006 - 2009 sets out the Council's three corporate priorities that support the Community Strategy (the long term strategy for improving the quality of life in Havering) and reflect the Council's role as community leader. These objectives are the result of a wide-ranging consultation programme over many years and reflect the concerns and aspiration of residents, businesses and community groups. A hierarchy of more detailed objectives link statutory plans and other Council plans. Priorities for improvements are pursued on a three year rolling programme and include reviews and actions to progress the corporate objectives, and any outstanding actions from previous reviews. Progress in implementing improvement plans and outcomes achieved are also included within the Council's Corporate Plan.

Policy and decision-making

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The full Council of fifty four elected members determines the budget and policy framework. The Executive, responsible for most member-level decisions, comprises the Leader and Cabinet Members who oversee specific areas of Council business. Prior notice of matters for Executive decisions is published within the Forward Plan. Matters outside of the budget and policy framework are referred to the full Council for decision. Service Overview and Scrutiny Committees assist in policy development and consider Executive decisions.

Some regulatory functions remain the responsibility of the Council rather than the Executive and most of these are delegated to a small number of regulatory committees. All meetings are open to the public but a small number of confidential matters are considered in private. All committee reports are subject to independent officer scrutiny, to ensure that the implications and risks are set out for informed decision making. Council officers provide appropriate advice at the points of consideration and decision, and report to members on progress and the outcome of decisions taken.

Compliance with established policies, procedures, laws and regulations

The Council's rules of procedure are designed to ensure that it acts lawfully and to ensure compliance with its policies and procedures. These rules include budget framework procedure rules, contract procedure rules, financial procedure rules and rules for legal proceedings, and they are underpinned by Codes of Conduct for members and staff respectively and by the Council's Code of Corporate Governance. There are various manager's handbooks providing more detailed guidance and other detailed corporate instructions for staff. Chief Officers (Strategic Management Team and Heads of Service) also maintain detailed procedure notes for specific services and systems within their own services.

The Council's policies and procedures have been implemented via levels of management with appropriate briefings and guidance provided as necessary. Communication and compliance has been enhanced through a number of facilities including the availability of courses and manuals, induction, training and the Council's intranet site. Services are delivered by trained and experienced staff. All posts have a detailed job description and person specification. Training needs are identified through the Personal Development and Appraisal Scheme and addressed by managers and the Organisational Development Team.

The Council has designated the Assistant Chief Executive, Legal and Democratic Services as Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service/Chief Executive and each other, either the Chief Finance Officer or the Monitoring Officer will report to the full Council if she considers any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report would have the effect of stopping the proposal or decision being implemented until the report has been considered.

The Monitoring Officer also has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Constitution is also regularly scrutinised and updated by the Monitoring Officer.

Chief Officers are responsible for risk management within their directorates and services, with advice and instructions from the Council's Risk Manager and the Corporate Risk Management Group. The Council's Risk Management Strategy sets out the approach and risk registers exist at both Corporate and Service level to identify the principal risks to the achievement of the Council's objectives. These registers set out the actions being taken to mitigate and control the risks and are formally reviewed every six months by the Council's Risk Manager. Chief Officers annually certify their own Statement of Internal Control. Risk awareness is continually developed through everyday practices and project management. Each Directorate is represented on the Corporate Risk Management Group and representatives ensure appropriate risk awareness by staff whilst Internal Audit helps embed risk management by cyclical audits and other risk management initiatives.

Economical, effective and efficient use of resources, and securing continuous improvement

Value for money, stabilisation of council tax levels, the provision of quality services and continuous improvement are cornerstones of the Council's culture and approach. Service and financial plans flow from the Council's corporate priorities and are aligned via annual service plans and annual budget plans prepared throughout the Council. Annual key issues and other improvement priorities and individual performance targets, all contribute to continuous improvement. Services are subject to budget reviews and to regular quality and performance reviews and are also subjected to a range of optional external quality accreditations, in addition to statutory inspections.

Financial management

The system of internal financial control is based on a coherent accounting and budget framework including financial procedure rules, a system of delegation and accountability, segregation of duties, management supervision, administrative procedures and regular management information. In particular, the system includes:-

- scrutiny committees;
- comprehensive corporate accounts and corporate budgeting systems;
- budget strategies and an annual budget approved by the Council;
- medium-term financial plans;
- targets set to measure financial and other performance;
- formal project management disciplines, as appropriate;
- all accounting codes and legal requirements;
- the preparation of regular financial reports which indicate actual expenditure against the forecasts;
- clearly-defined capital expenditure guidelines;
- delivery of efficiency savings;
- treasury controls via the key recommendations in CIPFA's Treasury Management Code of Practice and the Prudential Code;
- Internal Audit.

Performance management

Departmental and corporate performance systems integrate into a well-developed performance regime that underpins the Council's priorities. Key objectives, targets

for statutory indicators and other areas for improvement are approved following detailed business planning across Council services. These tasks and targets are assigned to individual Chief Officers, cascaded down through the management chain and published within the annual Corporate Development Plan and Best Value Performance Plan both of which include relevant prior-year data.

Monthly monitoring systems operate within services. The Chief Executive reports regularly to all Members on progress against policy items, key issue and performance indicators and the Executive meet to review this performance with the Strategic Management Team. Performance Management has been strengthened by services being subject to review by a Commissioner Board, consisting of the Cabinet and other Group Leaders and the annual planning process includes a review via Star Chambers. Overview and Scrutiny Committees regularly consider performance issues.

Review of effectiveness

The Council has responsibility for conducting at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of internal control, is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment and also by comments made by the external auditors and other review agencies and inspectorates.

Internal Audit operates to the mandatory standards of internal audit practice established by the Code of Practice for Internal Audit in Local Government in the UK, published by the Chartered Institute for Public Finance and Accountancy in 2003. They also assist External Audit by reviewing material systems in accordance with the International Standards of Auditing, effective from 1st April 2005. Audit work is based on an analysis of risks to which the Council is or may be exposed and its plans are endorsed by the Chief Finance Officer and by the Audit Committee.

The primary objective of internal audit is to assist management to ensure that internal controls and financial systems are secure and thereby reduce the likelihood of fraud or abuse. Reports are issued to management following the completion of audits and an agreed process is followed to ensure that all recommendations are implemented.

All significant issues are reported to the Council's Chief Officers and the Audit Commission (the Council's external auditors). The Council's Audit Committee receives reports directly from the Client Manager Internal Audit and the Audit Services Manager, so that the members are aware of key control issues and can obtain assurances from executive officers (when necessary), that appropriate actions have been applied.

The Audit Commission (the Council's external auditor) carry out their own review of the Council's finances and related controls and make recommendations where appropriate. The external auditors also review the work of internal audit with particular regard to audit planning, management, effectiveness and independence in reporting. Whilst the Audit Commission are currently auditing the Council's accounts for 2005/6, worthwhile assurance can be gained from the unqualified opinion issued as a result of the previous years audit.

The Council is also subject to various Inspection regimes:

- OFSTED undertake inspections and report upon the performance of schools on a cyclical basis. It also inspects and reports upon the organisation and management of Local Education Authorities.
- BFI is an Inspectorate of the Department of Work and Pensions. It inspects and reports upon Social Security Benefit administration and counter-fraud activity in a local authority.
- CSCI inspects Social Services provision and the organisation and management of service provided by the local authority.
- CPA is a corporate assessment of services provided by a local authority that results in a ranking and opinion of the authority. The Audit Commission undertakes this.

Issues arising from these inspection agencies are reported to the appropriate scrutiny committees for review and follow-up.

The review conducted has also taken account of the other methods employed by the London Borough of Havering in providing corporate and service-based assurance on the overall system of internal control in operation. The other information utilised includes:

- Local Management Information Systems
- Overview and Scrutiny arrangements
- Best Value Performance Plan
- Performance Indicator Information
- Residents/Staff survey
- Analysis of awards/accreditations
- Self assessments against various frameworks
- Corporate accreditation of Investors In People
- Chief Officer individual SIC returns.

Significant Internal Control Issues

The Council's annual review of the effectiveness of the system of internal control has identified some areas where action is appropriate to enhance the internal control environment and ensure continuous improvement. These areas are already included within existing corporate or departmental plans and work is currently underway on each of the action points:

No	Significant Issue and action already taken if identified in the previous years Statement on Internal Control	Action
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1	<p>Continue to improve the recovery of debt</p> <ul style="list-style-type: none"> • Debt management policy in place • Corporate contracts being put in place for Bailiff arrangements • Regular review of all arrears • Targets set for all key areas 	<ul style="list-style-type: none"> • Continue to focus on reducing arrears and recovering debt promptly. • Continue regular monitoring of debt and reporting against targets and standards • Reduce arrears • Undertake review of debt recoveries and associated cost of recovery actions
2	<p>Succession and service continuity plans</p> <ul style="list-style-type: none"> • Service business continuity plans are in place throughout the calendar year. • Documented procedures commenced. 	<ul style="list-style-type: none"> • Continue to work on ensuring up to date documented procedures are in place. • Review continuity plans • Implement a workforce strategy.
3	<p>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"> • Development of a consultation strategy. 	<ul style="list-style-type: none"> • Implement the consultation strategy developed by Communications. • Ensure that the consultation strategy contains effective monitoring and reviewing procedures.
4	<p>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"> • Regular reviews take place at service level. 	<ul style="list-style-type: none"> • Implement a single complaints system for the whole Council.
5	<p>There is a need to address the underlying difficulties within the Adult Social Services budget.</p> <ul style="list-style-type: none"> • Regular reviews • Specialist income team set up • Revised monitoring system at service level 	<ul style="list-style-type: none"> • Actions have eradicated some weaknesses, but underlying problems with income systems remain.

6	<p>There is a need to address the underlying difficulties in balancing the Children's Social Services budget.</p> <ul style="list-style-type: none"> • Regular reviews • Revised monitoring system at service level • Invest to save initiatives being implemented 	<ul style="list-style-type: none"> • Continue with special monitoring. • Progress actions identified to reduce overspends. • Assess the position for 2007/08 budget process.
7	<p>Disaster recovery and business continuity plans.</p> <ul style="list-style-type: none"> • Strategy and resources for full disaster recovery in place 	<ul style="list-style-type: none"> • Prepare an overall Council continuity plan • Deliver a full disaster recovery solution • Ensure all business critical activities have up to date procedures • Work on documenting key feeder systems to Statement of Accounts will support continuity planning
8	<p>Important partnerships and their activities are mapped and being defined and scrutinised to ensure that their corporate governance, accountability and risk management arrangements are adequately controlled, monitored and reviewed.</p>	<ul style="list-style-type: none"> • An internal audit 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 arrangements. • 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 key risks associated with partnerships.
9	<p>There have been some financial control weaknesses in Leisure projects/activities which are the subject of formal reports. Action has been taken to prevent a re-occurrence.</p>	<ul style="list-style-type: none"> • Review by relevant Overview and Scrutiny or Audit Committee • Independent review to ensure remedial action is effective

10	There has been an issue in respect of premises licensed for marriage, due to an oversight in licensing arrangements. Significant action has taken place including discussions with the Registrar General and Counsel, and a test court case.	<ul style="list-style-type: none">• Continue to co-operate and take action to provide additional reassurance about the validity of marriages.
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In addition the 2004/05 Statement on Internal Control identified the need to:-

- report on the control weaknesses identified last year (see above significant issues, items 1 – 7).
- improve performance on specific grant returns – this issue has been addressed and arrangements are embedded into our working practices.
- improve the internal procedures for updating the Financial Framework – this is no longer considered to be a significant control issue due to measures which have been implemented.

Conclusion

We are satisfied that the Council's internal control framework has been effective throughout 2005/6 and up to the date of this statement. We are also satisfied that there are suitable plans to address areas where action is appropriate to ensure continuous improvement.

Rita Greenwood
Group Director
Finance and
Commercial
June 2006

Stephen Evans
Chief Executive
June 2006

Councillor Michael
White
Leader of the Council
June 2006



MEETING	DATE	ITEM
AUDIT COMMITTEE	29 JUNE 2006	7

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: 2005/6 INTERNAL AUDIT ANNUAL REPORT

SUMMARY

The Internal Audit Annual Report for 2005/6, prepared by the Audit Services Manager, is attached as Appendix A.

RECOMMENDATIONS

To consider the contents of the Internal Audit Annual Report.

REPORT DETAIL

1. The Internal Audit Annual Report for 2005/6, prepared by the Audit Services Manager, is attached as Appendix A.
2. The report contains the “overall assurance opinion” , a summary of the audit work during 2005/6, details of the qualified opinions together with information on the fraud and pro-active audits undertaken during the year.
3. The opinion of the Audit Service will be taken into account in the Statement on Internal Control to be included in the “Statement of Accounts 2005/06”. The Audit Committee have been advised of the background to all qualified opinions and of the actions being taken to deal with issues raised by the auditors.

Financial Implications and risks:

This report summarises the work of the Internal Audit service over the 12 months ending March 2006. Managers are consulted on audit work and have the opportunity of commenting on it before any reports are finalised. The work of the service is reflected in the Statement of Internal Control. There are no financial implications or risks arising directly from this report.

Legal Implications and risks:

None arising directly from this report.

Human Resources 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 List

Internal Audit Reports
Internal Audit Database

**Havering Audit
 Services**

INTERNAL AUDIT REPORT

ANNUAL AUDIT REPORT

2005/06

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Date: 14th June 2006

INTERNAL AUDIT ANNUAL REPORT 2005/06

1. PURPOSE

To provide members and senior managers with a formal opinion as to the adequacy and effectiveness of the Council's internal control environment and to report on the performance of the Audit Service during the year.

2. BACKGROUND

The Accounts and Audit Regulations 2003 (amended 2006) require the Council to review, at least once a year, the effectiveness of its systems of internal control and for the Chief Executive to personally state the adequacy or otherwise of these systems. The Council is required to provide a formal statement on the system of internal financial control in its annual Statement of Accounts for 2005/06.

The Group Director of Finance & Commercial relies on the work and findings of Internal Audit to provide assurance as to the adequacy of the systems currently in place. The report and opinion set out below therefore form an important part of the Council's review of its systems of internal control. This together with assurances provided by management, the external auditors, other review agencies and inspectorates enables the Council to fulfill the requirements to prepare a statement on the system of internal control for 2005/06.

3. ANNUAL REPORT AND OPINION

3.1 Introduction

3.1.1 The role of the Internal Audit Service

Internal Audit's role is to fulfil the Authority's responsibilities under the Accounts & Audit Regulations 2003 (amended 2006) of "maintaining an adequate and effective system of internal audit...."

CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom defines what the role of Internal Audit should be and what should be contained within the Head of Internal Audit's formal annual report. Details of these are set out in Appendix A.

3.1.2 Internal audit performance

At the beginning of the financial year ppsAcit were contracted to provide the internal audit service as part of a contract for audit services commencing in 2002 . They supplied the following resources:

- A Director of the company to monitor and control the work of their staff in the provision of the contract and represent the company at all meetings e.g. Audit Committee, Quarterly Senior management meetings. etc
- Deputy Contract Manager responsible for the day to day administration of the contract.

Audit Committee, 29 June 2006

- 5 Audit staff to carry out system based audits (Their main responsibility was in respect of work on the Havering contract but they also worked at other authorities).
- 1 member of staff to carry out contract audits (again mainly Havering work but also worked at other authorities).
- Computer Audit team to carry out reviews at both Havering and other authorities
- 2 Members of staff dedicated to carrying out fraud investigation and pro-active audit work at Havering.

Due to the fact that ppsAcit went into administration in October 2005 the decision was made to terminate the contract and to bring the work back “in-house”, and the following staff were “TUPE” transferred back to the Authority:

- Deputy Contract Manager
- 2 members of staff dedicated to carrying out fraud investigation and pro-active audit work
- 1 member of staff who previously carried out contract audit work
- 1 member of staff who previously carried out systems audit work.

The Service structure now sees the in-house Internal Audit Service reporting on a line management basis to the Head of Financial Services

In addition to the above staff the new structure of the unit also includes a vacant audit post. This post is currently being covered by Agency staff until the long term future of the service is decided.

The computer audit work was contracted out to Deloitte in January 2006 and has proved to be very successful with the work being carried out to very short timescales.

This change has had a significant effect on the working of the section in the subsequent short –term as staff were unsure of their positions relating to contracts or job specifications. Previous staff had left audits incomplete which meant that additional resources were required to determine what work was in progress and what remained outstanding. All contractual issues have however been resolved and the audit plan for 2005/06 has been completed to at least draft stage.

Resources which ppsAcit should have put to the contract during the mid part of the year had been used elsewhere which has had a significant knock on effect for the staff left to carry out the audits during the latter part of the year.

The Authority has a far higher commitment to training than the private company and staff have input to management issues such as team briefings, network discussion groups and quarterly staff briefings. This has also affected the completion of the audit plan but ensures a far more motivated and trained workforce. The Authority is strongly committed to training and any future outsourcing of the service would have to recognise this.

3.1.3 Statement on Internal Control

Each year the authority is required to produce a Statement on Internal Control showing how effective its control environment framework has been during the year.

The work of Internal Audit is used for this process as each of the system reviews provided opinions on the efficacy of internal controls and the fraud work identified systems weaknesses that contributed to frauds taking place.

As shown elsewhere in this report, of the 91 reports that gave opinions on the adequacy of the control environment, 14 were qualified.

Whilst the majority of the qualifications were not felt to be serious enough that they would impact upon the Statement of Internal Control it is felt that the following issues should be addressed within the SIC :

The lack of effective disaster recovery procedures which are being actioned by the authority. (This issue was identified in both the computer audit reports and the external auditor's reports.)

Due to an oversight into the licensing arrangements there was a problem in respect of premises licensed for marriage which has resulted in the Council having to take action to validate marriages (See section 4.3.4 below)

There are issues of concern regarding the financial control on refurbishment works at the Hornchurch Sports Centre (See Section 4.3.10) below.

The service started work on documenting and flowcharting 18 core systems that feed material levels of transactions into the Financial Statements. When this work is completed it will assist in identifying the key controls that are in place, both automatic and manual, which will assist in identifying and addressing any areas of weakness within the internal control environment.

3.1.4 Future of the service

The present structure of the service is only temporary as it had to be based on the staff being "TUPE" transferred under their existing terms and conditions.

The future of the service will need to be considered during this financial year and the following options will need to be considered:

1. Retain the service in-house with a Contractor / Client Manager split purchasing specialised services such as computer audit from an external supplier.
2. Retain the service in-house but review its structure to determine if there should be one unit with a Head of Internal Audit Services. Again specialised services would be purchased from an external supplier as and when required.
3. Retain the Client Manager / Contractor split but outsource the service to one contractor.
4. As in 3 above but try to establish a consortium of local authorities who would purchase services from one contractor.
5. As in 3 above but "piggy back" on an existing contractor arrangement.
6. Transfer the fraud investigation and pro-active work to the team dealing with Housing Benefit investigations and consider the above options but with a smaller audit service.

The Council's external auditors state in their "Audit & Inspection Plan 2006/07" that they feel that there may be a risk to the authority due to the uncertainties regarding the arrangements for the provision of internal auditing during 2006/07. Any decisions as to the future of the service will obviously take account of any recommendations being made by the external auditor.

3.2 The Statement of Assurance

3.2.1 Introduction

As stated above the internal audit service is required to provide the Chief Financial Officer with assurance on the overall adequacy and effectiveness of the Council's internal control environment. In giving this opinion it should be noted that assurance can never be absolute. The most that the internal audit service is able to provide is a reasonable assurance that there are no major weaknesses in the whole system of financial internal control. In assessing the level of assurance to be given the following have been taken into account.

- a) all audits undertaken during 2005/06.
- b) the results of follow-up action taken in respect of audits from previous years.
- c) whether any fundamental or significant recommendations have not been accepted or implemented by management and the consequent risk.
- d) the effects of any material changes in the Council's objectives or systems.
- e) matters arising from previous reports to the Council.
- f) whether or not any limitations have been placed on the scope of internal audit.
- g) whether or not there have been any resource constraints that may impinge on internal audit's ability to meet the full needs of the Council.

The matters raised in this report are only those which came to attention during the internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of the Council and its senior management.

3.2.2 Operational assurance

Audit examined systems operating to achieve objectives set by management and agreed as part of the annual audit plan. There were no major weaknesses found.

3.2.3 Overall assurance opinion

Based on the audit work set out below it is felt that it is possible to give a good degree of assurance that there are adequate levels of internal control within the authority. Whilst some weaknesses identified, both by internal and external audit, relating to the fact that there was not a disaster recovery plan or documentation of procedure notes for business critical systems the authority is already taking action to address this.

At the time of producing this report 88 of the 95 audits had been completed to final stage and these made 201 recommendations. Of these there were the following themes where recommendations of similar nature were made more than 5 times:

Procedure manuals not produced	25 instances
Procedures manuals not up to date	9 instances
Issuing reminders to staff re complying with procedures	12 instances

Internal audit did not review the risks attached to partnerships during this financial year but it is programmed to be covered as part of the 2006/07 audit plan , with a scheduled commencement date of August. The planned review will cover the activities of important partnerships and it will also report on the links between corporate and partnership activities. The results of this review will be issued to those charged with governance and involved in the preparation of the Statement on Internal Control.

3.2.4 Work that supports the opinion

Of the 95 audits which were undertaken during the year all had been completed to the draft stage by the first week of May 2006 and as stated above at the time of preparing this report 88 have been completed to final stage. It is anticipated that the remainder will be completed by the end of June 2006.

Only 91 were giving an opinion on the effectiveness of the internal control environment. The remaining reports were addressing specific issues and did not require an opinion statement.

Of these (85%) will receive unqualified reports and the remaining 14 (15%) will be qualified, as weaknesses within the internal control systems have been identified. In the previous year 22% of the reports were qualified.

It is however of concern that the majority of qualified audits are within the reviews of contract and computer audits as the table below shows

	Systems	Contract	Computer	Pro-active	Follow Ups
Number of audits	34	10	11	11	25
Number qualified	7	4	3	0	0
%age	21	40	27	0	0

Appendix B has shown the reasons why reports were qualified. Management continue to have robust procedures in place to ensure that recommendations are regularly “tracked” both within the Heads of Service reports and by Project Board. If action has not been taken by the implementation dates agreed at the time of the audit then the Audit Committee are informed and Senior Managers are required to provide explanations as to why they have not been implemented.

Details of the individual audit reports have been presented to the Audit Committee throughout the year which have included the opinion statements.

Internal Audit are of the opinion that the Authority has been taking active steps during the year to improve its overall internal control procedures and the following are examples of the actions taken:

- Progress continues to be made to regularly review and report on audit recommendations that have not been implemented.
- The Council's anti fraud strategy and Corruption and Confidential Reporting policy continues to be a high level management issue with six monthly campaigns.
- Risk management continues to be a high priority for the Authority with a Risk Management Group established which meets at regular intervals.
- A Whistleblower policy has been introduced.
- Financial training has been given to non finance managers to ensure that they are aware of what the internal control processes should be and the part that they play in ensuring their efficacy.
- Staff have been employed to document and flow chart core systems which should highlight any possible weaknesses in the control environment.

3.2.5 Risk Management

The Council has an effective risk management strategy in place. There is a Corporate Risk Management Group which meets at regular intervals to discuss and consider all matters relating to risk which may affect the Council.

The responsibility for the completion and review of risk registers lies with the Chief Officer for each Directorate and in addition to individual service registers there is a corporate risk register. Chief Officers are also responsible for all aspects of risk management within the areas under their control.

In addition to the above the Council has a Risk Manager who assists in the control of risks and undertakes six monthly reviews of all of the Risk registers to ensure that the principal risks affecting each service have been identified and adequate action taken to mitigate and control these.

All internal audit work is undertaken based on the risks that will affect the service area being reviewed and the strategic and annual audit plans are influenced and driven by the risk registers.

It is considered that the procedures in place are well documented and there is an effective risk management system in place.

The Authority is taking active steps to address the risks relating to any partnership or contractual arrangements that it enters into with other organisations.

They are also including risk assessments within the budget process and when assessing savings that might accrue from various activities.

4. SUMMARY OF INTERNAL AUDIT WORK DURING THE YEAR

4.1 Management Summary

As stated above the audit work had been undertaken by both a private company and an in-house team.

Throughout this period there has been a Client Manager Internal Audit working for the Authority and all parties have worked hard to ensure that there have been good working relationships. The protocols and the revised reporting format which came into effect in February 2005 continue to operate well but further improvements have been made to the way in which Internal Audit carry out their work and the protocol will be revised to show these together with the changes required now that the service is "in-house" (see section on quality improvements).

Directorates still have the dilemma of trying to assist the Auditors during the audit but still meet the pressures that exist for their own service delivery.

In order to assist with this process the 2006/07 plan was sent to Directorates in December 2005 for discussion and agreement prior to being approved by the Audit Committee in February 2006 and proposed commencement dates for audits have been agreed with Heads of Service.

The Audit Committee continued to receive regular reports throughout the year on the completed systems based audits, pro-active fraud reviews and follow ups together with copies of the management summaries of the reports. This has enabled the Members of the Committee to play an active part in ensuring that there are effective systems of internal control and Members have raised concerns with relevant line managers.

In addition to undertaking reviews of various Council services to determine if there were adequate systems in place to ensure effective controls existed the service undertook 11 pro-active audits. Details of these are set out further in the report.

At the commencement of the year a contingency of 300 days was provided to carry out investigations into suspected fraud or issues that management wished reviewed. A total of 345 days was actually spent on this work. 77 cases were undertaken during the year 10 of which were continuing at the 31st March 2006. Further details of this work are set out in Section 4.3 below.

4.2 Assessment of the year's service

As stated above it has been a very difficult year for the audit service and the staff have worked very hard to ensure that the audits have been completed to draft report stage by early May. An audit year will always cover more than a twelve month period due to the time required to carry out each audit, compile draft reports, agree these with the auditees and then produce final reports.

The original plan allowed for 1250 days and the table below sets out the original position, the amended position and the actual outturn to the end of May (See Appendix C) . At the latter part of the year our external auditors required work to be carried out under the International Standards of Auditing (ISA's) to document, flowchart, and carry out walk through tests on all systems that might have a material effect on the Council's financial statements. Additional resources had to be employed for this work which is continuing in 2006/07.

	Systems & Contingency	Contract	Computer	Pro-active	Follow Ups	Fraud	ISA work	Totals
Original days (a)	495	110	145	150	50	300	0	1250
Year end (b)	489	115	145	121	50	330	0	1250
Actual days input on 05/06 work to end of May (c)	516	113	156	144	50	345	98	1422

- (a) These were the planned days for each category when the original plan was agreed
 (b) These were the planned days for each category taking into accounts changes throughout the year
 (c) As an audit plan is not completed until approx June of each year these figures are to show the latest position in workload to complete the agreed audits. May's figures were the latest available at the time of producing this report.

It was anticipated that there would be 99 audits undertaken during the year apart from fraud investigations. As is the normal situation during any financial year changes were made as the years progressed but the final position was that 95 audits were carried out.

The table set out below shows the allocation of the original audits and the actual position at the year end:

	Systems	Contract	Computer	Pro-active	Follow Ups	Totals
Original position	36	10	11	17	25	99
Outturn position	38	10	11	11	25	95

Due to the level of investigatory work that was required of the unit the original contingency of 300 days was increased to 330 days and the actual time spent was 345 days. This is an increase on the last year of 72 days. This increased time was necessary due to the level and complexity of the investigations undertaken.

Despite the fraud campaigns it is still the position that most investigations are carried out as a result of management raising concerns.

During the year investigations resulted in savings to the authority of £ 270,959.

Full details of the savings are attached at Appendix D which shows the:

- Identified savings
- Monies actually recovered
- Monies where management action is still required to recover

4.3 Details of the fraud work undertaken

During the year a total of 77 investigations were carried out and at the year end 10 cases were still in progress. The Fraud Hotline has once again generated investigations and there have been 16 cases reported, Appendix E gives further details of these cases.

National Fraud Initiative for 2004/05 was completed during the year and 19 cases of suspected fraudulent claims were investigated. Overpayments to the value of £25,278 have been confirmed and the value of 5 outstanding cases has yet to be confirmed.

As in previous years a number of investigations have led to either the resignation or dismissal of staff or disciplinary action being taken which has resulted in oral or written warnings being issued. Appendix F sets out a table showing details of these cases and the outcome of other successful investigations.

Other special investigations that took place included the following;

- 4.3.1. There were two requests following concerns relating to payments by Housing Services to contractors. Internal Audit worked closely with Morrison's staff (the Council's contractors but concluded there was insufficient evidence to pursue the matter).
- 4.3.2. Following a complaint by a member of the public that Parking Enforcement Notices were not being issued an investigation confirmed that due to insufficient notices being displayed Enforcement Officers were unable to issue penalty notices which may have resulted in a loss of income to the Council.
- 4.3.3. Dispute re annual leave and overpayment of salary re ex member of staff. The investigation concluded that there was insufficient evidence to reclaim any possible overpayment.
- 4.3.4. Due to issues raised regarding the oversight in arranging licensing of Langtons for marriages, management requested a review of the internal checks and controls of records and levels of access relating to computer systems. Recommendations were accepted and implemented by management.
- 4.3.5. Allegations were received relating to the possible "free" allocation of market stalls. The investigation concluded that there was insufficient evidence available for any disciplinary action to be taken but new controls were implemented to prevent further possible "unauthorised free" letting of stalls.
- 4.3.6. It was alleged that members of staff who were working from home were abusing the telephone "dial up" facility for private and personal use. Three members of staff were reminded that when the computer was not being used the telephone call should be disconnected in order to reduce the costs of calls. The investigation also identified that the number of users using the "dial up" facility had reduced therefore the quarterly rental could be reduced which resulted in annual savings of £1,668.
- 4.3.7. Concerns were expressed that a senior member of staff had not recorded in the Register of Interest details of previous employment with a company subsequently awarded a contract for works with the Council. The investigation confirmed that correct project management and contract procedures had been operated which

gave sufficient assurance to the Council that the member of staff had not influenced the final awarding of the contract. Improved controls were also recommended and implemented.

- 4.3.8. It was alleged that an agency member of staff had recruited additional staff from the same agency and had received commission as introduction fees. The agency member of staff concerned was also being investigated for another reason by Internal Audit and had resigned prior to the completion of the investigation. The agency who paid the commission agreed to repay £504.
- 4.3.9. Following an investigation and examination of an advance payment to a contractor of £35,000 Internal Audit negotiated the repayment of £10,000 for work that had not been completed.
- 4.3.10 Internal Audit were requested to examine a reported overspend following the refurbishment of the Hornchurch Sports Centre. The investigation identified that there had been a total lack of financial control, monitoring and reporting throughout the performance of this project which ultimately resulted in expenditure being incurred that had not been authorised. This resulted in an overspend of 299k. Recommendations included the need for improved project management and the reporting of financial implications of additional works.

4.4 Pro Active Audits

During the year the following 11 Pro-active Fraud reviews were completed

4.4.1 Employment of Agency staff

The purpose of the audit was to review payments to agency staff being used by the Authority to ensure that they were being paid correctly for services actually provided and that proper authority had been obtained for their appointment.

It was found that there was no one section/officer that had the responsibility for the administration and monitoring of the use of agency staff; and unauthorised officers were certifying agency timesheets although the corresponding invoice in all but two (2) cases was certified by an authorised officer.

Action is already being taken by the Authority to review the use of Agency staff and how best to establish a corporate contract for the provision of all agency requirements

4.4.2 Opening of cheques

The purpose of the audit was to review the controls in place to ensure that cheques are only opened when necessary and checks are made to ensure that the person seeking this service was the actual payee.

The review found that from the records examined it would appear that in some cases the cheque opening procedures were not being complied with as:

- Cheques are being opened for customer/payees that have bank accounts.
- Two (2) forms of identification, one (1) showing the signature of the customer/payee,

are not always being seen.

4.4.3 Journal Transfers

The purpose of the audit was to check a sample of journal transfers to ensure that:

- They are appropriate and relevant
- there is supporting documentation showing which codes are being debited and credited and the reason for the transfer; and
- the documentation is referenced with the FIS journal date, the amount of the transfer and the name of the person doing the journal.

From the records examined it would appear that all journals were relevant and appropriate and that all journals were supported by documentation. However, documentation wasn't always being adequately referenced.

4.4.4 Placement of people into long term care

The purpose of this audit was to ensure that the authority were paying the correct fees for people being placed into long term care and that the database used to record this usage was correct and up to date.

The review highlighted weaknesses in that records were not being adequately maintained, SWIFT was not accurate and there was sometimes a failure to notify Social Services Commissioning Unit when the service ceased.

4.4.5 Payment of cheques to the Authority by a private company

When cheques from a private company had been returned from the Authority's bankers "Return to Drawer" and the issue dates reviewed concerns were raised that they had been received by the Authority but had not been banked for a considerable time. A review was carried out to check this.

From the review undertaken it was apparent that council procedures were being adhered to as cheques were banked when received and when they were returned all relevant parties were informed. However, notification procedures could be improved.

4.4.6 Invoice Payments

This review looked at the invoice payments being made within Social Services to ensure that they were legitimate and had been made in accordance with the financial framework.

The review found that there were still invoices not being date stamped to prove when they were received and payments were not being made within the required 30 day period. Whilst the financial procedures were not always being fully adhered to there was no evidence that the invoice had not been paid for a service provided and for the correct amount. Management are aware of these matters and constant reminders are sent to management and staff reminding them of the need to make payments correctly.

4.4.7 New Employees , including references and Leavers

This review concentrated on checking that there was sufficient evidence to show that new employees had been correctly interviewed and appointed and that when staff left the correct procedures had again been followed.

The review found that service managers were not always recording evidence in files to support either the appointment of staff or when they leave.

4.4.8 Flexi Leave and Overtime TOIL

The purpose of this review was to review the claims for flexi leave, overtime or time off in lieu to ensure that the time had actually been worked to justify the entitlement.

The review found that whilst the general procedures appeared correct testing showed that overtime is being worked without there being written pre-authorisation by a line manager. There was also concern that overtime may have built up through custom and practice rather than actual need.

4.4.9 Sickness

A number of sickness absences were reviewed to ensure that Council procedures had been followed. It was found that the procedures for managing both short term frequent absence and long term sickness absence were, in some cases, not being followed.

Personnel were not always receiving copies of return to work interview forms. Management have now addressed this matter.

4.4.10 Discounts and Exemptions

This review involved checking discounts and exemptions granted in respect of Council Tax payable.

The review found that the controls in this area were good and the granting of discounts was well controlled.

4.4.11 Stock & Plant

This review concentrated on checking that inventories were being maintained of stock and plant and that the items shown could be physically checked.

It was found that the areas of stock and plant (light tools) are generally well controlled. However, there is a concern that the absence of adequate records on the servicing and health and safety checks of light tools would mean that the Authority might be exposed to a high risk should a third party make a claim for injury caused by faulty equipment.

5. Quality Improvements

The Audit Service is continually striving to improve its service provision and since the service came back "in house" we have achieved the following:

1. Improvements to the training for all levels of staff. Staff have been sent on both external and internal training courses to improve both their professional, managerial and operational skills. All staff are included in the various Council and Directorate initiatives which aim to ensure that staff are fully aware of what changes are taking place and they are now feeling valued members of the authority who have an understanding of its aims and goals.
2. There has been better liaison between staff and auditees as we are now able to use the same staff to carry out audits within Directorates so that they are building knowledge of how the Directorate and services within it operate.
3. A computer assisted interrogation package "IDEA" has been purchased and a member of staff trained in its use and this will assist in refining our sampling techniques for the larger audits.
4. We have ordered a new "3 tape" tape recorder for investigation interviews. This will mean that when interviews are taped the interviewee can also be given a prime copy and there is no longer the need to copy from an original with the subsequent opportunity for an allegation that the tape provided may not be accurate.
5. We have further refined the documentation that we are using to record the systems when carrying out an audit. This is now very similar to the process used by our external auditors and it is hoped that in any future reviews of the audit service our systems documentation will fully meet their requirements.
6. We are now sending details of perceived audit savings arising from fraud investigations to the finance section for checking and agreement. This will give us even greater confidence as to the accuracy of savings figures that we may report to the Audit Committee during the year
7. At the end of the year we have introduced procedures to record the implementation of recommendations arising from fraud investigations in the same way that systems recommendations which have not been implemented by due dates are reported to both management and the Audit Committee
8. The setting up of an Internal Audit site on the Council's intranet which currently holds copies of the risk based audit plan for 06/07 and the internal audit protocol. As appropriate material becomes available this will also be put on the intranet.

6. QUALITY ASSURANCE

In order to ensure that the work of the Internal Audit Service is carried out effectively there has to be a quality assurance programme in place which is designed to gain assurance by both internal and external review that the work of Internal Audit is compliant with the standards set out in the Code of Practice for Internal Audit in Local Government in the United Kingdom 2003.

The following procedures are in place to ensure that quality of the work of the Internal Audit Service is continually monitored:

1. In April 2003 the Council approved an Internal Audit Strategy which sets out the terms and references of the Internal Audit Service. This Code is now 3 years old and will need to be revised. This will be delayed until the Code of Practice for Internal Audit 2006 is agreed and released by CIPFA.

2. There is a protocol for the work of Internal audit and this has been placed on the Council's Intranet site and will be reviewed annually.
3. Both the Client Manager Internal Audit and the Audit Services Manager submit regular reports to the Audit Committee on the work of the Internal Audit Service (including quality and performance issues) and the progress towards the completion of the annual audit plan.
4. Training needs are now discussed as part of the Council's appraisal process and during team meetings and one to ones. Training is provided for staff during the year to ensure that training needs are discussed and identified and that they are aware any developments to the provision of audit services and logs are maintained of this. The Client Manager Internal Audit and the Audit Services Manager regularly discuss with staff any changes in audit service provision and suitable courses that may be beneficial to them.
5. An Internal Audit Strategy and audit plan is presented to the Audit Committee annually for approval.
6. The methodology for carrying out an audit and producing reports is contained within the computerised Audit Manual which is available to all audit staff.
7. Both the Audit Services Manager and the Client Manager Internal Audit check upon the quality of the audit work. There is a quality control checklist which is completed by the auditor and supervisor for each audit to confirm that there is compliance to the agreed quality standards. In addition to this the Representatives for each Directorate are also requested to carry out a periodic review of internal audit reports to ensure that they meet the quality standards expected. A final review process is undertaken by the Group Director of Finance and Commercial who reviews all final audit reports and provides feedback on (a) the ease of understanding the report, (b) suitability, quality and consistency of recommendations (c) appropriate focus and (d) any other issues deemed relevant.
8. Finally the Council's external auditors carry out a review of the Internal Audit service at regular intervals. As the service was brought back "in-house" in October 2005 they are currently undertaking a full review of the current service and a report is expected June – July 2006.

APPENDIX A

- 1. CIPFA Definition of Internal Audit**

- 2. Section 9 of the Code of Practice showing what should be included within the Head of Internal Audit's formal annual report**

- 3. Work undertaken to provide operational assurance**

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.

Section 9.3 of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

Section 9.3 of the Code states that the Head of Internal's formal annual report to the organisation should:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification.
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies.
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement of internal control.
- e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria.
- f) Comment on compliance with these standards and communicate the results of the Internal audit quality assurance programme.

Work undertaken to provide operational assurance

Internal Audit objectively examined, evaluated and reported on the adequacy of the control environment. The control environment comprises the Authority's policies, procedures and operations in place to:

- a) establish and monitor the achievement of the Authority's objectives;
- b) identify, assess and manage the risks to achieving the Authority's objectives;
- c) facilitate policy and decision making;
- d) ensure the economical, effective and efficient use of resources;
- e) ensure compliance with established policies, procedures, laws and regulations;
- f) safeguard the Authority's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
- g) ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. It encompasses elements of corporate governance and risk management.

APPENDIX B

**Qualified audit opinions for audits completed
to final stage by the 12th June 2006**

Summary of Qualified Opinions

Audit name and opinion
1. Best Value Performance Indicators
A qualified audit opinion is given as there are weaknesses in the main system of control and without these there would be a strong likelihood of errors taking place which would not be identified.
2. Approved Lists & Contracts Register
A qualified audit opinion is given as Audit is not satisfied that the Council's Procurement rules are being followed. Instances were noted of tender lists not being correctly selected, officers not confirming the reasons as to why there were differences between the contract and tender sum or why a firm was being awarded the contract.
3. Housing Aid
A qualified audit opinion can only be given as the audit has identified an ineffective control environment within which the Housing Aid Service operates.
4. Climate Change levy
A qualified audit opinion has to be given due to the lack of awareness and controls in this area. Further the Council is missing out on the opportunity of a possible reduction in power costs due to no assessment being undertaken on the CHP unit at Central Park Leisure Centre.
5. Housing Redecoration Vouchers
A qualified audit opinion has been given due to the fact that, whilst the system is generally operating correctly, procedural weaknesses have been identified where controls in place are not functioning as intended or procedural guides are not in existence.
6. Final Accounts Housing Projects
A qualified audit opinion needs to be given as Audit is unable to :- <ul style="list-style-type: none">• confirm that final accounts are being produced for projects directly managed by Housing• or, if they are being produced, where they could be located,• or where the final accounts were produced, that they were being fully checked. <p>Therefore no reliance can be placed at this time on the validity of final account payments being made by the section in respect of the construction projects that they are undertaking directly. The Business Planning & Procurement Manager is concerned over the lack of control and sound systems being operated in this area and is already in the process of implementing the recommendations.</p>

Audit name and opinion
7. Consultants
Due to the above weaknesses identified within the significant issues, a qualified opinion needs to be given as reliance still cannot be placed on the controls surrounding the appointment of consultants. These include the lack of a clear brief or payment terms, and the weaknesses surrounding monitoring of the consultant.
8. Repairs & Maintenance
There are no procedures for officers to follow in respect of the management of the contract. Although there is some monitoring being undertaken by surveyors on items that they think are excessive, reliance is placed on the integrity of the contractor and his operatives to ensure that the Council is not being overcharged in respect of these works. Therefore only a qualified opinion can be given to this audit.
9. NNDR
A qualified audit opinion has been given due to the fact that, whilst the system is generally operating correctly, procedural weaknesses have been identified especially in respect of the control on the recovery procedures being undertaken by the bailiffs and the lack of information on the Academy System relating to recovery action or non action.
10. Use of Fuel Cards
A qualified audit opinion must be given as there is a lack of control relating to the Health and Safety issues concerning transportation and storage of fuel in containers.

Based on Audit Reports reaching final stage by the 12th June 2006

APPENDIX C

Full details of audits budget to actual
Prepared as at the 31st May 2006

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Assistant Chief Executives	1	Codes of conduct & Accountability (hospitality Register)	15.00	0.00	15.00	16.34	
Assistant Chief Executives	2	Personnel Arrangements	15.00	0.00	15.00	15.11	
Assistant Chief Executives	3	Climate Change	12.00	0.00	12.00	16.23	
Assistant Chief Executives	4	KPIs	12.00	6.00	18.00	17.35	
	4	Total for ACE's	54.00	6.00	60.00	65.02	
Public Realm	1	Cashiers	10.00	0.00	10.00	9.90	
Public Realm	2	Waste Disposal including land fill tax	15.00	-13.00	2.00	3.97	
Public Realm	3	Permits & Other Parking	5.00	0.00	5.00	7.48	
Public Realm	4	Parking Tickets Issue & Processing	5.00	0.00	5.00	7.68	
Public Realm	5	Street Care Management (Environmental Mngment)	15.00	0.00	15.00	17.65	
	5	Total for Public Realm	50.00	-13.00	37.00	46.68	
Childrens Services	1	Education Other than at School	12.00	0.00	12.00	12.45	

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Childrens Services	2	Education Welfare Services	12.00	0.00	12.00	13.51	
Childrens Services	3	Provision of Services for the Under 8's	15.00	0.00	15.00	16.12	
Childrens Services	4	Truancy	12.00	0.00	12.00	10.69	
	4	Total for Childrens Services	51.00	0.00	51.00	52.78	
Finance & Commercial	1	Housing Benefits	15.00	0.00	15.00	26.37	
Finance & Commercial	2	Council Tax	12.00	0.00	12.00	15.87	
Finance & Commercial	3	NNDR	12.00	0.00	12.00	10.70	
Finance & Commercial	4	Main Accounting System	10.00	0.00	10.00	14.05	
Finance & Commercial	5	Debtors	5.00	0.00	5.00	8.46	
Finance & Commercial	6	Creditors	10.00	0.00	10.00	19.37	
Finance & Commercial	7	Cash & Banking Control inc o/s cheques	10.00	0.00	10.00	10.03	
Finance & Commercial	8	Payroll	15.00	0.00	15.00	12.02	
Finance & Commercial	9	Corporate Financial Procedures	15.00	0.00	15.00	18.17	

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Finance & Commercial	n/a	Risk Management Policy	15.00	-15.00	0.00	0.19	deleted as Zurich Municipal reviewed.
Finance & Commercial	10	Grants Review	0.00	6.00	6.00	7.44	Additional audit
Finance & Commercial	11	Main Accounting System 04-05 year	0.00	5.00	5.00	4.59	Additional audit
Finance & Commercial	12	Fraud Policy & Response Plan/ Whistle Blowing Policy	15.00	0.00	15.00	16.71	
Finance & Commercial	13	Mayors Appeal Fund	0.00	1.00	1.00	0.93	Additional audit
Finance & Commercial	0	0.00	0.00	0.00	0.00	0.00	
Finance & Commercial	14	Purchasing Strategies (Market Place)	15.00	-8.25	6.75	6.76	
Finance & Commercial	15	Freedom of Information Act	10.00	0.00	10.00	8.17	
	15	Total for Finance & Commercial	159.00	-11.25	147.75	179.84	
0.00	0	0.00	0.00	0.00	0.00	0.00	
Sustainable Communities	1	Housing Aid	12.00	0.00	12.00	15.28	
Sustainable Communities	2	Housing Renovation Grants	12.00	0.00	12.00	11.69	
Sustainable Communities	3	Housing Rents Collection / Arrears	15.00	5.00	20.00	33.13	

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Sustainable Communities	4	Housing Grants & Allowances (Redecoration Allowances)	15.00	0.00	15.00	17.28	
Sustainable Communities	5	Voids	15.00	0.00	15.00	17.16	
Sustainable Communities	n/a	Former Tenants Arrears	12.00	-12.00	0.00	7.86	This task was removed as FTA and Housing rents dealt with as one audit
Sustainable Communities	6	Use of Fuel Cards	10.00	0.00	10.00	11.91	
Sustainable Communities	7	Provision of residential placements and Home Care for the Elderly	15.00	0.00	15.00	20.99	
Sustainable Communities	8	Providing services for those with learning difficulties	10.00	0.00	10.00	13.34	
Sustainable Communities	9	Purchasing services for those with mental health problems	15.00	0.00	15.00	15.13	
Sustainable Communities	10	Grants to Voluntary Organisations	10.00	0.00	10.00	7.77	
	11	Total for Sustainable Communities	141.00	-7.00	134.00	171.54	
Contract Audits: Various	1	Consultants Fees	12.00	-2.00	10.00	11.37	

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Contract Audits: Various	2	Repairs / Maintenance	15.00	-3.00	12.00	8.15	
Contract Audits: Various	3	Specific Project Review	10.00	-10.00	0.00	0.00	audit deleted
Contract Audits: Various	4	Approved list / Contract Register	10.00	8.00	18.00	18.80	
Contract Audits: Various	5	Payments to Counsel & Legal Services Contract Monitoring	15.00	0.00	15.00	14.97	
Contract Audits: Various	6	Project Assessment & Management	12.00	0.00	12.00	17.98	
Contract Audits: Various	7	Insurance & Performance Bonds	12.00	0.00	12.00	8.88	
Contract Audits: Various	8	Final Accounts	12.00	0.00	12.00	13.88	
Contract Audits: Various	n/a	Housing Partnership attendance at meetings	0.00	0.00	0.00	0.00	This task was added at the commencement of the year but audit time was not required.
Contract Audits: Various	9	Partnerships audit carried over from last year	0.00	12.00	12.00	11.72	
Contract Audits: Various	10	Health & Safety on Site	12.00	0.00	12.00	7.18	
	10	Total for Contract Audits	110.00	0.00	115.00	112.93	
Computer Audits	1	E-Government	15.00	0.00	15.00	23.65	

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Computer Audits	2	E-Commerce	15.00	0.00	15.00	9.38	
Computer Audits	3	Network Infrastructure	10.00	0.00	10.00	11.67	
Computer Audits	4	Teleworking / Remote Access	15.00	0.00	15.00	14.76	
Computer Audits	5	IT Strategy	10.00	0.00	10.00	14.29	
Computer Audits	6	Helpdesk	15.00	0.00	15.00	16.51	
Computer Audits	7	Oracle Databases	15.00	0.00	15.00	13.66	
Computer Audits	8	System Change Management	10.00	0.00	10.00	9.39	
Computer Audits	9	DSO Servitor	10.00	0.00	10.00	10.05	
Computer Audits	10	Academy C Tax / NNDR & Benefits	15.00	0.00	15.00	17.75	
Computer Audits	11	SWIFT	15.00	0.00	15.00	14.48	
	11	Total for Computer Audits	145.00	0.00	145.00	155.59	
Follow ups Various	1	Youth Service f/up	2.00	0.00	2.00	3.65	
Follow ups Various	2	Crime & Disorder Reduction CCTV f/up	2.00	0.00	2.00	1.55	

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Follow ups Various	3	Domestic Refuse Collection f/up	2.00	0.00	2.00	1.62	
Follow ups Various	4	Trade Refuse Collection f/up	2.00	0.00	2.00	1.62	
Follow ups Various	5	On Street Parking f/up	2.00	0.00	2.00	0.38	
Follow ups Various	6	Parking Enforcement f/up	2.00	0.00	2.00	0.45	
Follow ups Various	7	Debtors f/up	2.00	0.00	2.00	2.36	
Follow ups Various	8	Petty cash f/up	2.00	0.00	2.00	3.65	
Follow ups Various	9	Right to Buy f/up	2.00	0.00	2.00	1.48	
Follow ups Various	10	Highways f/up	2.00	0.00	2.00	1.90	
Follow ups Various	11	Lessee Charges f/up	2.00	0.00	2.00	2.04	
Follow ups Various	12	Child Protection f/up	2.00	0.00	2.00	5.60	
Follow ups Various	13	Contract & Quality Management in the care of the Elderly f/up	2.00	0.00	2.00	1.63	
Follow ups Various	14	Monitoring & Co-ordinating of Voluntary Sector & Carer Services f/up	2.00	0.00	2.00	1.87	

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Follow ups Various	15	Regeneration f/up	2.00	0.00	2.00	2.27	
Follow ups Various	16	Tendering Procedures f/up	2.00	0.00	2.00	1.22	
Follow ups Various	17	Variations f/up	2.00	0.00	2.00	2.17	
Follow ups Various	18	Network Security f/up	2.00	0.00	2.00	1.00	
Follow ups Various	19	Virus Protection f/up	2.00	0.00	2.00	1.44	
Follow ups Various	20	Internet & E-mail f/up	2.00	0.00	2.00	1.27	
Follow ups Various	21	BS7799 Information Security f/up	2.00	0.00	2.00	1.62	
Follow ups Various	22	Oracle Financials f/up	2.00	0.00	2.00	0.79	
Follow ups Various	23	Rent Accounting (Computer) f/up	2.00	0.00	2.00	4.11	
Follow ups Various	24	Business Continuity f/up	2.00	0.00	2.00	1.93	
Follow ups Various	25	Pupil Services f/up	2.00	0.00	2.00	2.00	
Follow ups Various	0	0.00	0.00	0.00	0.00	0.00	
	25	Total for Follow ups	50.00	0.00	50.00	49.64	
Pro-Active Audits	1	Placements- SEN & Social Services	15.00	5.00	20.00	20.30	

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Pro-Active Audits	2	Flexi/ Annual Leave & Overtime /Toil	10.00	0.00	10.00	10.87	
Pro-Active Audits	3	New Employees including References , Leavers	15.00	1.00	16.00	18.85	
Pro-Active Audits	4	Agency Staff	5.00	6.00	11.00	11.99	
Pro-Active Audits	n/a	Write Offs	10.00	-10.00	0.00	1.97	audit deleted
Pro-Active Audits	5	Cheques	5.00	3.00	8.00	7.93	
Pro-Active Audits	6	Invoice Payments	10.00	0.00	10.00	12.27	
Pro-Active Audits	7	Journals	5.00	0.00	5.00	5.33	
Pro-Active Audits	8	cheques returned from pps Acit	5.00	0.00	5.00	0.00	additional audit
Pro-Active Audits	n/a	Inventories & Stock	5.00	-5.00	0.00	4.31	audit deleted
Pro-Active Audits	n/a	Homecare providers	10.00	-10.00	0.00	0.00	replaced by cheques returned review
Pro-Active Audits	n/a	Sickness	10.00	0.00	10.00	10.28	audit deleted
Pro-Active Audits	n/a	Petty cash / safe Keys	10.00	-10.00	0.00	0.00	audit deleted
Pro-Active Audits	n/a	Abuse of Vehicles	5.00	-5.00	0.00	0.00	audit deleted
Pro-Active Audits	9	Discounts / Exemptions	10.00	6.00	16.00	24.78	
Pro-Active Audits	10	Stock & Plant	10.00	0.00	10.00	12.63	
Pro-Active Audits	n/a	Banking	10.00	-10.00	0.00	2.72	audit deleted
	10	Total for Pro-actives	150.00	0.00	121.00	144.23	
						0.00	

Audit Committee, 29 June 2006

Directorate	no of audits	DESCRIPTION	Original days	Additional days	Revised days	Actuals	Comments
Fraud	0	Fraud Investigation Contingency	300.00	30.00	330.00	344.65	
General Contingency	0	General Contingency	40.00	19.25	59.25	0.00	
0.00	0	Line to be used when contingency utilised	0.00	0.00	0.00	0.00	
0.00	0	Total for General Contingency	40.00	0.00	59.25	0.00	
0.00	0	0.00	0.00	0.00	0.00	0.00	
0.00	95	Grand Total for the year	1250.00	0.00	1250.00	1302.29	
Finance & Commercial		International Auditing Standards implementation	0.00	0.00	0.00	97.89	

APPENDIX D

Audit Savings from fraud investigation work

Audit Committee, 29 June 2006

Project Code		Actual Savings	Management to Recover	Details	Cost of Audit	Management Action
T429	NFI Case 1	7,412		Working since 02/04/01 but not notified LBH and received benefit of £57.24 and CTB £14.03 = £71.27 Period - 156 weeks @ 71.27 (min)	51	P
T445	NFI Case 2	3,786		Working since 20/05/02 but not notified LBH and received benefit of £61.41 and CTB £11.41 = £72.82 Period - 100 weeks @ 72.82 (min)	37	P
T462	RTB Case 3	5,200		Right to Buy cancelled following investigation therefore saving of £38k on RTB and lost of rent = £50 per week x 156 weeks (3 years)	318	N
T8baae	RTB Case 4	5,200		Right to Buy cancelled following investigation therefore saving of £22k on RTB and lost of rent = £50 per week x 156 weeks (3 years)	875	N
T8baag	RTB Case 5	5,918		Right to Buy cancelled following investigation therefore saving of £38k on RTB and lost of rent = £56.91 per week x 156 weeks (3 years)	474	N
T8caak	RTB Case 6	5,205		Right to Buy cancelled following investigation therefore saving of £38k on RTB and loss of rent = £50.05 per week x 156 weeks (3 years)	152	N
T8caai	NFI Housing Benefit cases	11,922	11,922	Savings identified from HB overpayments recovered and ceased.	N/a	
T8caai (52.1)	Deceased pensioner Case 1	3,041	1,013	A review of the NFI reports indicated matches of deceased persons to pensions currently paid by LBH. These matches were investigated and individual deaths confirmed. Payments were calculated from the date of death to the date of the investigation. Calculation of savings 1st year £981 overpayment + 3 years @ £2,943	100	N
T8caai (52.2)	Deceased pensioner Case 2	4,574	1,124	A review of the NFI reports indicated matches of deceased persons to pensions currently paid by LBH. These matches were investigated and individual deaths confirmed. Payments were calculated from the date of death to the date of the investigation. Calculation of savings 1st year £1,124 overpayment + 3 years @ £3,450	100	N

Audit Committee, 29 June 2006

Project Code		Actual Savings	Management to Recover	Details	Cost of Audit	Management Action
T8caai (52.3)	Deceased pensioner Case 3	7,689	1,400	A review of the NFI reports indicated matches of deceased persons to pensions currently paid by LBH. These matches were investigated and individual deaths confirmed. Payments were calculated from the date of death to the date of the investigation. Calculation of savings 1st year £1,400 overpayment + 3 years @ £6,289	100	N
T8caai (52.4)	Deceased pensioner Case 4	1,288	316	A review of the NFI reports indicated matches of deceased persons to pensions currently paid by LBH. These matches were investigated and individual deaths confirmed. Payments were calculated from the date of death to the date of the investigation. Calculation of savings 1st year £316 overpayment + 3 years @ £972	100	N
T8caai (52.5)	Deceased pensioner Case 5	664	138	A review of the NFI reports indicated matches of deceased persons to pensions currently paid by LBH. These matches were investigated and individual deaths confirmed. Payments were calculated from the date of death to the date of the investigation. Calculation of savings 1st year £138 overpayment + 3 years @ £526	100	N
T8caai (637.1)	Resident deceased Case 1	1,315	1,315	LBH supplied Residential Home data for the NFI pilot scheme. This data was matched to DWP deceased persons. These matches were investigated and individual deaths confirmed and identified overpayments to Residential Homes that had not be identified by Social Services.	200	N
T8caai (637.2)	Resident deceased Case 2	2,366	2,366	LBH supplied Residential Home data for the NFI pilot scheme. This data was matched to DWP deceased persons. These matches were investigated and individual deaths confirmed and identified overpayments to Residential Homes that had not be identified by Social Services.	200	N
T8caai (637.3)	Resident deceased (Palmer)	1,315	1,315	LBH supplied Residential Home data for the NFI pilot scheme. his data was matched to DWP deceased persons. These matches were investigated and individual deaths confirmed and identified overpayments to Residential Homes	200	N

				that had not be identified by Social Services.		
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Audit Committee, 29 June 2006

Project Code		Actual Savings	Management to Recover	Details	Cost of Audit	Management Action
T8daaj	RTB Case 7	41,452		Right to Buy cancelled following investigation therefore saving of £33k on RTB and loss of rent = £54.18 per week x 156 weeks (3 years)	428	N
T8daam	RTB Case 8	46,602		Right to Buy cancelled following investigation therefore saving of £38k on RTB and loss of rent = £55.14 per week x 156 weeks (3 years)	505	N
T8eaae	RTB Case 9	40,539		Right to Buy cancelled following investigation therefore saving of £32,200 on RTB and loss of rent = £53.46 per week x 156 weeks (3 years)	222	N
T8eaak	Home Users - Computer use	4,160		The rental for BT rental costs for "dial back" channels to have been reduced from £989.60 to £572.96 per quarter	1,133	N
T8eaax	Fraudulent use of rail warrant	27		Rail warrant was changed by Leaving Care child and therefore ticket should not have been issued by railway company.	277	N
T8faac	Misuse telephones Mercury House	337	337	Cost of calls recovered -£205.61 - Management to seek reimbursement of "lost time" 22 hours @ £6.00	1,558	DD
T8faad	RTB Case 10	46,962		Right to Buy cancelled following investigation therefore saving of £38k on RTB and loss of rent = £57.45 per week x 156 weeks (3 years)	95	N
T8faan	Fraudulent use of rail warrant	125		Rail warrant was changed by Leaving Care child and therefore ticket should not have been issued by railway company.	150	N
T8faao	DAAT investigation 1	10,000	10,000	Advance payment of £35k made - £10k recouped following investigation of that work had not been completed.	2,224	R
T8faar	DAAT Investigation 2	504		Commission had been paid to an agency member of staff for introduction fees. These have now been repaid.		R
	Total Savings	257,603				

***Bought forward from previous year**

Key to management action

D = Disciplined, DD = Dismissed, F = Final Warning, N = No further action, P = Prosecution, C = Cautioned & R = Resigned.

APPENDIX E

Fraud Hotline

Audit Committee, 29 June 2006

REF NO.	CALLER	CALL CONTENT	DETAILS/RESULT OF INVESTIGATION
001/05	Member of staff	Lack of control on home users gaining access to the "Secure Gateway"	Client Manager has requested that pps Acit conduct an investigation. Alleged abuse of computer system by home users. <i>Investigation identified excessive use of dial back facility (duration of calls) and savings on BT rental charges. Internet abuse was could not be established.</i>
002/05	Member of staff	Cost of ICT contract staff being allocated to incorrect budgets and staff being retained.	Client Manager has requested that pps Acit conduct an investigation. <i>Costs allocated to corporate ICT. Subsequent employment of contract staff for permanent position based on formal interview.</i>
003/05	HB Fraud Team	Allegation of overpayment of working hours	Preliminary work will be carried out on timesheets and attendance records. <i>Established as claimant error benefits were suspended as the employee sent a change of circumstances.</i>
004/05	Pensions	Allegation of misuse of telephone 4th Floor Mercury House	pps Acit to analysis June/July calls to establish "favourite times and numbers". <i>Agency staff admitted misuse of telephone and repaid £205.61 and was subsequently dismissed following audit interview.</i>
005/05	Anonymous	Allegation member of public not paying Council Tax	<i>Council Tax confirmed payment being made on property.</i>
006/05	Anonymous	Allegations that market stall holder is not paying the correct amount based on other stall holders size of stall.	Preliminary work will be carried out by pps Acit to establish location of stall and size. Data base of information to be downloaded and reviewed. <i>Report completed and recommendations accepted and implemented. Allegation correct.</i>
007/05	Member of staff	Information stating that one school had lost 14 laptops and no action being taken.	Client Manager has requested that pps Acit conduct an investigation. <i>Investigation in progress at the time of preparing the annual report</i>
008/05	Anonymous	Caller claimed property was being used for business purposes. People using shed at bottom of garden.	Possible HB Fraud or non payment of NNDR. <i>Inspection taken place. No evidence of allegation.</i>
009/05	Member of public	Alleged that immigrants were receiving £50,000 towards investments in business propositions. Also local firm receiving local authority cheques for goods.	Limited information from caller to investigate. Caller has indicated on questioning that cheques may not have been Council drawn cheques. <i>Caller informed that information will be passed to the Home Office.</i>

Audit Committee, 29 June 2006

REF NO.	CALLER	CALL CONTENT	DETAILS/RESULT OF INVESTIGATION
010/05	Anonymous	Caller claimed that the owner of a property also lives in a council tenancy. The owner also rents out her property at £85 per week to various tenants.	Internal Audit to investigate and determine the owner and whether property occupied. Inform LB Newham of results. <i>Information passed to Council Tax - Newham confirmed not Council property</i>
011/05	Anonymous	Allegations that a member of staff has offered work to contractors in exchange for cash.	Due to the lack of evidence and facts an initial discussion with management will be required. Following these and other enquires the CMIA will decide on further action. <i>Members of staff not involved in allocating work to contractors. Allegation passed to Council contractor.</i>
012/05	Member of public	Allegations that staff had not carried out their duties and the Council failed to deliver a service re Noise Abatement Order. Possibility of staff being influenced by building contractors.	Member of public advised to challenge answers previously received from Director through the Appeal process as he has no evidence of fraud or corruption that can be investigated by Internal Audit. <i>Member of public has been sent details of Appeals procedure.</i>
013/05	Anonymous	Allegation that HB and CT benefit being claimed by single person whilst cohabitating with partner.	A review of HB & CT records confirm partner is not stated on applications for benefits. <i>Case passed to HB Fraud</i>
014/05	Name given but wishes to remain anonymous	Single discount is being claimed on property when caller is aware that two adults are living in the property.	A review of CT records indicates single discount being claimed and no reference to second person at property. <i>Following Council Tax Inspectors visit single discount was cancelled from 1st February 2005. Allegation correct.</i>
015/05	Anonymous	Single discount being claimed but occupier also living with two sons.	Council Tax records indicated single discount is not being claimed. <i>Case closed.</i>
016/05	Anonymous	It has been alleged that a Manager and his partner had been on a holiday which had been paid for by third parties who have interests with the Council.	Matter reported to Head of Service recommending the manager be asked to respond to the allegation. <i>The manager said that he had gone on holiday with third parties but that he paid for the holiday himself. Payment details were seen by the Line Manager. The manager was warned of the danger of socialising with third parties that have interests with the Council and that he should be aware of his future action in circumstances of this nature.</i>

APPENDIX F

Fraud Investigations and Results

Area of investigation	Results/action taken
NFI: Individuals were found to be claiming Housing Benefit but not declaring full income.	Housing benefit caution issued Overpayments reclaimed Payment cancelled.
NFI: Pensions had been paid to deceased persons and families continued to accept payment.	Pension payments ceased and overpayments recovered.
NFI: Providers of residential care continued to be paid for the service although the resident had deceased.	Overpayments recovered and internal systems of checks and control improved.
NFI: The addresses and locations of former tenants with arrears were identified.	Information enabled collection of outstanding arrears from 3 former tenants.
7 Cases relating to the mis-use and abuse of desktops and laptops by members of staff were investigated.	Following the results of the forensic examinations 3 members of staff resigned and 2 were disciplined. In the remaining two cases there was insufficient evidence to proceed with any disciplinary action.
Right to Buy applications from tenants were investigated where it was suspected/alleged that the property was no longer the applicants/tenants principal home and were being sub let.	Following the submission of evidence to Housing Services and subsequently tenants interviewed keys were returned and applications cancelled in 4 cases. Total discounts that would have been received amounted to £141,200
Allegations of sub letting by existing tenants.	Keys returned in 3 cases and 3 cases where evidence confirmed sub letting was not taking place.
Member of staff reported to be working for both LBH and another London Borough.	Sufficient evidence produced following investigations to enable management to dismiss the member of staff.
Reported fraudulent use of rail warrants.	Insufficient evidence to prosecute. Refund received from rail company of £152
Allegations re misuse of telephones and international calls.	Investigation able to identify member of staff responsible who was subsequently dismissed and £337 repaid.
Reported fraudulent use of parking pass	Following the interviewing of a member

Area of investigation	Results/action taken
Angel Way.	of staff and submission of evidence management issued a formal written warning to the member of staff.
It was reported by a customer that a coach driver had failed to pay monies for coach hire that he had received.	The investigation produced evidence to enable management to discipline the coach driver.



MEETING	DATE	ITEM
AUDIT COMMITTEE	29 JUNE 2006	8

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: AUDIT COMMISSION AUDIT AND INSPECTION PLAN 2006/2007

SUMMARY

This report informs the Committee, of the audit work that the Audit Commission propose to undertake during 2006/07.

RECOMMENDATIONS

To consider the contents of the report.

REPORT DETAIL

See Attached report from the Audit Commission

Financial Implications and risks:

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

Legal Implications and risks:

The total audit fee arising from the 2006/07 plan is £649k, this reflects a continuing decrease in the amount of work on grant claims, but as the plan shows, there are now other elements reflected in the fee, most notably the corporate inspection. The fee is currently within the available budget, however this is based on the currently estimated volume of work. Any additional work, for example on processing grant claims will increase the actual costs of audit work. This will have to be managed within the overall approved budget.

Human Resource 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

None

Audit Committee, 29 June 2006

Audit and Inspection Plan

April 2006



Audit and Inspection Plan

London Borough of Havering Council

Audit 2006/2007

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.
- 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, 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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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and the requirements of the new comprehensive performance assessment '*CPA – the Harder Test*'. It reflects:
 - our responsibilities under the Code of Audit Practice;
 - audit and inspection work specified by the Audit Commission for 2006/07;
 - your local risks and improvement priorities; and
 - current national risks relevant to your local circumstances.
- 2 Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

- 3 In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:
 - the Audit Commission Act 1998 and the Code of Audit Practice (the Code) with regard to audit; and
 - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code defines auditors' responsibilities in relation to:
 - the financial statements of audited bodies; and
 - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources. We will give the first such conclusion by 30 September 2006 as part of the 2005/06 audit.

The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee Scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.
- 7 The total fee estimate for the audit work planned for 2006/07 is £342,000 and the total fee estimate for inspection work planned for 2006/07 is £164,000. This compares with a total audit and inspection fee of £400,000 in 2005/06.
- 8 In addition we estimate that we will charge approximately £143,000 for the certification of claims and returns.
- 9 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions the Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 10 Changes to the plan and the fee may be necessary if our audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
 - the opinion on the 2006/07 accounts, since we have yet to audit the accounts for 2005/06, and detailed financial reporting requirements for 2006/07 are not yet known; and
 - work on selected performance indicators, since we have yet to assess your overall arrangements for securing the quality of this data and then to undertake a formal risk assessment.
- 11 We will formally advise you if any changes to the fee become necessary.

CPA and inspections

- 12 We have applied the principles set out in the new CPA framework, '*CPA – the Harder Test*', recognising the key strengths/weaknesses in Havering's performance. These include:
- strengths:
 - improved service outcomes and user satisfaction in areas of corporate priority;
 - strengthened managerial capacity and systems, leading to an improved focus on performance;
 - investment in economic regeneration to improve access and quality of services for vulnerable groups; and
 - weaknesses:
 - a poor supporting people service with uncertain prospects for improvement; and
 - need for service delivery plans to focus consistently clearly on targets and outcomes.
- 13 In addition, the housing management service which has recently been judged fair with promising prospects for further improvement will need to improve to secure ALMO funding from the Government.

14 Our inspection activity will focus on the following:

- corporate assessment;
- supporting people re-inspection; and
- ALMO inspection.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager role.	To act as the Commission's primary point with the Authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel statement.	To provide focus for continuous improvement and to include in CPA scorecard.
Corporate assessment	We will carry out a corporate assessment in line with the processes outlined in ' <i>CPA - the Harder Test</i> '. Our approach will be a combined corporate assessment and Joint Area Review which will include an inspection of children's services for children and young people.
Supporting people programme	Our Housing Inspectorate will carry out an inspection of your supporting people programme in conjunction with the Commission for Social Care Inspection and Her Majesty's Inspectorate of Probation.
ALMO inspection	Our Housing Inspectorate will carry out an inspection of your ALMO.

Summary of key audit risks

- 15 This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:
- provide an opinion on your financial statements;
 - provide a conclusion on your use of resources;
 - provide a scored judgment on the use of resources to feed into the CPA process;
 - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
 - provide a report on the Council's best value performance plan (BVPP).
- 16 In assessing risk we have reviewed the Council's corporate plan, budget, medium-term financial plan, risk register and committee minutes. We have also taken into account the Audit Commission area profiles.
- 17 Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

Value for money conclusion

- 18 The Code of Audit Practice requires us to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources (the value for money conclusion). The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. We will give the first such conclusion by the end of September 2006 as part our audit of the 2005/06 accounts. This may influence our risk assessment for similar work to be carried out as part of the 2006/07 and we will keep you informed of any changes to this plan that may become necessary.

Use of resources judgement

- 19 In addition to the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment. Our fee estimate for 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes we will discuss with you the implications, including any impact on the fee.
- 20 These judgements are also used by the Commission as the basis for its overall use of resources judgement for the annual CPA.
- 21 Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk to be addressed.

Table 2 Summary of use of resources audit risks

Audit risk	Response
Adequacy of Internal Audit arrangements.	Full review of Internal Audit and follow-up of issues arising from the review of the in house provision in 2005/06.
Ensuring ethical standards are maintained and promoted throughout the Council and its partners.	Undertake changing organisational cultures survey and workshops with Members (and possibly officers as well) to assess understanding and compliance with ethical standards.
Ensure up-to-date assessment of use of resources arrangements for 2006 CPA.	Undertake review of specific areas including risk management, investment and disposal decisions, debt management and the assurance framework.
Continued demand pressures on children's services.	Review budget setting and management in children's services as part of the use of resources assessment.

Performance information

- 22 Auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA. This work will be risk-based and will link in part to our review of the Council's overall arrangements to secure data quality as required for our use of resources conclusion. Our fee estimate includes an element for this work on the basis that we will assess Havering Council as medium-risk in relation to its performance indicators.
- 23 This risk assessment may change depending on our assessment of your overall arrangements. When we have finalised our risk assessment we will update our plan including any impact on the fee quoted above.

Best value performance plan

- 24 We are required to consider and report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your best value performance plan (BVPP).

Financial statements

- 25 We will carry out our audit of the 2006/07 financial statements and comply with the international standards on auditing (UK and Ireland).
- 26 We are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with our knowledge.

- 27 On the basis of our preliminary work to date we have identified the following audit risks.

Table 3 Summary of opinion risks

Opinion risks	Response
Changes to presentation of the accounts as a result of the new SORP.	Detailed review of accounts working papers to ensure the new requirements have been complied with and prior year comparators have been accurately restated.
Uncertainties regarding the arrangements for the provision of internal audit during 2006/07.	Full review of Internal Audit and follow up of issues arising from the review of the in house provision in 2005/06.
Lack of comprehensive systems documentation and testing for all material systems in 2005/06.	Complete and update full systems documentation for all material systems.
Need to produce group accounts incorporating the ALMO.	Ongoing liaison with finance officers and ALMO auditors.

- 28 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be maintained/improved and that internal audit will complete their planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by the agreed date (provisionally the end of June 2007.)
- 29 We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
 - our documentation and initial testing of material information systems;
 - our assessment of the 2006/07 closedown arrangements; and
 - any changes in financial reporting requirements.
- 30 When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

Whole of government accounts

- 31 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with stakeholders. The fee for this work is not included in this plan and we will discuss this with the Group Director Finance and Commercial when further details are available.

Certification of claims and returns

- 32** We will continue to certify the Council's claims and returns.
- Claims for £50,000 or below will not be subject to certification.
 - Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
 - Claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.
- 33** Charges for this work are based on skill-related fees scales set out in the Audit Commission's draft work programme and fee scales 2006/07. Based on this, and on the assumption that the level of grant work will reduce, we estimate that the fees for grant certification work will be around £143,000.

Other information

Outputs from the audit and inspection plan

- 34 The expected outputs from our planned audit and inspection work are listed in Appendix 3.

The team

Table 4

Name	Title
Jon Hayes	Relationship Manager and Appointed Auditor
Sharon Martin Nicholas Beth	Audit Managers
Janette Whitfield	Area Performance Lead
Mohammed Kazi Ade Alabi	Audit Team Leaders

- 35 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.
- 36 We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Future audit plans

- 37 As part of our planning process, we would normally take the opportunity to look at potential issues for future years' programmes. Given that the corporate assessment and joint area review of children's services and young people is planned for this year (2006/07) we will defer consideration of future plans until it has been completed.
- 38 We will discuss this in more detail as the audit year progresses.

Appendix 1 – Audit and inspection fee

Table 5

Fee estimate	Plan 2006/07 (&)	Plan 2005/06 (£)
<i>Audit</i>		
Accounts	241,000	205,000
Use of resources	101,000	137,000
Total audit fee	342,000	342,000
<i>Inspection</i>		*
Relationship management	42,000	*
Service inspection	0	*
Corporate inspection	122,000	*
Total inspection fee	164,000	58,000
Total audit and inspection fee	506,000	400,000
Certification of grants and returns	143,000	160,000

* Comparative information is not available for 2005/06 due to the changed fee structure.

- 1 The total audit fee compared to the indicative fee banding equates to 2 per cent below mid-point.
- 2 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 3 The fee above includes all work contained in this plan except:
 - any work required in relation to the whole of government accounts (as discussed in paragraph 30).

Specific audit risk factors

- 4 In setting the audit fee we have taken account of the following specific risk factors:
 - new ALMO;
 - previous concerns about social services financial position; and
 - impact of organisational restructuring.

Assumptions

- 5 In setting the audit fee we have assumed:
 - you will inform us of significant developments impacting on our audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
 - officers will provide good quality working papers and records to support the financial statements by the end of June;
 - officers will provide requested information within agreed timescales;
 - officers will provide prompt responses to draft reports; and
 - the key lines of enquiry for our use of resources judgement will be broadly similar to those used in 2005/06. (The key lines of enquiry (KLOEs) issued in June 2005 will be updated in spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment.)
- 6 Where these requirements are not met or our assumptions change, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 7 Changes to the plan will be agreed with you. These may be required if:
 - new risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - there are any changes to financial reporting requirements, professional auditing standards or legislation which results in additional audit work.

Specific actions Havering Council could take to reduce its audit fees

- 8 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. We have identified the following actions Havering Council could take (a number of these relate to actions that are already in hand):
- continue to improve the service level control environment for grant claims;
 - undertake analytical review on the financial statements and supporting working papers;
 - improve the quality and coverage of Internal Audit;
 - adopt a proportionate response to audit recommendations;
 - provide consistently focused and clearly cross referenced self assessments; and
 - require less detailed information on grant claim fees.

Process for agreeing any changes in audit fees

- 9 If we need to amend the audit [or inspection] fees during the course of this plan we will firstly discuss this with the Group Director (Finance and Commercial) and Chief Executive.

Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives and for determining policy and making decisions

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community

- 2 The body 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.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body 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.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

20 Audit and Inspection Plan | Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for ensuring compliance with the general duty of best value

- 7 The body has put in place arrangements to manage and improve value for money.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix 3 – Planned outputs

- 1 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 6

Planned output	Start date	Draft due date	Key contact
Audit and Inspection Plan*	1 February 2006	31 March 2006	Audit Manager
BVPP Report			Audit Manager
Report on Selected PIs (if applicable)	June 2006	October 2006	Audit Manager
Report on Financial Statements to those Charged with Governance	August 2007	September 2007	Audit Manager
Opinion on Financial Statements	July 2007	September 2007	Audit Manager
VFM Conclusion	To be advised.	September 2007	District Auditor
Final Accounts Memorandum	1 July 2007	October 2007	Audit Manager
Risk Management Follow-up	To be advised.	August 2007	Audit Manager
Changing Organisational Cultures	To be advised.	August 2007	Relationship Manager
Corporate Assessment	October 2006	November 2006	Relationship Manager
ALMO Inspection	January 2007	To be advised.	Relationship Manager
Supporting People Inspection	June 2006	To be advised.	Relationship Manager
Annual Audit and Inspection Letter (including direction of travel)	October 2007	December 2007	Relationship Manager

* To be revisited during the year to reflect outcome of 2005/06 opinion work and 2006/07 interim visit.

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

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. Professional standards requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The ISA defines ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 3 Auditors are required by the Code to:
 - carry out their work with independence and objectivity;
 - exercise their professional judgement and act independently of both the Commission and the audited body;
 - maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
 - resist any improper attempt to influence their judgement in the conduct of the audit.
- 4 In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors’ functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

- 5 The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows.
- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director.
 - Audit staff are expected not to accept appointments as lay school inspectors.
 - Firms are expected not to risk damaging working relationships by bidding for work within an audited body’s area in direct competition with the body’s own staff without having discussed and agreed a local protocol with the body concerned.
 - Auditors are expected to comply with the Commission’s statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors’ conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors’ independence.
 - Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
 - Auditors are expected to comply with the Commission’s policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements).
 - Audit suppliers are required to obtain the Commission’s written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body.
 - The Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual’s relevant qualifications, skills and experience.



MEETING	DATE	ITEM
AUDIT COMMITTEE	29 JUNE 2006	9

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: INTERNAL AUDIT PROGRESS REPORT ON COMPLETION OF FINANCIAL YEAR 2005/2006

SUMMARY

This report advises the Committee of audit issues from internal audit activities for the remainder of the financial year 2005/2006. It includes management summaries from internal audit work.

RECOMMENDATIONS

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

REPORT DETAIL

1. 2005/2006 Audits

- 1.1 Schedule 1 details the progress on work completed to the draft and final stages for the remainder of the financial year 2005/2006.
- 1.2 Schedule 2 contains the management summaries for audits completed to final report stage for the remainder of the financial year 2005/2006.
- 1.3 Schedule 3 contains the management summaries for the follow up audits completed for the remainder of the financial year 2005/2006.

2. Fraud and Investigation Work

- 2.1 Schedule 4 contains a brief synopsis of the fraud and investigations work conducted between 1st March 2006 to 31st March 2006. Included in the summary

are the results of completed investigations and actions taken and work that is still in progress.

3. Issues relating to the Annual Audit Report

- 3.1 The Annual Audit Report highlighted the fact that there were a number of qualified audits relating to contractual and computer related issues.

Reports have been prepared on the issues and are attached as follows.

Schedule 5	Contractual matters
Schedule 6	Computer related matters

4. 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, the managers are obligated to consider financial risks and costs associated with the implementation of the recommendations. There are no financial implications or risks arising directly from this report.

5. Legal Implications and risks

None arising directly from this report

6. Human Resource Implications and risks

None arising directly from this report

7. 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

2005/2006 AUDIT PROGRAMME (for the remainder of the financial year 2005/2006) SCHEDULE 1

Audits Completed To Final Report Stage

Report	Issued	Internal Auditor's Opinion	Recommendations				Ref
			High	Med	Low	Total	
Grants Protocol	02.03.06	Unqualified	0	0	1	1	Sch 2 (a)
IT Network & Infrastructure	15.03.06	Unqualified	0	2	1	3	Sch 2 (b)
Oracle Databases	21.03.06	Unqualified	0	3	0	3	Sch 2 (c)
Creditors	31.03.06	Unqualified	0	2	3	5	Sch 2 (d)
Health & Safety on Site	31.03.06	Unqualified	0	4	1	5	Sch 2 (e)
Main Accounting 05/06	11.04.06	Unqualified	0	0	0	0	Sch 2 (f)
Provision of Residential Placements and Home care for the elderly	18.04.06	Unqualified	0	3	1	4	Sch 2 (g)
Debtors	03.05.06	Unqualified	0	0	0	0	Sch 2 (h)
Insurance & Performance Bonds	18.05.06	Unqualified	0	4	1	5	Sch 2 (i)
Provision of Services for the under 8's	19.05.06	Unqualified	0	4	0	4	Sch 2 (j)
IT Strategy	24.05.06	Unqualified	0	2	0	2	Sch 2 (k)
E-Government	24.05.06	Unqualified	0	1	0	1	Sch 2 (l)
Council Tax	24.05.06	Unqualified	0	2	0	2	Sch 2 (m)
Purchasing of services for those with mental health problems	26.05.06	Unqualified	0	4	2	6	Sch 2 (n)
Corporate Financial Procedures	25.05.06	Unqualified	0	1	0	1	Sch 2 (o)
Payroll	31.05.06	Unqualified	0	0	2	2	Sch 2 (p)
Use of Fuel Cards	31.05.06	Qualified	1	6	0	7	Sch 2 (q)
Housing Benefits	11.04.06	Unqualified	0	1	0	1	Sch 2 (r)
E -Commerce	12.06.06	Unqualified	0	6	2	8	Sch 2 (s)
Total			1	45	14	60	

Pro-Active Audits Completed To Final Report

Report	Issued	Recommendations				Ref
		High	Med	Low	Total	
Journals	Unqualified	0	0	0	0	Sch 2 (t)
Invoice Payments Social Services	Unqualified	0	0	0	0	Sch 2 (u)
Discounts & Exemptions	Unqualified	0	2	0	2	Sch 2 (v)
Total		0	2	0	2	

Follow Up Audits Completed as at 31st March 2006

Report	Issued	Progress Towards Implementation	Ref
Debtors	25.05.06	Good	Sch 3 (a)
Business Continuity	05.06.06	Good	Sch 3 (b)
Computer Review of the Housing Rents System	25.05.06	Good	Sch 3 (c)

Audits Completed to Draft Report Stage as at 31st March 2006

Report	Draft Issued	Head of Service	Group Director
Housing rents / Arrears & FTA's	24.05.06	Barry Kendler	Mark Gaynor
Teleworking / Remote Access	07.04.06	Ray Whitehouse	Rita Greenwood
System Change Management	22.03.06	Ray Whitehouse	Rita Greenwood
DSO Servitor	05.04.06	Ray Whitehouse	Rita Greenwood
Academy Council Tax / NNDR and Benefits	30.03.06	Ray Whitehouse	Rita Greenwood
SWIFT	31.03.06	Peter Brennan	Mark Gaynor
New Employees Pro-Active	25.04.06	David Ede	Daivd Ede

Management Summaries Systems Audits

Grants Protocol	Schedule 2(a)
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Management Summary

1.1 Introduction

- 1.1.1 The London Borough of Havering (LBH) receives large sums of grant funding money each year either directly from the Government or other funding organisations. This has enabled the Authority to provide additional services to stakeholders and partners.
- 1.1.2 The purpose of the Grant Management Protocol is to provide a step by step approach in dealing with making an application for a grant, management of the grant once awarded, year end processes and preparation of grant claims and certification by the Audit Commission (AC). The use of the protocol will ensure a uniform practice across the Authority, reduce error and omissions, improve timeliness and promote good quality working papers, thereby reducing the Audit Commission queries.
- 1.1.3 The Grant Management Protocol is available on the intranet, although this version does not agree in totality to the Audit Commission guidelines. An updated version of the Protocol is being prepared and the idea was to agree the protocol with the Audit Commission to form uniform guidelines. New guidance on the Grant Claims and Returns Checklist has already been developed and the checklist has been redesigned for ease of use and to avoid different interpretations of the contents. The new Grant Claims & Returns Checklist is not in use yet.
- 1.1.4 There are two types of grants available to Havering Council, grants where a bid needs to be submitted and annual allocation grants. At the time of the audit there were no grants available for review that required a bid to be submitted, therefore SOC Teenage Pregnancy Local Implementation and EDU29 Teachers Pay Grants, (both annual allocation grants) were selected for compliance testing with the Grant Management Protocol.

1.2. Key Risk Areas reviewed

- 1.2.1 The audit was conducted to ensure that the key risk, that there was compliance to the Grants Management Protocol was being addressed.

1.3 Critical issues that require immediate management attention

- 1.3.1 There are no issues deemed to be critical within this audit review that would give rise to a high category recommendation.

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

1.4.1 There are no issues deemed to be significant within this audit review that would give rise to a medium category recommendation.

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

1.5.1 Both the Claim File and the Claim Compiler Checklist should contain adequate explanations as to why certain working papers (as required on the checklist) are either not applicable or not included within the file.

1.6 Summary of recommendation(s)

1.6.1 The report contains one low recommendation.

1.6.2 However, It must be noted that recommendations have not been raised relating to the review and update of the Grant Management Protocol as this has already been started by the Grants Coordinator. It must be ensured that update of the Grants Management Protocol includes:

- Incorporating the Audit Commission’s and the Council’s requirements; and
- Any revised staffing structures within the Council.

1.7 Audit Opinion

1.7.1 An unqualified audit opinion can be given as the systems of control are generally in place and any recommendations made are designed to enhance the control environment.

1.1 Management Summary

- 1.1.1 The London Borough of Havering rely on their network to provide computer access to approximately 2,500 users spread over 18 sites. The two main sites with the highest number of users are the Town Hall and Mercury House. However, there are a number of sites which only have one to 5 users which still require network access.
- 1.1.2 The Town Hall and Mercury House are connected by a 100mg fibre link and other offices are either connected by microwave links or access the network remotely via IP Stream technology utilising broadband technology. The Remote Access system was reviewed and approved before implementation and there is a defined process for setting up offices and users.
- 1.1.3 This audit reviewed the network architecture, management, support, perimeter security including the firewall, and the arrangements in place for accessing the network and transmitting data over the network. The review did not examine the desktop environment or data storage and security.
- 1.1.4 The overall objective of the audit is to evaluate the management and access controls of the network facilities and resource.

1.2 Key Risk Areas reviewed

- 1.2.1 This audit reviewed the following key risk areas:
- IT Management does not have accurate and complete hardware and software inventories and adequate processes to add or remove from the inventory of assets.
 - Failure to have adequate access controls to the network.
 - Inadequate network and security policies and lack of enforcement of these policies.
 - Lack of control and review of Internal and external strategic risks to current systems and services.
 - Failure to have or prepare adequate and updated contingency plans.
 - Management, skills base, staffing levels and organisational controls.
 - Processes in place for training and technical improvement of the Network support staff.
 - Future development of the network and improvement plans are not in place.
 - Network monitoring facilities are not in place.

1.3 Critical issues that require immediate management attention

- 1.3.1 There were no issues which were deemed to be critical in this review

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

1.4.1 The review found that there could be improvements to document procedures and that security controls are fully addressed

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

1.5.1 There were no issues which needed raising under this category

1.6 Summary of Recommendations

1.6.1 The report contains two Medium and one Low Priority recommendations.

1.7 Audit Opinion

1.7.1 An unqualified audit opinion and the recommendations made should further enhance the systems controls and procedures

Management Summary

1.1 Introduction

- 1.1.1 The Oracle databases support all critical applications deployed by the London Borough of Havering (LBH). These include the Anite Housing application, EBiz application, Financials, LLPG, etc. Each application runs on a unique "instance" of the Oracle database with versions varying from Oracle 8 through to 9 running on the Unix operating system.
- 1.1.2 The Oracle database is supported in house by the Technology support team based at Mercury House. However, the applications running on the database are themselves supported by third party suppliers. Additionally, Directorate IT Technical support personnel (operations personnel) interface between the Directorate end-users and the Central IT Technical support providing first line technical support to application end-users.

1.2 Key Risk Areas reviewed

- 1.2.1 This audit reviewed the following key risk areas:
- To ensure that logical security tools and techniques are adequately implemented and configured to enable restriction of access to programs, data, and other information resources.
 - To ensure that logical security tools and techniques are adequately administered to enable restriction of access to programs, data, and other information resources.
 - To ensure that in the event of a disaster, essential business processes and information systems can be recovered timely.

1.3 Critical issues that require immediate management action.

- 1.3.1 There were no significant risks raised during this audit

1.4 Significant issues that require management attention to improve the control environment

- 1.4.1 The audit identified a few issues relating to the systems administration of the Oracle database and recommendations have been made to strengthen these

1.5 Other matters identified that need attention to ensure “best practice” within the control environment

1.5.1 There were no items raised under this section

1.6 Summary of recommendation(s)

1.6.1 The report contains three medium recommendations.

1.7 Audit Opinion

1.7.1 An unqualified audit opinion can be given as Audit is satisfied that there is a good control environment within the Oracle databases.

Management Summary

1.1 Introduction

1.1.1 The total creditors payments through the Council's bank account for 2003/04 (totals for 2004/05 not available at the time of the brief) was £243,868,667. In 2005/06, up to the end of period 10 there had been £279,781,587 paid on 103,191 transactions (an average of £2,711.30 per transaction). It is therefore essential that sound systems of control are in operation to minimise the risk of inappropriate and fraudulent payments being made.

1.1.2 This review concentrated only on the manual aspects of the systems as the IT controls are undertaken as a separate audit by the computer audit team.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:-

- Failure to prevent fraudulent, duplicate and improper payments
- Failure to obtain proper approvals for payments
- Errors processing transactions
- Payments without invoices
- Fake or incorrect invoice may be entered into the payment system
- Late payment of invoices
- Incorrect payment
- Interest accrued because of late payment
- Non Compliance to VAT legislation (changes in VAT rate and charging)
- Non compliance to the Financial Procedure Rules and the Financial Framework
- Inefficient and ineffective use of resources

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 There is a risk that officers may be breaking Financial Procedure Rule 15b by instructing work without raising the relevant order. Officers when completing the payment slips are failing to include the order or

contract reference on 54% of the sampled payments. Although there was no evidence to indicate any wrong or inappropriate payments being made reference should be made to an order number. Officers also need to ensure that they need to complete all relevant boxes on the payment slip in accordance with paragraph 7.4 of Section L of the Financial Framework.

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

1.5.1 It is considered that there is a need to generate annual reports on duplicate VAT numbers as an anti fraud measure. There should also be consideration to the relocation of the invoices to improve security by reducing access to the documents.

1.6 Summary of recommendation(s)

1.6.1 The report contains two medium and three low risk recommendations.

1.7 Audit Opinion

1.7.1 An unqualified opinion can be given as the recommendations are only for minor improvements and administrative issues.

Management Summary

1.1 Introduction

1.1.1 In the year 2005 the Technical Partnership undertook approximately 44 tender exercises for new construction projects. The Council was also working on schemes that were carried over from 2004. There have also been a further 10 tender exercises undertaken in January and February 2006.

1.1.2 It is important that when contracts are awarded that the works are undertaken in a safe manner so as to avoid putting the public and workmen at unnecessary risk. Also, officers could face prosecution if they fail to take the necessary action in the event of them noticing works being undertaken in an unsafe manner or left unsafe.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- The relevant Health & Safety plans are not being produced by the contractors and officers.
- Sites are not being inspected to check that the contractors are working in a safe manner.
- Contractors and Council officers not complying with the CDM legislation.
- Relevant H&S manuals are not being provided and staff not being trained in the use of the new facility

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 There were several areas of weakness identified in the review that need to be addressed. The first is the lack of involvement/liaison with the Corporate Health & Safety Section to confirm to what extent a scheme has to comply with the CDM regulations and for monitoring works on site.

1.4.2 The second area of weakness concerned the submission of the health and safety files or relevant operational manuals and the level of training that the client receives on completion of the works.

1.4.3 The last area of weakness was that the actual legislation contradicts itself and needs clarification as to when a scheme needs to fully comply with the CDM rules.

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

1.5.1 There is also a concern that when work is intended to be carried out to a school during term times, and in particular at secondary schools, the workmen could be at risk from disruptive pupils throwing items. This risk needs to be brought to the attention of tenderers so that they can allow for this when pricing for the works.

1.6 Summary of recommendation(s)

1.6.1 The report contains four medium and one low risk recommendations.

1.7 Audit Opinion

1.7.1 As works are being undertaken in a safe manner, officers are fully aware of the CDM requirements and the rules are being considered when projects are being designed an unqualified opinion can given.

Management Summary

1.1 Introduction

1.1.1 The aim of the audit was to provide assurance to management that both the Main Accounting system used in 2005/06 year and the high level systems of control are functioning as intended.

1.1.2 This work is performed to form a view on the systems of internal financial control and, as such, control weaknesses identified will feed into the statement of internal control wherever applicable.

1.1.3 Journals were tested for authorisation controls extensively last year and have not been tested to the same extent this year. Controls remain the same.

1.1.4 Authorisation controls for access to FIS and opening cost centres have been tested more carefully this year, as the level of controls has been changed. However no control recommendations were made from these tests.

1.1.5 The Oracle Financial System was subject to a computer audit in June 2004, and reliance has been placed on its findings in this year's audit as well as last. Some of its recommendations, such as Disaster Recovery systems, have not been followed yet.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- That recommendations for service improvements by both the internal and external auditors have not been implemented within pre-set time scales.
- Opening balances are incorrectly brought forward from 04/05 to 05/06.
- Journal transfers are not appropriately authorised, are insufficiently detailed and have been incorrectly posted.
- Transactions in the feeder systems are not transferred completely and accurately to the main accounting system.
- Amendments or the introduction of new financial codes are not strictly controlled or co-ordinated and are inadequately documented.
- Appropriate arrangements are not in place to reconcile the Council's Bank accounts and there is not documentary evidence

to prove the total net cash balance shown on the consolidated balance sheet.

- FIS does not provide an effective management tool and does not enable adequate budgetary control and coding on timely basis.
- Disaster recovery systems and back-up are not in place for the FIS system.
- Access to various levels of the financial system is not restricted to authorised personnel.
- There is no monthly reconciliation between the data appearing in FIS and the main feeder systems.
- The Annual Statement of Accounts is not prepared by the due date.

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 There is no Disaster Recovery Plan in existence. This matter has, however, been raised in recent Computer Audits and is being addressed.

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

1.5.1 There were no other matters, which should be brought to Management's attention to ensure good practice.

1.6 Summary of recommendation(s)

1.6.1 The report contains no recommendation.

1.7 Audit Opinion

1.7.1 An unqualified opinion can be given for this review.

Provision of Residential Placements and Home care for the elderly	Schedule 2(g)
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1 Management Summary

1.1 Introduction

1.1.1 The aim of Adult Services in Havering is to provide and support Older Citizens to maintain an independent and dignified life. A charter for the long term care for the over-65s has been developed to enable people with residential and care needs to obtain better services. Adult Services provide care facilities within the home, or where this is not possible by residential care service with the aim of providing accommodation in a homely environment either on a long term or short term basis. Meals and leisure activities are provided and an enhanced respite care may be provided for those whose need falls in between that of home help and that of residential care.

1.1.2 Eligibility for such services is established by assessment, carried out by a care manager / social worker. Financial 'Means Assessment' is also carried out and the recipient of the service may be required to make some financial contribution towards the service.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- Individuals who would merit benefit from the services are excluded by persons not entitled to receive such benefits actually doing so.
- The services fail to be provided due to lack of funding, financial stewardship or planning.
- Premises for residential services are unfit for habitat.
- Customers abused by staff.
- Service standards fall below acceptable level.
- Service fails through lack of qualified/experienced staff.
- Service fails because service partnerships such as voluntary sector are not robust enough.
- Service fails due to unidentified risk, patient led or otherwise becoming apparent.
- Care Managers fail to act in a timely manner to arrange care packages and get appropriate care.
- Assessments of the person's ability to pay have not been carried out.

- The service becomes inefficient as income streams from contributions from customers who are means tested fail to be collected.

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 There is concern over the delays in exchanging contracts with persons going into some form of residential care. This delays the Council from reclaiming any balances due to them for the care package. There are also concerns that low valued care packages can be approved without any senior management authorisation.

1.4.2 There are also no formal written procedures for officers to refer to that detail the processes that officers need to follow. This has been identified by managers but has yet to be addressed.

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

1.5.1 It is considered that there should only be one manual filing system for all persons who are receiving some form of care and this is supported by the computer system. This will best be considered when officers move to one location. This would generate print savings, reduce storage requirements and allow staff access to all information relating to each person.

1.6 Summary of recommendation(s)

1.6.1 The report contains three medium risk and one low risk recommendations to address the weaknesses identified above.

1.7 Audit Opinion

1.7.1 As the weaknesses were all considered to be minor an unqualified opinion can be given for this review.

Debtors	Schedule 2(h)
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1. Management Summary

1.1 Introduction

- 1.1.1 The Debtors System forms a central function to the Council's ability to manage its financial resources and as such represents a key critical system which must be audited every year.
- 1.1.2 Debtors management concerns the raising of invoices for services provided by the Council, subsequent cash collection and debt management where outstanding debtors fall behind with payment and into arrears.
- 1.1.3 Due to the extensive audit work carried out in the previous financial year, this year's audit was only a high level review.
- 1.1.4 A "follow up" audit of the debtors system was undertaken during March and is covered under a separate report.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- Credit is extended inappropriately.
- Debt owed to LBH is not established.
- Money due to LBH is not collected.
- Recovery action is not economic or effective.
- Debt is progressed inappropriately.
- Debt recovery action is suspended inappropriately.

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 There were no issues to be raised under this section.

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

1.5.1 There were no issues to be raised under this section.

1.6 Summary of recommendation(s)

1.6.1 The report contains no recommendations.

1.7 Audit Opinion

1.7.1 An unqualified opinion can be given for this review.

Management Summary

1.1 Introduction

1.1.1 In order to protect the public and staff of a company there is a requirement for all companies to carry various insurances. These may change from contract to contract. The main insurances that companies are expected to have are employers liability insurance and public liability insurance. Employers Liability Insurance is set by the Government, whereas the level of Public Liability Cover required is set by the Council and currently set at £2m.

1.1.2 Other insurances that companies may require on construction related projects are professional indemnity Insurance (PII) and all risks cover. PII is required where a company undertakes design duties or provides advice upon which the Council acts. PII is renewed annually and claims made on such policies only relate to that year's cover and not when the work was designed. All risk insurance is to cover the contractor for any other risk.

1.1.3 Performance bonds also protect the Council should companies not perform and/or are in breach of contract. There are various types but normally they are for 10% of the contract sum. Experience has found that it is very difficult to claim on such a bond as the bondsman will initially claim that there has been no breach of contract. There will then be considerable effort and officer time spent in demonstrating why the contractor was in breach of contract and the bond should be released. It should also be noted that the bond is for a specific amount and does not cover the additional staff costs incurred in proving the claim.

1.1.4 Procedures therefore need to be in place to ensure that the contractor's insurances are checked whenever they enter a contract or on renewal if the contract goes beyond the expiry date of their insurance policy.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- Contractors not having or maintaining any employers or public liability Insurance resulting in claims having to be met directly by the Council;
- Professional Indemnity Insurances not being maintained on an annual basis resulting in the Council having to pay for any design faults identified after the works have been completed;
- Performance bonds are not being obtained and so results in the Council having to incur additional costs in completing the works; and

- Insurance companies not wanting to pay out in the event of a claim against a bond.

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 There are currently no checks being made to ensure that firms not on constructionline or are appointed to undertake non-construction work are renewing their insurances. For firms on constructionline checks are made at the time of tender that the firms have the necessary cover but no checks are made to confirm that the cover is maintained. However, should the company not have insurance then claims may be made on the Council's Insurance so there would be no effect on the public.

1.4.2 There are also no checks or requirements for a company which undertakes design work to have their PI cover maintained over the latent defects period so as to protect the Council against any loss and expense due to their poor design.

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

1.5.1 It is considered that the level of Public liability Insurance is raised to at least £5m. This is a more realistic level of cover and all the firms included in the sample had this level of cover.

1.6 Summary of recommendation(s)

1.6.1 The report contains four medium and one low risk recommendations.

1.7 Audit Opinion

1.7.1 Whilst there is a lack of formal checks being carried out to ensure that firms maintain or continue to have the necessary insurances some cover would be possible under the Council's own Insurances. As the recommendations are to improve control and reduce the financial risk of the Council having to meet Insurance claims that should be settled by its contractors, as opposed to address weaknesses that might allow fraud or errors the report can be given an unqualified opinion.

Management Summary

1.1 Introduction

1.1.1 The Council provides various day centres for the nursery education of children under 8 in the Borough. The purpose of the audit is to examine the effectiveness of the care and provision delivered within the Early Years' Centres, and also examine the safety controls and systems to deal with risks which arise in these centres.

1.1.2 Of the places for Children Under 8s, there are:

- 1) 3 Early Years Centres accounting for 5% of these children.
- 2) Several Nurseries attached to schools, accounting for 10% of these children,
- 3) About 90 MVPIs (Maintained, Voluntary, Private and Independent) which account for 85% of the children.

They are all registered with Ofsted, which checks the policies and procedures, sets the rules and runs checks every year. Their inspection report (one for each establishment) is filed on the website.

1.1.3 All the records of safety and access are held on site, by the nurseries, rather than centrally by the authority.

1.1.4 This work is performed to form a view on the systems of internal control and checks in operation and appraise their adequacy, reliability and effectiveness within the established systems.

1.1.5 Child Placements service has been covered by an earlier audit and will not be covered by this review.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- Child Safety - Unauthorised adults having access to day centres.
- Child Safety - Inappropriate staff in post who may come into contact with children.
- Child Safety - Inadequately trained staff in post to provide the service.
- Child Safety - Inadequate / unsafe equipment used by service.
- Child Safety - Ineffective access controls for children.
- Child Safety - Inadequate or ineffective first aid services available.

- Child Safety - Unsafe environment for childrens' activities.
- Child Safety - Failure to carry out a needs/ risk assessment.
- Funding and Service Management - Inadequate financial management.
- Funding and Service Management - Services provided fail to meet the needs of the child because they are unsuitable or not relevant.
- Funding and Service Management - Services provided are inconsistent.
- Funding and Service Management - Service ceases to continue due to lack of Funding.
- Performance - Service falls below standards agreed within the SLAs
- Performance - Services delivered are insufficient to meet the needs of the local KPIs and BVPIs.
- Performance - Ineffective Management Information System to record primary data.
- Performance - Lack of reporting trends or observations to management.

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 There is the potential for children using unsafe equipment due to there being no requirement for officers to inspect the equipment or for the relevant manager at the centre completing a risk assessment/inspection form. Whilst it would be beneficial if the Ofsted reports could cover these matters, there are no proposals to revise the current reporting structure. Annual risk assessment schedules should therefore be introduced to show that these matters are annually reviewed and where necessary what remedial action has been taken. It should be noted that there was no evidence found to indicate that these inspections were not being undertaken or that children were being put at risk.

1.4.2 Funding and Service Management - it appears that budgetary changes are not discussed with Managers of EYC's before they are effected. These Managers should be fully involved in the budget process and any amendments throughout the year.

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

1.5.1 There were no other matters identified that require management attention.

1.6 Summary of recommendation(s)

1.6.1 The report contains four medium risk to address the weaknesses identified above.

1.7 Audit Opinion

1.7.1 As the weaknesses were all considered to be minor an unqualified opinion can be given for this review.

1. Management Summary

1.1 Introduction

- 1.1.1 Central Government policy is for Local Government to increase the use of technology and to achieve the e-Government target of 100% e-enablement of Council services. The projects currently ongoing within the Council lead towards the delivery of e-Government objectives. Therefore the Information and Communications Technology (ICT) Strategy which underpins the development of business change projects has a high risk profile within the audit programme. The Audit assessed the adequacy and effectiveness of the control environment established in the development of the ICT Strategy in its role in delivering ICT solutions to the electronic delivery of Council services and for the support of Council business.
- 1.1.2 The Council has a documented ICT Strategy to cover the period 2005 to 2008 and this is published on the Havering intranet.
- 1.1.3 A Corporate Development Plan, with the Council priorities over the 2005 to 2008 period has also been documented. It outlines the actions to be taken by the Council to deliver these priorities. Review of departmental service plans identified developments within ICT that could be tracked back to the ICT Strategy.
- 1.1.4 User departments, ICT Management and members of the Senior Management Team have been involved in the development of the Havering ICT Strategy. The e-Government Technology Service (e-GTS) facilitates the delivery of ICT to the Council. e-GTS Portfolio Managers have carried out close liaison with Service decision makers to brief them on technology opportunities and to identify and develop Departments' future ICT requirements.
- 1.1.5 The ICT Strategy is closely aligned to the Corporate Development Plan. The Corporate Development Plan identifies the actions required over the 2005 to 2008 period to deliver corporate priorities for service provision. These actions form part of the plans of the affected service areas and the technology elements are included in the ICT Strategy.
- 1.1.6 An ICT Strategy Project Board was set up to drive forward the Council's ICT Strategy and to monitor the delivery of projects in the Strategic plan. The Head of Business Systems, with responsibility for the ICT Strategy chairs the ICT Strategy Project Board. All the Council Directorates were represented in the ICT Strategy Project Board.

1.1.7 A corporate risk assessment has been carried out to identify key ICT risks. The risk register is maintained and monitored by the Programme Office, and was last updated in January 2006.

1.2 Key Risk Areas reviewed

- Lack of commitment by senior management could result in IT operations and projects failing to adhere to the long term needs of the Council.
- If users are not consulted about their departmental plans and strategies there is an increased risk that the ICT Strategy will fail to meet user requirements.
- In the absence of an implementation plan projects may be uncoordinated, not monitored or poorly managed. This could result in failure to meet the strategic objectives.
- If there are inadequate monitoring and reporting systems in place, there is a risk that any failures within the strategic plan will not be detected in time. This could result in major slippage of project delivery, which could affect the success of the plan.
- If the ICT Strategy is not regularly reviewed, the changing requirements of the Authority may not be taken into account.

1.3 Critical issues that require immediate management attention

1.3.1 There were no issues raised.

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

1.4.1 An item on the initial risk assessment, political changes, was at the time of the Audit still an open risk. However, it was omitted from the risk register after two updates. A “Medium” category recommendation has been raised to address this issue.

1.4.2 The ICT Strategy document does not include the oversight Board to the ICT Strategy Project Board in the governance structure. ; The ICT Strategy document does not include a reference within its governance structure that the ICT Strategy project Board should report regularly to the main Project Board. A “Medium” category recommendation has been raised to address this 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 two “Medium” category recommendations, as outlined in 1.4 above.

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 development and implementation of the ICT Strategy.

1. Management Summary

1.1 Introduction

- 1.1.1 As part of the e-government programme co-ordinated by the Office for the Deputy Prime Minister (ODPM), Local Authorities are required to deliver a specified number of Council Services by electronic means. This also includes the integration of Council Services to allow public contact to be more efficient.
- 1.1.2 On an annual basis Councils are required to report on their progress against specified targets and this has been achieved using the annual return *Implementing e-Government return*. The latest return being the IEG 6 return which reported on the implementation of e-Government as of the 31st March 2006
- 1.1.3 The Havering e-Government Programme began in 2002. It is comprised of two aspects:
- Meeting the Government's requirements, in terms of Priority Service Outcomes (PSOs); and
 - Projects to support delivery of the PSOs and other internal e-Government-related initiatives.
- 1.1.4 The majority of the PSOs and supporting projects have been completed or are nearing completion as of the 31st March 2006 in line with Government targets. Therefore, the e-Government Programme, as such, will be closed at the end of March 2006 with ongoing e-Government-related projects and targets continuing under the title of the ICT Strategy Programme Board. (IT Strategy was audited separately in February 2006).
- 1.1.5 Our review found that the e-Government programme was managed by a formal e-Government Programme Board which included high level Departmental representation to ensure e-Government objectives were integrated with business developments.
- 1.1.6 Projects were managed according to the principles of the PRINCE 2 project management methodology and projects reviewed had standard project documentation completed. Projects also had a business justification for implementation. We also identified that projects had a quality assurance role and project documentation was completed in line with expected standards in project methodology.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- a. Corporate initiatives are not in place to support the e-government programme.
- b. Adequate project controls are not in place for any project that will deliver any aspect of e-government.
- c. Failure to align E-Government projects with Corporate Business and Service plans strategies and objectives.
- d. Inadequate funding levels are risking the completion of projects within the e-government initiative.
- e. Failure to follow an approved project management methodology in the Council for adequate control and communication of projects to the Executive team and councillors.

1.2.2 In addition, the status of any recommendations still outstanding from the previous Audit Report, dated April 2004, was determined.

1.3 Critical issues that require immediate management attention

1.3.1 There were no critical issues.

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

1.4.1 Discussion of the Programme's Risk and Issues Logs is not a formal agenda point on the Programme Board meeting nor is this discussion formally minuted. Risk and Issues logs provide a record of significant risks that could affect the success of the programme or project. These are either opened then closed or remain open throughout the project and managed to reduce their impact or likelihood. These are standard documents in the completion of a project or programme and should be formally monitored to ensure project success.

1.5 Summary of recommendation(s)

1.5.1 This report contains no High risk recommendations.

1.5.2 This report contains one Medium risk recommendation.

1.5.3 This report contains no Low risk recommendations.

1.5.4 The current e-Government Programme structure and activities address the recommendations arising from the previous Audit Report.

1.6 Audit Opinion

1.6.1 An unqualified audit opinion can be given as Audit is satisfied that there is a strong control environment within the e-Government Programme.

- Discussion of the Programme's respective Risk and Issue Logs should be a formal agenda point for Programme Board meetings; and the results of those discussions should be minuted accordingly.

Council Tax	Schedule 2(m)
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1. Management Summary

1.1 Introduction

1.1.1 The Local Government Finance Act 1992 introduced Council Tax. This replaced the Community Charge on the 1st April 1993. The money raised through the Council tax is retained to fund Council spending, but it only represents 15 to 18% of the money needed. The remainder is made up of other things such as grants from the government and fees and charges.

1.1.2 All domestic properties are subject to Council tax and to determine the amount payable they are allocated a band according to their market value as at 1st April 1991. The bands range from A to H encumbering an amount payable for each band.

1.1.3 The following levels of Council Tax were set: for 2006-2007 Band A £920.00, Band B £1073.33, Band C £1226.67, Band D £1380.00, Band E £1686.67, Band F £1993.33, Band G £2300.00 and Band H £2760.00. This represents an increase of 3.9%.

1.1.4 Collection rates for Council Tax over the last three years are as follows:

YEAR	NET DEBIT	CASH RECEIVED	COLLECTION RATE
2003/04	£93,499,296.89	£90,155,395.41	96.42
2004/05	£98,382,430.47	£95,224,448.29	96.79
2005/06	£102,280,465.46	£99,087,294.64	96.88

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- All chargeable properties are not identified, assessed and recorded. Records are inaccurately maintained of properties liable to Council Tax.
- All persons liable for Council Tax have not been identified and correctly recorded.
- Amounts due in respect of each chargeable property have been incorrectly calculated and not promptly posted to the correct accounts.
- All council tax monies collected are not posted to the correct accounts.

- Prompt and effective recovery action is not taken on all overdue amounts, resulting in increasing write offs.
- The computer system is insecure and does not operate in accordance with approved procedures.

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1.3 Critical issues that require immediate management attention

1.3.1 The audit review did not highlight any major weaknesses resulting in a high category recommendation.

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

1.4.1 A review of council tax accounts in arrears at time of the audit review established that of the 25 accounts reviewed, in 6 cases it was felt that sufficient recovery action had not been undertaken. Long periods of time where no recovery action was taken were identified. In addition, it was found that notes within the Academy system were not clear and did not provide an effective audit trail as to what recovery action was being taken and when.

1.4.2 The 2004/2005 review of Council Tax established that it was possible for users to login to more than one PC at any one time. This issue alone would not present a significant risk as via Citrix, user logins only allows access to the permissions already set up. In order to reduce the risk of unauthorised and possible fraudulent access to systems, a Principal Officer produces and monitors regular reports from the system. It was noted that due to this officer being on sick leave, this report has not been produced since January 2006.

1.4.3 As part of the 2005/2006 audit review of Council Tax, a review of access permissions for staff was due to be undertaken. However, it was found that various access permissions and structure had not been clearly established or documented. A recommendation has not been raised regarding this issue as management are already aware of the need for a documented structure with applicable access rights, to be in place and action is being taken to address this.

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

1.5.1 The audit review did not identify any issues within the control environment that would require management attention to ensure good practice.

1.6 Summary of recommendation(s)

1.6.1 The report contains two medium 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 the Council Tax Service. However management need to ensure that:

- All debts are recovered in a timely manner and records retained on the Academy system are clear and accurate to provide an effective audit trail.
- Tasks undertaken by Principal Officers on a regular basis continue to be undertaken in their absence.

1 Management Summary

1.1 Introduction

1.1.1 Mental Health Services are provided to residents of Havering under a joint partnership arrangement between the North East London Mental Health Trust (NELMET) and the Local Authority, London Borough of Havering. Provision of Mental Health Services are provided by the Local Authority via a referral process through the Fair Access to Care. The North East London Mental Health Trust is funded by the local Primary Care Trust (PCT) and governed by the National Service Framework (NSF), while the Local Authority derives the majority of its funding through Central Government Grants.

1.1.2 The Authority provides its services for Mental Health across three distinct ward areas, Romford, Upminster and Hornchurch.

1.1.3 The North East London Mental Health Trust is responsible to four London boroughs and at the time of the audit both the Trust and the PCT funding it were going through restructuring. Likewise the London Borough of Havering, was (at the time of the audit) going through a process of restructuring.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:-

- Restructuring of NELMET, the PCT and the LA fails to allow the service to operate effectively
- Funding streams are reduced or withdrawn completely
- Staffing levels fall in externally provided sections of the service of which the LA has no authority to override, impacting directly on the Mental Health Services
- The service overspends on Agency staff through inability to retain permanent staff
- Data management of the Management Information Systems fails to enable performance measurement
- Ineligible residents obtain services
- Cutting services has a wider impact on the overall service of Mental Health
- Inability to control staff recruitment or agency use through the Mental Health Trust has a direct impact on the LA's ability to deliver Mental Health Services

- Policies and procedures may differ between the PCT, NELMET and the LA
- Commissioning of beds for mental health

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 Generally procedures were sound, however the Council at present use a number of different agencies to provide cover for vacancies in the establishment. There is the opportunity to obtain better value for money by having a general contract with only one or two Agencies for the provision of Agency staff as this is likely to result in reduced costs. This could be extended to cover other neighbouring boroughs and NHS trusts.

1.4.2 There are at present no general procedure notes for officers to follow. This increases the risk of officers not working to same procedures and standards. This will be particularly important once the restructure of the service has been completed. These notes and all business plans and other documents available to the general public should be in plain English so that they are easy to understand and follow.

1.4.3 There was also a weakness in the way in which the two data bases used by the Council and the NHS interface. There is a risk that incomplete information is being held on the systems due to the problems in getting data into a format that will allow it to be transferred. This will continue to be provide a risk to the Council until these matters are resolved.

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

1.5.1 There is a problem with the recruitment of staff to fill permanent posts. This reliance could be reduced by considering more incentives to encourage people to join the Council. This could reduce staff costs as there is no need to rely on Agency to provide staff to fill the posts.

1.6 Summary of recommendation(s)

1.6.1 The report contains six recommendations, four are medium priority and two low priority.

1.7 Audit Opinion

- 1.7.1 An unqualified opinion can be given as the recommendations are only for minor improvements and administrative issues.

1. Management Summary

1.1 Introduction

- 1.1.1 The aim of the audit was to provide assurance to management on the annual Capital & Revenue budget setting and monitoring procedures for the following service areas: Leisure, IT and Transport. These involve a review of Corporate Financial Procedures.
- 1.1.2 This audit is performed to form a view on the systems of internal financial control which are in place to ensure budgets are correctly compiled and approved so that management are made aware on a timely basis when the actual income or expenditure figures show that there is a potential risk of an overspend/ underspend of the budget.
- 1.1.3 The audit looked at the budget processes from three main areas: the service area affected, the finance departments (accountants) who report on it, and the corporate financial function which regulates it and presents it to the Council Members.
- 1.1.4 The Authority has also been informed by the Audit Commission that it considers the "Star Chamber" to be an example of best practice which it will be recommending to other authorities.
- 1.1.5 It has to be recognised that the Systems of Control are only effective providing budgets if they are set realistically, and all payment information is input in a timely manner. Variances and over / under spends will often be the result of incorrect initial budgets or payments not being processed in a timely manner. The systems of control that are in place do however record and highlight any budgeted difference once the information has been input into the Financial Information System.

1.2 Key Risk Areas reviewed

- 1.2.1 This audit reviewed the following key risk areas:
- Formal Guidance has not been issued to Budget Holders in respect of their responsibilities, the budget process and the budget timetable.
 - Regular training of members & non-finance staff on financial matters is not carried out.
 - Revenue Budgets not reconciled to Corporate Development Plan and Service Business Plan objectives, standards and targets.

- Inadequate Revenue Budget Monitoring procedures.
- Capital budgets not prepared in accordance with Budget Framework Procedure Rules.
- Inadequate Capital monitoring procedures.
- Service Plans are not rigorously challenged by Overview & Scrutiny Committees and Cabinet.
- Profiled budgets are input to the main Accounting System.
- The Appropriate member committee receives budget monitoring information that is accurate and up to date.

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 The Revenue monitoring procedures include a variance report and a monthly outturn report. What happens is that only large variances, which are non-reversing tend to get reported. The monthly reporting pack for Transport contained no narrative. It would improve controls if all variances in the Transport pack over £30k received a comment. Service improvements and delivery of priorities were not mentioned in the Transport monthly reporting pack. These are mentioned in other service reports.

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

1.5.1 There were no matters which needed to be brought to the attention of management

1.6 Summary of recommendation(s)

1.6.1 The report contains one medium risk recommendation to address the weaknesses identified above.

1.7 Audit Opinion

1.7.1 An unqualified audit opinion can be given as there are procedures in place to set and agree the budgets within agreed parameters. Procedures and controls are in place to ensure that the income/expenditure recorded on FIS, is regularly monitored to the budget. Management at all levels are advised of any areas where there may be variations that require action to ensure that the budget is met or additional resources are identified to meet unforeseen expenditure or income reductions.

Payroll	Schedule 2(p)
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1. Management Summary

1.1 Introduction

1.1.1 The Council's total payments for Salaries and Wages for 2004/05 amounted to £120,454,182. This comprises mainly of the monthly payments to staff and pensioners and the one off payments to staff on short term engagements/ casual labour. There is therefore a need for sound systems of control to be in operation in order to minimise the risk of fraud and to ensure that the staff get paid the correct amount and by the correct date.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:-

- Financial loss, ghost employees or fraudulent payments, & incorrect payments;
- Non-compliance to national (DSS and Inland Revenue) and local regulations and Financial procedures and Council policies;
- Inadequate/incomplete recordkeeping, failure to perform integrity checks, inadequate system access control and possible loss of data or corruption of data and all payments correctly accounted for;
- Service risk or delays in making payments; and
- Agreed staff deductions may not be in accordance with agreements e.g. Trade Unions fees, car loans, court orders

1.3 Critical Issues that require immediate Management attention

1.3.1 There were no critical issues identified that require immediate management attention.

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

1.4.1 There were no significant issues identified that require management attention.

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

1.5.1 There were a couple of minor areas that were in need of attention. The first is that there is no check list or formal review of the final payment to a leaver. Although no evidence was seen that this occurred there is an increased risk that the final payment could contain errors. The other concerns the procedure notes that need to be regularly reviewed to ensure that they are kept up to date with new developments and changes in systems.

1.6 Summary of recommendation(s)

1.6.1 The report contains two low risk recommendations.

1.7 Audit Opinion

1.7.1 An unqualified opinion can be given as the two recommendations are only for minor administrative issues so as to further enhance the system.

Use of Fuel Cards	Schedule 2(q)
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1. Management Summary

1.1 Introduction

1.2.1 Historically the Authority used to own a depot at Rainham Road, which had its own fuel pumps. The Authority's vehicles and plant were supplied with fuel from these.

1.2.2 When the depot was sold and vehicles had to be moved to a depot at Purfleet, alternative methods of providing fuel had to be found.

1.2.3 Interim arrangements were made to purchase fuel from a local garage prior to fuel cards being introduced. The provider of cards was originally DKV, but they ceased to have sites within the borough and so the contract moved to Arval PHH Business Solutions who provided the Authority with "All Star" cards.

1.2.4 The contract for the provision of fuel cards was awarded to Shell UK and commenced on the 1st October 2005. Shell UK provide fuel cards to the Authority.

1.1.5 The Authority is invoiced by Shell UK for the fuel purchased on the Fuel Cards.

1.1.6 The total amount spent via the fuel card system by the Authority during 2004/2005 was approximately £251k. There are currently 52 Bearer Cards (to be used by the holder of different vehicles) and 95 Vehicle Cards (only to be used for the specified vehicle) within the Authority.

1.2 Key Risk Areas reviewed

1.2.1 This audit reviewed the following key risk areas:

- Written procedures regarding the requisitioning and administration of Fuel / Bearer Cards have not been established.
- Declarations, setting out the terms and conditions of Fuel / Bearer cards have not been signed by employees.
- Formal procedures covering the issuing of Fuel / Bearer Cards have not been established.
- Fuel / Bearer Cards received from Shell UK are not held in a secure location.
- Monthly management reports are not issued to Managers in order for fuel consumption to be monitored.

- Inadequate system security and interface procedures relating to the vehicle management system.
- Fuel invoices from Shell UK are not authorised for payment by designated senior officers.

1.3 Critical issues that require immediate management attention

- 1.3.1 One high priority recommendation has been made during this audit review. The recommendation relates to the transportation and storage of fuel. There is a lack of understanding within the Authority of the current legislation in regards to fuel. Without appropriate controls in place to ensure that all legislation is being followed there is a risk that the Authority is in breach of Health and Safety Regulations and may be breaching the terms of its insurance cover.
- 1.3.2 It must be noted that since the original audit review an email has been issued to Cost Centre Managers setting out a number of key legislative requirements relating to the transportation of fuel. However, there is a need to ensure that Cost Centre Managers are aware of all legislative requirements and their responsibilities in ensuring that requirements for both transporting and storing fuel is in accordance with legislation.

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

- 1.4.1 The audit identified that there are a number of administrative controls in place, in relation to the recording and issuing of cards to managers, authorised officers and cardholders. It was also established that documentation is retained in order for cards to be handed to the designated card holder. However, a further review of the Bearer Card Acknowledgement Form identified that the form does not specify that card details are also recorded on this document. Whilst it is clear that managers have collected cards from Purfleet Depot, there is a lack of evidence to support that the card has been issued to the designated cardholder and also that the cardholder has read and understood the terms and conditions of use of the card.
- 1.4.2 The audit also identified that there is a lack of consistency throughout the areas where Bearer cards have been issued in relation to the retention of receipts. Receipts are not retained in all cases. In addition, the storage of receipts does not facilitate an effective audit trail.

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

- 1.5.1 The previous procedures relating to Obtaining and Control of Fuel Cards under the Arval PHH contract have been introduced as the working procedures for the new Shell UK contract. However, a review of these procedures identified that “Arval PHH” within the document has not been amended to reflect the Shell UK contract. In addition

there is currently one Administrative Officer that predominately deals with the Shell UK online system. To ensure that the system can operate in the absence of this officer, and as part of good practice the current documented procedures should be reviewed and amended where appropriate to reflect the current operation.

1.6 Summary of recommendation(s)

- 1.6.1 The report contains one high priority and six medium priority recommendations. The high recommendation relates to the transportation and storage of fuel purchased in cans by the Authority. If fuel is not transported and stored in accordance with current legislation, the Authority would be in breach of Health and Safety regulations and may seriously affect the Authority's insurance arrangements.

1.7 Audit Opinion

- 1.7.1 A qualified audit opinion must be given as there is a lack of control relating to the Health and Safety issues concerning transportation and storage of fuel in containers.

Housing Benefits	Schedule 2(r)
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1. Management Summary

1.1 Introduction

- 1.2.1 Havering's Housing Benefit Service, aims to help members of the public on low incomes with their rent by providing means tested funding to enable residents to pay their rent.
- 1.2.2 When a new claim for benefit is made, the Council seeks the opinion of the Rent Officer Service to determine what rent is realistic for the property. By going to an external Government Body and independent and unbiased opinion is obtained.
- 1.2.3 Members of the public may seek advice on Housing Benefit at either the Town Hall or PASC's and receive payment of benefit either directly to their bank account or by cheque. Alternatively, payment may be made by the Council directly to the landlord.
- 1.2.4 Housing Benefit is governed by the guidelines issued from the Department of Work and Pensions and subject to review from the DWP's own appointed inspectorate.

1.2 Key Risk Areas reviewed

- 1.2.1 This audit reviewed the following key risk areas:
- All applications are not promptly and properly assessed.
 - Benefits are not properly due and incorrectly calculated.
 - Rent rebates are not credited promptly to the correct charge payer / tenant's account.
 - Overpayments of benefit are not prevented or followed up for repayment.
 - Transactions are not recorded in the Authority's accounts.
 - The computer system is not secure and not operated in accordance with approved procedures.
 - No guidance on the reporting and dealing of referrals that could be fraudulent.
 - Cheques may not be cashed or be returned to the Authority.

1.3 Critical issues that require immediate management attention

- 1.3.1 The audit review did not identify any critical issues that require immediate management attention.

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

1.4.1 Reconciliations undertaken by the Housing Benefit section cannot be easily reconciled to Accountancy reconciliations to ensure that an effective audit trail is in place. Reconciliations are undertaken on a regular basis, however, reconciliations may not correspond to financial periods. In addition, reconciliations are not consistently signed by the producing officer and the authorising officer.

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

1.5.1 The audit review did not identify any good practice issues within the control environment that would require management attention.

1.6 Summary of recommendation(s)

1.6.1 The report contains one medium recommendation.

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 the Housing Benefit Service. However management need to ensure that:

- Reconciliations undertaken by Housing Benefit are carried out for each period and that the reconciliation is signed by both the producing officer and the relevant authorising officer.

1. Management Summary

1.1 Introduction

1.1.1 In October 2004, London Borough of Havering put out to tender for the provision of a replacement Cash Receiving and Income Management System that would provide a completely integrated solution for this service and include e-payments transactions. Following the tender process, Ideal Technology Services Limited was chosen as the supplier of system, namely PARIS.NET (Payments and Receipting Information System).

1.1.2 PARIS was first developed and installed by Ideal Technology Services (ITS) in 1999 at Rochdale Borough Council and is now utilised at over 60 Authorities in the UK and part of this solution includes an internet payments module.

1.1.3 The PARIS system has been implemented to allow residents of Havering to pay for Council transactions on the Havering website www.havering.gov.uk. The e-commerce web pages "hang off" the main Havering website. The security of payments is managed by software entitled COMMS XL which is held on a dedicated server located with the Cashiers section. This manages the authorisation of transactions with the bank and ensures the encryption of card details. Transactions are authorised and a confirmation screen is returned to the user. Income is then transferred into the Havering bank account.

1.1.4 PARIS went "live" with the first payment transaction in October 2005. At present, the following modules are being utilised:

- Internet Payments
- IVR (Inter Voice Response) 24 hour on line telephone line
- Manual Telephone Payments (ie LBH staff process directly into PARIS)

1.1.5 e-Commerce payments are currently being processed by the PARIS system for the following:

- Council Tax
- Business Rates
- Housing rents, garages, service charges, helpline
- Overpaid Housing Benefit

1.2 Key Risk Areas reviewed

1.2.1 The audit reviewed the following key risk areas:

- E-commerce is not applied according to defined and management approved business decisions.
- E-commerce processing is not secure.
- E-commerce transactions are not authorised, complete, accurate, timely and input once only.
- E-commerce transactions and other events are not appropriately logged.
- Recovery and restoration of e-commerce systems and processes are not considered in the development of the business continuity disaster recovery plan.
- User interface by the supplier is not adequate and cannot be easily used.

1.3 Critical issues that require immediate management attention

1.3.1 We identified five 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.

1.3.2 We have not made a recommendation concerning the need for a Disaster Recovery Plan as this has been raised in the recent audit into the SWIFT application, ref T5FABG

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

1.4.1 We identified seven significant issues that require resolution however at the time of the final report one of these concerning password controls has been fully implemented. Of the remaining six work has been commenced on these and completion dates identified.

1.4.2 A formal development Strategy does not exist for e-Payments. However, we acknowledge that Management have identified a short term informal strategy in that it proposes to roll out other modules such as Cashiers and online credit card payments in the future.

1.4.3 There has been no independent penetration test performed on the e-Payments system.

- 1.4.4. The four PARIS Novell servers are located in the computer room and are fully protected from the above risks by environmental controls, however the APACS authentication server is currently located in the Cashiers Office and is not subject to the correct environmental controls.
- 1.4.5 There are no departmental procedures in place for applying patches when advised by the vendor. Security settings are not currently subject to review as servers are “hardened” at the process of installation.
- 1.4.6 There is no formal Service Level Agreement or Escrow in place for the PARIS system.
- 1.4.7 There is no procedure in place for the recovery of card data and information from the PARIS APACS server in the event of system loss.
- 1.5 Other matters identified that require management attention to ensure “good practice” within the control environment**
- 1.5.1 There are a number of content errors that can occur when using the main payments website.
- 1.5.2 Management should ensure that the “Help” facility and the “User Assistance, Contact/Query Information” is available to users.
- 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
- 1.6.3 The report contains two 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 the PARIS E-Payments system.

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

- There is a strategy for the ongoing development of e-commerce.
- The security of the e-payments system is reviewed using an independent penetration test.
- A procedure is developed for the reviewing of security settings.
- Format errors on the payments page are rectified.
- The APACS server is maintained in a secure environment.
- An escrow agreement is in place between the supplier and the Council to confirm access to the application source code.
- Transactions could be recreated in the event of a loss of the main Paris database.
- Help functions exist on the website to assist users.

Management Summaries of Pro-active Audits

Journals Pro-Active	Schedule 2(t)
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1. Management Summary

1.2 Introduction

1.1.1 The 2005/2006 Internal Audit plan includes a pro-active audit into Journal Transfers.

1.2 Key Areas Reviewed

1.2.1 By using Oracle Discoverer a sample of twenty five (25) journal transfers was obtained.

1.2.2 All twenty five (25) journal transfers were examined in detail to ensure that they were appropriate and relevant.

1.2.3 Documentation was then checked to ensure that:

- there is supporting documentation showing which codes are being debited and credited and the reason for the transfer; and
- the documentation is referenced with the FIS journal date, the amount of the transfer and the name of the person doing the journal.

1.3 Significant Issues

1.3.1 There are no significant issues within this report.

1.4 Summary of recommendation(s)

1.4.1 There are no recommendations to be made as a result of this audit.

1.5 Audit Opinion

1.5.1 From the records examined it would appear that all journals were relevant and appropriate and that all journals were supported by documentation. However, documentation wasn't always being adequately referenced.

Management Summary

1.1 Introduction

1.2.1 The 2005/2006 Internal Audit plan includes a pro-active audit into Invoice Payments.

1.2. Key Areas Reviewed

1.2.1 The Group Director of Finance & Commercial requested a pro-active review of Invoice Payments within Social Services to ensure that all payments were legitimate and had been made in accordance with the Financial Framework etc.

1.2.2 The Social Services Finance Manager was contacted to obtain a range of Cost Centres/FIS Codes that the sample of invoices would be obtained from.

1.2.3 A random sample of fifty (50) invoices was obtained and checked to ensure that the invoices:

- were for a valid Council need;
- were from a legitimate enterprise; and
- were paid in accordance with the Financial Framework etc.

1.2.4 The details on the invoices were then checked to Social Services records to ensure that:

- The service user shown on the invoice agreed to Social Services records;
- The Service provider shown on the invoice agreed to Social Service Records; and
- The Charge Rate/Fee shown on the invoice agreed to Social Services Records.

1.2.5 This review has concentrated on the invoice processing side. The review has not looked at Service Agreements/Contracts, Financial Assessments or client contributions as this was covered under the Placements Pro-Active which has been reported on previously.

1.3 Significant Issues

1.3.1 Fifteen (15) of the fifty (50) invoices had been certified for payment by an officer who was not an authorised signatory to the cost centre the invoice was coded to.

1.4 Summary of recommendation(s)

1.4.1 There are no recommendations to be made as constant reminders are being issued addressing the findings within this report.

1.5 Audit Opinion

1.5.1 The review has highlighted that, in common with other reviews of invoice payments:

- invoices are not always being stamped when they are received in the service department (It should be noted that all invoices were date stamped when they were received by Payments);
- Invoices are being certified for payment by officers who are not responsible for the cost centre/FIS code the invoice is coded to;
- Invoices are still not being processed for payment quickly enough, in order for them to be paid within thirty (30) days; and
- Invoices are still being paid by cheque and not by BACS, the Council's preferred method of payment.

Discounts & Exemptions	Schedule 2(v)
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1. Management Summary

1.1 Introduction

1.1.1 The 2005/2006 Internal Audit plan includes a pro-active audit in respect of Discounts and Exemptions granted in respect of Council Tax payable.

1.2.2 An additional review was undertaken on properties that have been receiving council tax exemptions for over three years.

1.3 Key Areas Reviewed

1.2.1 The key areas reviewed as part of the audit were:

- Single Resident Declarations are signed by residents;
- Correct discounts are applied in respect of Single Residents;
- Single Resident Discounts cancelled for residents who have failed to return declarations issued in June 2005;
- Housing Benefit and Council claim forms signed and verified for accuracy and completeness;
- Council Tax benefit accurately calculated; and
- Authorised documentation in respect of unfurnished properties.
- Monitoring and reviews of long term empty properties.

1.3 Significant Issues

1.3.1 During the audit review it was established that there are currently no controls in place to ensure that all claimants of Single Resident Discount are made to sign a declaration stating that the information that they have given is true and accurate. This may mean that if the claim was fraudulent it would not be possible to take action as there would be no evidence. Claimants of Single Resident Discount are only picked up for an annual review, by the Academy System, once they are over a year old. There is a possible risk of financial loss to the Authority, that new claims may have been entered onto the system shortly after the annual review and would not, therefore, be reviewed until the next annual exercise, meaning a considerable delay in checking the validity of the claim especially as no action is being taken to recover retrospectively.

1.3.2 It has been found that a number of cases when checked to the Electoral Roll had more than one person living at the address. As a result of this issue, Internal Audit checked cases to the current electoral register. In three cases the electoral register recorded two individuals at each of the three properties. This information has been passed to the revenues section for further investigation. Whilst it is accepted that

the Electoral Roll may be out of date it would be advisable to carry out further tests to check the validity of the claim. If there was then evidence of fraudulent activity, decisions would need to be taken on what further action needs to be taken.

1.3.3 An additional review was undertaken on a randomly selected sample of 10 properties where a council tax exemption for long term empty had been received for more than 3 years at the time of the audit review. The review established that there is not a programmed schedule of inspections in place to regularly review the property is still empty to ensure that the exemption is being given to bona fide cases.

1.4 Summary of recommendation(s)

1.4.1 This report contains two medium recommendations. These recommendations relate to:

- The need for all claimants of Single Resident Discount to sign a declaration stating that the information that they have given is true and accurate.
- The need for a review to be undertaken on the procedural controls and processes in place relating to properties that are receiving council tax exemptions on the basis that the property is empty. These need to ensure that appropriate controls are in place to grant, monitor and revoke the exemption. In addition, it should be ensured that a sufficient schedule of programmed inspections is in place for all properties receiving the exemption to be reviewed at regular intervals.

1.5 Audit Opinion

1.5.1 The review found that the areas of Discounts and Exemptions are well controlled. The Academy system automatically generates the discount ratios applied. However, there are significant control weaknesses relating to long term exempt properties on the Academy System. There is a lack of procedural controls relating to the verification of empty properties through a regular programmed schedule of inspections and property enquiry forms.

Management Summaries of Follow up Audits

Debtors Follow up	Schedule 3(a)
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1. Management Summary

1.1 Introduction

1.1.8 The Corporate Debtors System is managed by the Revenue Collection Service of the Finance and Commercial Directorate, located at the Town Hall.

1.1.9 The Revenue Collection Service deals with the administration and collection of recurring and sundry debts, and Mortgages.

1.1.10 For 2003/2004

- 22,279 invoices were raised compared to 21,412 the previous year.
- Invoices totalled £116,844,200 compared to £90,254,152 the previous year.

1.1.4 This audit has concentrated on examining the controls over the raising of sundry debt accounts, the selection of debt management activities for the recovery of outstanding debts the management of queried accounts and the amendment, cancellation and writing off of debts in the period 1.1.04 to 31.10.04.

1.2 Progress Implementing Recommendations

1.2.1 The audit found a number of weaknesses within the control environment, which have been set out in detail in the attached schedule.

1.2.2 A follow up audit has now been carried out to check on the information already given as to the progress made to implement the recommendations raised during the audit.

1.2.3 Set out below is information regarding the recommendations and the current position regarding their implementation.

Ref	Recommendation Category	Rec No	Present Position
1	Medium	R1	This recommendation has been fully implemented.
2	Medium	R4	This recommendation has been fully implemented.
3	Medium	R5	This recommendation has been fully implemented.
4	Low	R2	This recommendation has been fully implemented.
5	Low	R3	This recommendation has been fully implemented.
6	Low	R6	This recommendation has been fully implemented.
7	Low	R7	Action has not yet been taken to introduce a contract / agreement between LBH and Agencies supplying legal

			recovery services.
8	Low	R8	This recommendation has been fully implemented.
9	Low	R9	This recommendation has been fully implemented.

1.3 Audit Opinion

1.3.1 Good progress has been made as eight of the nine recommendations have been implemented. No action has been taken to implement the remaining recommendation, regarding contracts for legal services, as there has been no need for such services. As and when there is a requirement a legal contract / agreement will be entered into.

Business Continuity Follow Up

Schedule 3(b)

1. Management Summary

1.1 Introduction

1.1.1 The Business Continuity System is a corporate system; responsibility for Business Continuity has not formally been allocated to a specific Directorate.

1.1.2 The pilot 2005 CPA includes the question “how prepared is the authority for internal and external emergencies?” In addressing this question, the Audit Commission would be interested in evidence that the emergency and continuity arrangements within LBH are:

- fit for purpose and would allow the Council to respond to emergencies,
- sufficient to allow LBH to support our emergency service partners and
- sufficient to allow LBH to continue to deliver critical local services.

1.1.3 The Audit Commission also indicates that a Business Continuity System is closely linked to the Emergency Planning system.

1.1.11 The issue of business continuity has gained increasing profile due to the Civil Contingencies Act, public perception of security issues and the perceived heightened risk of terrorist attack.

1.2 Progress Implementing Recommendations

1.2.1 The audit found a number of weaknesses within the control environment, which have been set out in detail in the attached schedule.

1.2.2 A follow up audit has now been carried out to check on the information already given as to the progress made to implement the recommendations raised during the audit.

1.2.3 Set out below is information regarding the recommendations and the current position regarding their implementation.

Ref	Recommendation Category	Rec No	Present Position
1	High	R2	This recommendation has been fully implemented.
2	High	R3	Implementation Date Revised to 31.07.06
3	High	R4	Implementation Date Revised to 31.07.06
4	High	R5	This recommendation has been fully implemented.
5	High	R6	This recommendation has been fully implemented.
6	High	R12	Implementation Date Revised to 31.07.06
7	High	R14	This recommendation has been fully implemented.

8	Medium	R1	Implementation Date Revised to 31.07.06
9	Medium	R7	This recommendation has been fully implemented.
10	Medium	R8	This recommendation has been fully implemented.
11	Medium	R9	No further action is being taken to implement this recommendation as it is felt that the recommendation is not practical and will place a burden on the Emergency Planning and Business Continuity Unit.
12	Medium	R10	This recommendation has been fully implemented.
13	Medium	R11	Implementation Date Revised to 31.07.06
14	Medium	R13	This recommendation has been fully implemented.
15	Medium	R15	This recommendation has been fully implemented.
16	Medium	R16	This recommendation has been fully implemented.
17	Medium	R17	Implementation Date Revised to 31.07.06
18	Medium	R18	Implementation Date Revised to 31.07.06
19	Medium	R20	NFA – This recommendation will be reviewed during future computer audits.
20	Medium	R19	Implementation Date Revised to 31.07.06
21	Low	R21	Implementation of this recommendation remains ongoing.
22	Low	R22	Implementation Date Revised to 31.07.06

1.3 Audit Opinion

1.3.1 Good progress has been made to implement ten of the twenty two recommendations. Of the remaining thirteen recommendations, the implementation date has been revised and changed for ten of the recommendations. One recommendation remains ongoing and no further action is being taken to implement the outstanding recommendation as it was felt that the recommendation was not practical and that implementation of the recommendation would place a burden on the Emergency Planning and Business Continuity Unit.

Computer Review of the Housing System: Follow up	Schedule 3(c)
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1. Management Summary

1.1 Introduction

1.3.1 The Anite Housing System was purchased as part of a complete Housing and Social Care Package. The project was managed jointly between the London Borough of Havering and the software supplier using Prince2 project management methodology.

1.3.2 The system runs on the IBM P670 machine, located in the main machine room near the Town Hall. It uses AIX UNIX as its operating system and is an ORACLE database.

1.3.3 The system went live in January 2003 and includes the following modules:

- Rent Accounting;
- Housing Needs (Allocations/Voids/Homeless);
- Repairs; and
- House Purchase Module.

1.2 Progress Implementing Recommendations

1.2.1 The audit found a number of weaknesses within the control environment, which have been set out in detail in the attached schedule.

1.2.2 A follow up audit has now been carried out to check on the information already given as to the progress made to implement the recommendations raised during the audit.

1.2.3 Set out below is information regarding the recommendations and the current position regarding their implementation.

Ref	Recommendation Category	Rec No	Present Position
1	High	R3	Implemented.
2	Medium	R1	NFA – A partitioned system is currently in use.
3	Medium	R2	Implemented.
4	Medium	R6	Implemented.
5	Medium	R7	NFA – There are no restrictions imposed by Housing on who can access the Housing System remotely.
6	Medium	R8	NFA – It is not possible to identify remote users login onto the Housing System as all access is achieved via Citrix.
7	Medium	R9	NFA – The system cannot prompt the System Administrator password to enforce changes.

8	Medium	R10	Implemented.
9	Low	R4	Implemented.
10	Low	R5	Implemented.
11	Low	R11	Implemented.
12	Low	R12	Implemented.

1.3 Audit Opinion

1.3.1 Good progress has been made as eight of the twelve recommendations have been fully implemented. No further action is being taken to implement three recommendations due to the lack of facilities to accomplish them. No further action is being taken to implement one recommendation as a partitioned system is currently in use.

FRAUD AND INVESTIGATION WORK

4

SCHEDULE

Ref	Description	Result of audit/Action taken
1.	(T8eaam) Fraud Hotline incl. AF 70 Reports	16 cases reported and subsequently investigated during year.
2.	(T8faah) Request From Agencies for Information	15 cases where assistance has been given following request for information.
3.	(T8gaaf) Retrieving IT Equipment	Member of staff resigned prior to the forensic examination of laptops commencing.
4.	(T8gaai) Failure to pay monies for coach hire & Claiming expenses	Although the member of staff denied withholding cash witness statements confirmed this had been the cash. Disciplinary action taken by management.
5.	(T8gaaj) Sale of Scrap metal windows	Insufficient evidence. DWP closed case file.
6.	(T8qaak) Review of Mobile telephone agreements Work completed during period 19th February – 31st March 2006	Review complete.

As at 1st April 2006, the following cases were being progressed

Ref	Description
T8caai	NFI 2004/5
T8faag	Complaint/Allegation re Payment of Personal Allowances at Residential Home
T8faam	Missing Laptops
T8faao	Contract Payment Abuse
T8faaq	Overtime ICT Employee
T8gaad	Capital Overspend Hornchurch Sports Centre
T8gaae	Marriage Rooms Licence
T8gaah	Harassment Allegation
T8gaam	Hornchurch Sports Centre – Income
T8gaan	Tenant Management Organisation - Review

CONTRACTUAL MATTERS

SCHEDULE 5

The attached tables consist of:-

- an overview of contract related qualified audit recommendations
- details of each of the contract related qualified audit recommendations and progress in implementing.

The 28 audit recommendations that have been identified cover a wide range of contract related issues that range from strategic issues to those that are service specific. Significant work has taken place in implementing these recommendations with almost 50% completed or on-going. Of the remaining recommendations all are well on the way to being completed.

Audit qualifications are significant in this area reflects that in the past procurement has been under-resourced and not received the due priority. With the set up of the Business Development Unit last year this 'under investment' has been addressed by additional resources for the Corporate Procurement Team and the set up of the Project Support Team. Already improvements have been made and some of the benefits are trickling through, including:-

- Refresh and enhancement to the procurement training programme.
- Risk management guidance for assessing risks to contracts.
- Capturing lessons learnt from procurement exercises and disseminating.
- Enhanced Intra-net and inter-net sites to make more user friendly and fit-for-purpose.
- Further implementation of the National Procurement Strategy.
- More effective working of the Strategic Procurement Steering Group (SPSG).
- Refresh of key procurement documents underway, including procurement strategy, procurement framework and Contract Procedure Rules.

Audit Committee, 29 June 2006

Name of Audit & Recommendations	Priority	Person Responsible	Date due	Position	Status
Consultants Fees					
The Senior Management Team needs to remind all Council officers that they must comply with the rules and procedures for the appointment of consultants, especially in respect of the following points: • A brief must be prepared that fully details the service required to be provided • All commissions must be tendered in accordance with requirement 3(c) of the Contract Procedure Rules. • Formal contracts or work orders have to be exchanged with the consultants. • Fee invoices must not be paid until a formal contract or order has been exchanged or agreed in principle with the consultant. • That when consultants are appointed they must complete the employment status questionnaires and agree their status with the Remuneration Services Officer.	High	Mike Stringer, Head of Financial Services	Apr-05	Procedure agreed by SMT. Has now been rolled out to CLT members. The RSO is responsible for dealing with remuneration issues.	Completed
Consider amending the terms and conditions for the appointment of consultants so there is greater use of schedules.	Medium	The Assistant Chief Executive Legal & Democratic Services	Apr-05		
Amend and date the procedures on the intranet so that officers know from when they are to apply.	Medium	The Head of Exchequer Services	Apr-05	Completed	Completed
Name of Audit & Recommendations	Priority	Person Responsible	Date due	Position	Status

Audit Committee, 29 June 2006

Instruct the officer responsible for adding information onto the Intranet to ensure that all new documents being added are clearly marked to identify them, including any revision number and the release date.	Medium	The Head of Exchequer Services	Apr-05	Completed	Completed
Prepare a simple guidance note for managers outlining when and how the employment assessment questionnaires must be completed.	Medium	The Head of Exchequer Services	Apr-05	Completed	Completed
Approved list and contract register					
The Head of Financial Services should instruct the relevant officers to ensure that the sections of the Financial Framework for which they are responsible are updated, and in particular the officer who is responsible for the procedures concerning the use of approved lists includes appropriate details on how they are to be managed.	Medium	The Head of Financial Services	31/3/06	Refresh of financial framework underway with refreshed training material. Draft version to be circulated for comment and final version to be put on the new intranet once this has been installed in May 2006. This is tied in to refresh of Procurement Framework	In Progress
Name of Audit & Recommendations	Priority	Person Responsible	Date due	Position	Status

Audit Committee, 29 June 2006

<p>The Business Development Manager should liaise with the Assistant Chief Executive, Legal & Democratic Services to ensure that the Contract Procedure Rules are fully cross referenced to the more detailed procedures detailed in the Procurement Framework</p>	<p>Medium</p>	<p>The Business Development Manager</p>	<p>31/3/06</p>	<p>Copy of recommendations sent to Ian Burns. Support provided to Legal on rewrite of CPR; has now been approved by Governance Committee and Council. Refresher procurement framework commenced October 2005 for completion April 2006 and presented to SPSG in May 2006.</p>	<p>In Progress</p>
<p>The Surveying Services Manager should remind all Surveying and Technical Services staff and Mouchel Parkman staff and other departments who undertake construction work, that they must use constructionline to establish the select list of firms to be invited to tender when work is estimated to cost more than the £25,000 financial threshold for tenders. The reminder should also give an indication of the different work categories that are on the list and available for them to use, such as CCTV, drainage etc.</p>	<p>Medium</p>	<p>The Surveying Services Manager</p>	<p>31/3/06</p>	<p>Completed.</p>	<p>Completed</p>
<p>Name of Audit & Recommendations</p>	<p>Priority</p>	<p>Person Responsible</p>	<p>Date due</p>	<p>Position</p>	<p>Status</p>

Audit Committee, 29 June 2006

<p>The Business Development Manager should instruct the PPDU Support Officer to send details of all construction related tender exercises to the Surveying Services Manager in order for him to confirm that the tenderers have been selected from constructionline. Where the firms have not been selected from constructionline the Surveying Services Manager should prepare a report for the Strategic Procurement Group in order for the relevant departmental representative(s) to be informed and to remind the relevant sections accordingly of the need to comply with the Council's Contract Procedure Rules.</p>	<p>Medium</p>	<p>The Business Development Manager & the Surveying Services Manager</p>	<p>31/3/06</p>	<p>BDM has met with Surveying Services Manager and report will be done on a quarterly basis to SPSG. The PPDU support officer is sending the SSM copies of tendering notices which relate to construction contacts.</p>	<p>In Progress</p>
<p>The Business Development Manager and the Surveying Services Manager should liaise and identify those Heads of Service who undertake construction related works. These officers in conjunction with Legal Services should then ensure that these Heads of Service are trained so that they are familiar with the procurement rules and in particular the need that select lists for all construction related works, estimated to cost more than £25,000, must be prepared by the Surveying Services Manager. The Heads of Service then need to ensure that procedures are introduced to ensure that their staff are following these rules. This training should also include details of the forms they need to complete to send to PPDU informing them of the contract award [See section 2.6 below]</p>	<p>Medium</p>	<p>The Business Development Manager and the Surveying Services Manager</p>	<p>31/3/06</p>	<p>MS pack: Training programme underway. Lists of HoS identified/agreed. Review of procedures postponed due to senior manager leaving. MR pack, as above plus: Review of procedures to be undertaken March 06.</p>	<p>In Progress</p>
<p>Name of Audit & Recommendations</p>	<p>Priority</p>	<p>Person Responsible</p>	<p>Date due</p>	<p>Position</p>	<p>Status</p>

Audit Committee, 29 June 2006

<p>The Surveying Service Manager/ Business Development Manager should monitor the level of firms not returning bids. If the level of firms not bidding starts to exceed 15% of the total number of firms invited over the previous 3 months then systems should be introduced so that the firms declining to bid are contacted in order that the reasons for them not bidding are identified and recorded. [if for all tenders then this will be the Business Development Manager, if only for construction then Surveying Services Manager]</p>	<p>Low</p>	<p>The Surveying Service Manager/ Business Development Manager</p>	<p>31/3/06</p>	<p>Monitoring has commenced and reported by SSM to SPSPG on a quarterly basis.</p>	<p>Ongoing</p>
<p>Final accounts Housing Projects</p>					
<p>Introduce systems so that final accounts are reviewed by an independent officer and/or the Principal Surveyor before the final account is agreed and paid. This should also include signing off the final account to confirm that the review has been undertaken and the account is complete and accurate.</p>	<p>Medium</p>	<p>The Business Planning & Procurement Manager (Mark V Wright)</p>	<p>1/4/06</p>	<p>The first draft and operational document is in place currently under review final version in place by 01/07/2006</p>	<p>Near completion</p>
<p>Produce a final account check sheet and procedure notes for officers to follow when reviewing and agreeing final accounts. Officers should also be instructed to complete a check sheet for each final account reviewed. [Note this could be used to allow managers to confirm Recommendation 1 is being undertaken]</p>	<p>High</p>	<p>The Business Planning & Procurement Manager (Mark V Wright)</p>	<p>1/4/06</p>	<p>The first draft and operational document is in place currently under review final version in place by 01/07/2006</p>	<p>Near completion</p>
<p>Name of Audit & Recommendations</p>	<p>Priority</p>	<p>Person Responsible</p>	<p>Date due</p>	<p>Position</p>	<p>Status</p>

Audit Committee, 29 June 2006

Remind staff that only the JCT and ICE forms have been approved by Legal Services and approval from Legal Services must be obtained for the use of any other form of contract prior to the seeking of tenders.	Medium	The Business Planning & Procurement Manager (Mark V Wright)	17/1/06	All relevant monitoring officers have been on the Contract Monitoring Officer course	Complete
Train staff on how to operate and monitor contracts used by the section. This training should provide details of the relevant forms that the CA has to complete (payment certificates, extension of time, variations completion and non completion details and making good defects) procedure to pay and issue certificates, retention, final account procedures and the supporting details that must be retained on file. This should also involve staff in Housing's payment section so they are aware of what interim certificates are and that they are treated the same as invoices.	Medium	The Business Planning & Procurement Manager (BP&P Manager) (Mark V Wright)	1/4/06	All relevant monitoring officers have been on the Contract Monitoring Officer course	complete
Introduce a log of all contracts being undertaken to record key details of a project, especially indicating when they are due to be completed, payment and approval details and to update this on a monthly basis using the monthly progress sheets produced by the Contract Administrators.	Medium	The BP&P Manager (Mark V Wright)	1/4/06	Maintained from 1/07/2006	in-progress
Name of Audit & Recommendations	Priority	Person Responsible	Date due	Position	Status

Audit Committee, 29 June 2006

Instruct his officers that they must complete monthly progress reports so that the contract register can be kept up to date. Summary/exception reports need to be generated that allow managers to identify schemes that are in difficulty so that they can take appropriate action.	Medium	The Business Planning & Procurement Manager (Mark V Wright)	1/4/06	Monthly monitoring report in place reported through Head of Service pack HRA capital report	in place - currently being reviewed and refined.
Produce a list of logic checks that he expects to be undertaken on a final account before the final certificate is paid. These checks should be included on the check sheet covered by Recommendation 2 above, or as an addendum sheet, for officers to complete on each final account that they produce so as confirm that they undertaken all the necessary checks.	Medium	The Business Planning & Procurement Manager (Mark V Wright)	1/4/06	As above	as above
Instruct officers that all design team appointments must be direct with the Council and not through the contractor. Further, all payments to the design team must be made directly to them by the Council and not through the contractor.	Medium	The Business Planning & Procurement Manager (Mark V Wright)	1/4/06	Done	Done
instruct officers to ensure that details of all inspections must be retained on file.	Medium	The Business Planning & Procurement Manager (Mark V Wright)	1/4/06	Under review to ensure all snagging sheets are on file	Done
Name of Audit & Recommendations	Priority	Person Responsible	Date due	Position	Status
Repairs and Maintenance Contracts					

Audit Committee, 29 June 2006

The chair of the monthly monitoring meetings and Contract Administrator, should get nominated officers or deputies from each of the client groups to represent that group and to attend the monthly monitoring meetings.	Low	The Technical Services Manager	31/10/06	Process of dealing with recommendation.	In Progress
Produce procedures and guidance notes for all officers involved in the monitoring of the contract and to ensure that sufficient resources are being allocated to the contract. The notes should include details on:-	High	The Technical Services manager	31/12/06	Resource implication are being discussed	In Progress
<ul style="list-style-type: none"> the roles and responsibilities of the officers involved in awarding and checking work orders, 					
<ul style="list-style-type: none"> the % of orders to be checked 					
<ul style="list-style-type: none"> whether there is a need for a 100% check of those over a certain value, 					
<ul style="list-style-type: none"> producing exception reports to identify what work is being awarded to other contractors, 					
<ul style="list-style-type: none"> numeric checking of invoices, 					
<ul style="list-style-type: none"> authorise and check procedures for the weekly invoices 					
<ul style="list-style-type: none"> whether there is a need for controlled works or pre inspections to be undertaken 					
<ul style="list-style-type: none"> what budget monitoring checks are to be undertaken and by whom. 					
Name of Audit & Recommendations	Priority	Person Responsible	Date due	Position	Status

Audit Committee, 29 June 2006

Amend the minutes so that there is a section to confirm that the points raised in the previous meetings have been actioned, what the result was and where necessary identify any points that are still outstanding.	Medium	The Technical Services manager	31/10/06	Done	Completed
Start monitoring the actual cost to the estimated cost of the works. Once the KPI is being monitored explanations should be sought explaining why works are not being completed within the estimated cost and take the appropriate action to resolve any identified weaknesses.	Medium	The Technical Services manager	31/1/07	May not be practical to monitor, looking at ways to amend KPI so that it makes it practical to monitor	In Progress
In conjunction with the client section's nominated officer determine the level of overall budget monitoring that there is to be undertaken and include these details in the procedure notes for the management of the service. NOTE: This will be linked to with Recommendation 2 above.	Low	The Technical Services manager	31/10/2006	As above in recommendation 2	In Progress
When the contract is retendered, in conjunction with Legal Services and Corporate Procurement, seek prices for a) the SoR rates for the full contract term and b) a shorter term but provision for it to be extended to the full term, in order to award the contract on those terms that are most beneficial to the Council. The Technical Services Manager should also ensure that the SOR items are sufficiently detailed to identify the works likely to be undertaken on Schools and other Corporate Buildings.	Low	The Technical Services manager	30/4/07	Will review nearer the time	In Progress

COMPUTER RELATED MATTERS

SCHEDULE 6

Report on Qualified Audits for Contract and ICT

Name of Contract Audit	Number of recommendations	completed	in progress	on-going	outstanding
Consultants Fees	5	4	1	0	0
Approved Lists & Contracts Register	8	3	4	1	0
Final accounts Housing Projects	9	tbc	tbc	tbc	tbc
Repairs and Maintenance Contracts	6	1	5	0	0
Total	28	8	10	1	0
Percentage	100%	29%	36%	4%	0%

The above shows progress against the 5 qualified contract audits

Name of Draft Computer Audit	Number of Recommendations	High	Medium	Low
Remote Access	7	4	3	0
SWIFT	12	5	7	0
DSO	7	3	4	0
Total	26	12	14	0
Percentage	100%	46%	54%	0%

Commentary on Draft ICT Audits:

It was disappointing that the 3 most recent Computer audits have recommended that they be qualified as this is the first time that computer audits have been classified as qualified, even though they are still in the draft stage. Discussion is still ongoing with DeLoittes concerning the final outcome of each of the audits to understand how this has come about.

We are looking at trends across the audits to see if there is a change in emphasis on the audits and also to identify if there are common trends which need addressing. We will also agree whether the current progress and management action being taken still justifies a qualified opinion at final stage. The high recommendations are in the following areas:

Name of Computer Audit	Remote Access	DSO	SWIFT
Trends			
Contractual Issues	1		
Security/Administration	2	3	2
Auditability	1		
Level of Support resource		1	
Business Continuity		1	
Data Accuracy			1

Ray Whitehouse
Head of Business Systems



MEETING	DATE	ITEM
AUDIT COMMITTEE	29 JUNE 2006	10

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: CLIENT AUDIT MANAGER'S REPORT

(The internal and external audit recommendations shown in appendix 1 and 2, are extracted from the March '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
- Statement of Internal Control Action Plan
- Budget Analysis
- Risk Management
- Benefits Investigation
- Anti-Money Laundering

RECOMMENDATIONS

1. To consider the contents of the report.
2. To raise any matters of interest.
3. Committee to raise queries with Heads of Service in relation to qualified audits.
4. To consider the refreshed Risk Management Strategy
5. To consider the revised Anti-Money Laundering Policy and guidance.

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

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and the target date that was given for each recommendation to be completed. Appendix 2 gives details of the ongoing recommendations.

- 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 not issued any reports since the 4th April 2006 meeting but has issued an External Audit and Inspection Plan 2006/7. See agenda item 8.

2. Implementation of Internal Audit recommendations

2.1 Summary of 2003/04 outstanding recommendations

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.	3	21	4	28

As of the end of March 2006, there were 28 outstanding 2003/04 Internal Audit recommendations. The details are shown in Appendix 3. These are recommendations that have missed their implementation deadline by more than one month. The ongoing recommendations are shown in Appendix 4. The Client Manager Internal Audit has contacted Heads of Service in relation to the outstanding 2003/4 recommendations in an attempt to ensure that as many as possible were implemented. Updates received have been reflected in the reported position. However, one Head of Service did not respond as marked with an asterix.

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

As of the end of March 2006, there were 45 outstanding 2004/5 Internal Audit recommendations. The details are shown in Appendix 3. 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 2004/05	42	221	71	334
Total no. of outstanding recommendations for 2004/5	9	26	10	45

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

As of the end of March 2006, there were 53 outstanding 2005/06 Internal Audit recommendation. The details are shown in Appendix 3. These are recommendation that have missed the implementation deadline by more than one month.

Description	High	Medium	Low	Total
Total no. of recommendations issued for 2005/06	7	112	30	149
Total no. of outstanding recommendations for 2005/6	3	35	15	53

3. Performance Indicators – Latest Position on Completion of 2005/06 audits

3.1 Committee members will note that there are 10-Key Performance Indicators (KPI) in Appendix 5. These indicators are focused on measuring the efficiency and effectiveness of Internal Audit activities.

3.2 An analysis of the KPI's shows (KPI 01) and reviews (KPI 02), 87% and 93% respectively. The on-target total number of audit briefs issued (KPI 03) and input days resourced (KPI 04), are 100% and 99% respectively.

3.3 The following table shows the latest position relating to Internal Audit's performance for the financial year 2005/06:-

	Definition	Annual Cumulative Target	Performance February 2006
KPI 01	Number of total actual audit days completed as a percentage of total planned annual days (1250).	100 %	87%
KPI 02	The number of audit reviews completed as a percentage of the total annual number of planned reviews (99).	100 %	93%
KPI 03	The total number of audit briefs agreed as a percentage of the total annual number of planned reviews (99)	100 %	100%
KPI 04	The total number of input days on audits as percentage of the total number of planned days (1250)	100 %	99%
KPI 09	Survey Forms assessed for the system audits	100%	53%
KPI 10	Survey Forms assessed for the fraud audits	100%	91%

3.4 93% of the plan has been completed and 7% of the plan is at draft report stage.

4. Survey Questionnaire Analysis

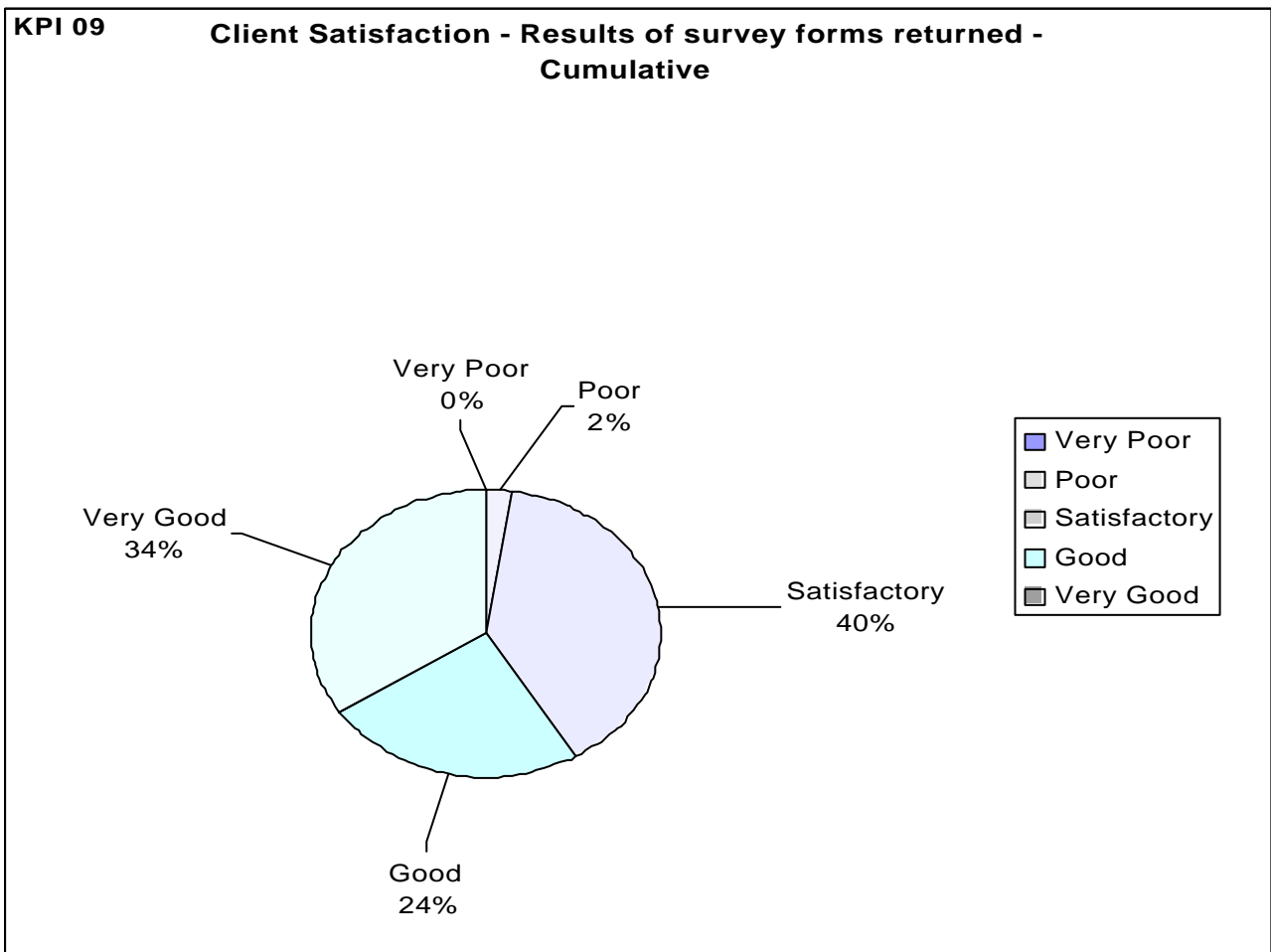
4.1 The Internal Audit general survey asked respondents to assess the Internal Auditor's performance on a scale of 1– 5 (very poor - very good) in the following areas:

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

4.2 Survey Analysis of Internal Audit's Systems 2005/06 work

40% of the survey returns reported a satisfactory review, 24% reported a good review and 34% reported a very good audit experience. It is pleasing to note that the majority of managers are satisfied with the internal audit process, only one officer representing 2% was not. The following chart shows the results for 2005/06.

GENERAL SURVEY



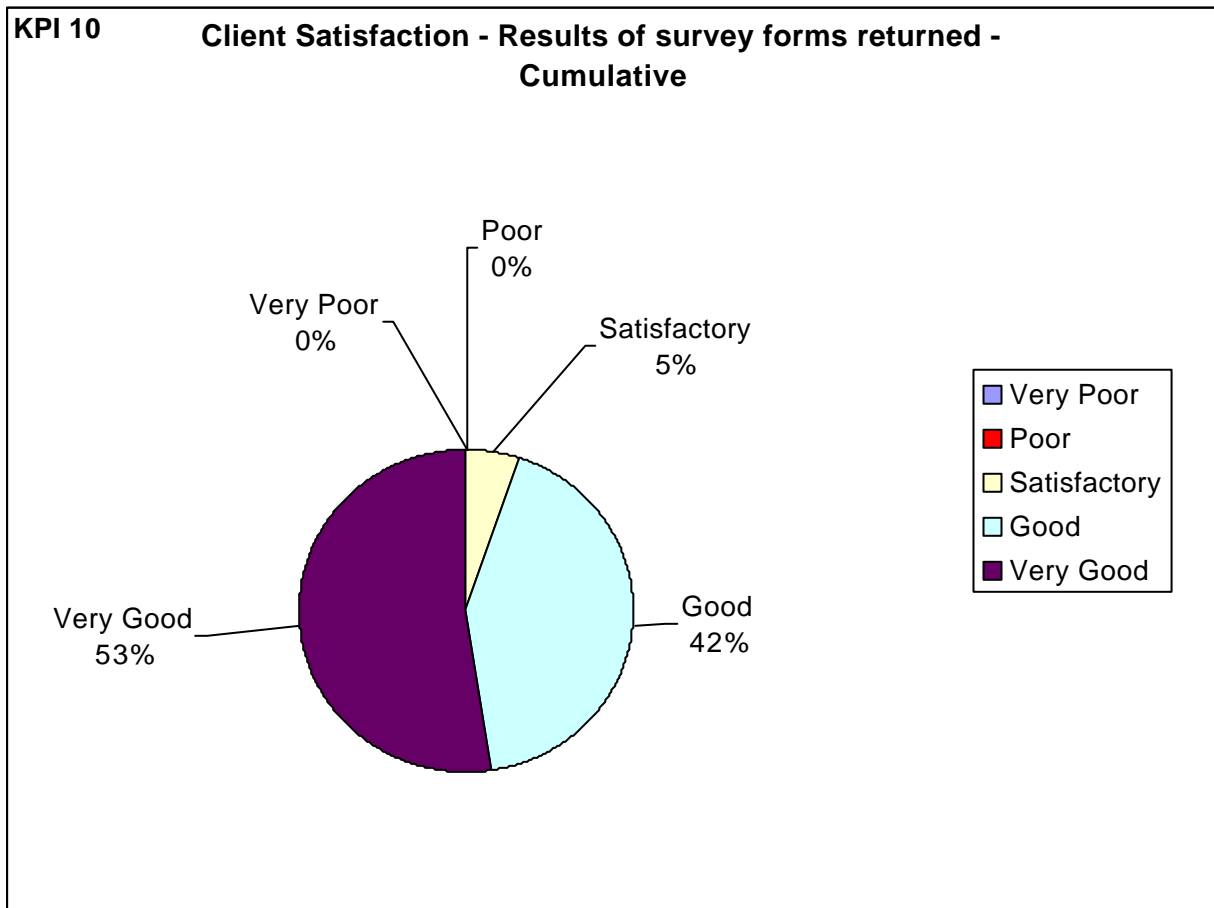
4.3 The Internal Audit fraud survey asked respondents to assess the Internal Auditor's performance on a scale of 1– 5 (very poor - very good) in the following areas:

- Consultation
- Communication
- Clarity of report
- Accuracy of findings
- Benefit of recommendations
- Confidentiality
- Helpfulness

4.4 Survey Analysis of Internal Audit's Systems 2005/06 work

0% of the survey returns reported a poor or a very poor review. 5% reported a satisfactory review, 42% reported a good review and 53% reported a very good experience. It is pleasing to note that all of the managers are satisfied with the internal audit fraud process.

FRAUD SURVEY



5. Comparative analysis between the Internal Audit Plan for 2004/05 and 2005/06

- 5.1 Appendix 6 provides the status of Internal Audit's efforts in implementing the 2005/06 annual plan, and data from 31st March 2005 which provides valuable comparative information.
- 5.2 For 2005/6 Internal Audit completed 88 reviews (93%), 7-reviews (7%) are at the consultation/final draft stage. In March 2005, Audit had completed 91 reviews (84%), 2 reviews (2%) were at formal draft stage, 9 reviews (8%) were completed to consultation/final draft stage and 6 reviews (6%) were still to be completed.
- 5.3 In respect of the 7 outstanding reviews, all have been delayed by non-responses from service areas, there have been no delays on the part of the audit staff. The audit protocol is to be changed so that only a prescribed period of non-response will be acceptable before the audit changes status and is released as a final.

6. Statement of Internal Control Action Plan

- 6.1 Appendix 7 presents the Statement of 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 31st March 2006)

<u>Source of calls</u>	<u>No.</u>	<u>Actions</u>	<u>Status</u>
Anonymous	9	<p>1 case - Passed to Council Tax and resolved. Allegation was malicious. (005)</p> <p>1 case - Following CTax Inspectors visit single discount has been cancelled from 1st February 2006. Allegation was therefore found to be correct. (014)</p> <p>1 case – Inspection taken place and there was no evidence to substantiate the allegation. (008)</p> <p>1 case to be investigated further by Housing Benefits staff. (013)</p> <p>1 case – Report completed and recommendations accepted and implemented by management. Allegation considered to have some substance. (006)</p> <p>1 case – Confirmed that the owner does not have a council tenancy in LB Newham. (010)</p> <p>1 case – Housing members of staff not involved in allocating work to contractors as alleged. Allegation discussed and passed to Morrison's for further internal investigation. (011)</p> <p>1 case – Single discount being claimed but occupier also living with two sons. Investigation identified single discount not being claimed. (015)</p> <p>1 case – Investigation into allegations of payments for staff holidays. Member of staff warned of danger of socialising with clients and reminded of his future action in circumstances of this allegation. (016)</p>	<p>Completed and signed off.</p> <p>Completed and signed off.</p> <p>Completed and signed off.</p> <p>In progress.</p> <p>Completed and signed off.</p> <p>Completed and signed off.</p> <p>Completed and signed off.</p> <p>Completed and signed off.</p> <p>Completed and signed off.</p>
Staff	4	<p>1 case - Investigation identified excessive use of dial back facility (duration of calls) and</p>	<p>Completed and signed off.</p>

		<p>savings on BT rental charges have since been made. (001)</p> <p>1 case - Investigation revealed costs allocated to corporate ICT. Subsequent employment of contract staff for permanent position based on formal interview. (002)</p> <p>1 case - Resulted in the dismissal of a member of Agency staff who admitted to abusing the use of the telephone. Financial loss was recovered (calls and hourly labour charge). (004)</p> <p>1 case – No evidence to suggest fraudulent claims. (007)</p>	<p>Completed and signed off.</p> <p>Completed and signed off.</p> <p>Completed and signed off.</p>
HB Fraud Team	1	1 case - Preliminary enquiries were made. Established as claimant error and benefits were suspended. (003)	Completed and signed off.
Public	2	<p>1 case - Allegation was resolved following preliminary enquiries. No involvement by LB Havering, but allegations concerning immigrants were forwarded to the Home Office. (009)</p> <p>1 case - Resulted in no evidence of fraud or corruption. Details of the Appeals procedure were sent to the member of the public. (011)</p>	<p>Completed and signed off.</p> <p>Completed and signed off.</p>
	16	HOTLINE TOTAL	

There are currently 10 special investigations in progress and 67 have been completed during 2005/6.

7.2 National Fraud Initiative (NFI) 2004/5.

The Audit Commission’s NFI has run every two years since 1998. It uses advanced data matching techniques to tackle a broad range of fraud risks faced by the public sector such as council tenants with a council property in each of two authorities, or a public sector employee on long-term sickness leave from one organisation whilst working for another. Matches are provided as referrals to participating bodies in a user friendly application, to allow prioritisation of matches and dissemination to investigators without compromising data privacy requirements.

7.3 Since the last Audit Committee on 4th April 2006, the Council has received a visit from the Associate Director – IT Audit, Audit Commission. The purpose of the visit was to pass on some key messages to the staff at Havering. The value of fraud and overpayments detected by almost 1,300 public bodies taking part in the NFI 2004/5 exceeds £111 million. Due to the actions of auditors and investigators working together to exploit matches provided by the Audit Commission, this is a record breaking

achievement for NFI in protecting the public purse.

7.4 Although the savings are considerable NFI is run at minimal cost to the organisations involved (core NFI 2004/5 fees range from £450 to £1,900) and now include matches relating to 100% of local government expenditure. Outcomes include:

- 396 prosecutions for housing benefit fraud
- 327 NHS employees and
- 2690 local government employees carrying out housing benefit fraud.

7.4.1 The record levels of fraud detected reflect the increasing sophistication of the NFI process and the attention given to new areas of risk as they emerge. This allows participating bodies to review the detected frauds and put in place controls to prevent further public sector fraud. In addition the published successes of NFI continue to act as a deterrent to potential fraudsters.

7.4.2 As a result of taking part in the NFI process, Havering has identified a possible £39,000 of duplicate creditor payments and is actively seeking reimbursement. Havering bi-annually receives data matching reports for housing benefits, pensions, creditor payments etc. and investigates them accordingly.

8. Year to Date (YTD) Budget Analysis

8.1 The revised budget figure for Internal Audit (2005/06) is £418,390. Appendix 8 provides a graphic summary of Internal Audits YTD expenditure from 01 April to 31st March 2006. As of 31st March 2006, YTD actual (£435,759) is above the budgeted sum of (£418,390). However, due to subsequent recharges to the Housing Revenue Account not depicted, the budget was under spent by approximately £12,000. Therefore the audit service for 2005/6 was delivered within budget.

9.0 Risk Management

9.1 Appendix 9 shows the current corporate risk register. The RMG and SMT have recently met with David Forster from Zurich Municipal. Initially 32 corporate risk scenarios were identified but further discussion and evaluation resulted in the number of risks being reduced to 19. The new 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.

9.2 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.

The assessment for CPA purposes was a 3 and work continues to demonstrate how risk awareness and management is embedded.

9.3 The Group Director Finance and Commercial updated the Risk Management Strategy in May 2006. It was not due for renewal until August 2006. However it needed to reflect the Council's more outward looking approach to business risks and the method of producing the corporate risk register. The revised Risk Management Strategy is shown in Appendix 10.

10. Benefits Investigation

10.1 A report on Benefits Investigations is shown at Appendix 11.

11. Audit Committee Work Plan

11.1 The Committee has a clear work plan through the year. The plan is shown in Item 12, Audit Committee Work Plan including the Training Programme.

12. Annual Audit Letter Progress

12.1 It is customary to report on progress made in the Annual Audit & Inspection Letter Action Plan. Progress was reported to the last committee on 4th April 2006. There have been no significant developments since that meeting. A fuller report will be produced for the next committee meeting in September 2006.

13. Anti-Money

Laundering

The Council's revised Anti-Money Laundering policy and the guidance notes were issued to various staff and to the Risk Management Group for consultation. The policy and the guidance notes have been updated by the Council's Money Laundering Reporting Officer, placed on the intranet and issued to Heads of Service for discussion at Team Briefing Sessions. A copy of the revised policy and the guidance notes can be seen in Appendix 12.

14. 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.

15. Legal Implications and risks

None arising directly from this report

16. Human resource Implications and risks

None arising directly from this report

17. Equality and Social Inclusion implications

None arising directly from this report

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STEPHEN EVANS
Chief Executive

Background Papers List

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), 04/05, 05/06)

(As at end MAR 06)

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
Joint Review SS 2002/03 (Report Issued 03/04)	R13 Continue to extend use of financial flexibilities as part of strengthening joint commissioning	Jan 2004	Peter Brennan	First stage is establishment of Joint Commissioning plans and posts. Mental health joint commissioning post being recruited to (PCT lead) and Older Peoples' commissioning strategy completed.	In progress
Baseline IT Risk Assessment (Report Issued 05/06)	R3. The ICT programme board should provide more leadership on business process re-engineering.	31 Mar 06	Ray Whitehouse	The final shape is dependent on extra training, resources and capacity, but the structures are in place to effect this recommendation and the programme board will consider re-engineering.	Not Started (dependent on resources)

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

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<p>Corporate Governance 2002/03 (Report issued 03/04)</p>	<p>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.</p>		<p>Assistant Chief Executive Corporate Human Resources (David Ede)</p>	<p>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 19th November. ACEs (HR and Legal) jointly prepared a response on behalf of the authority. Currently awaiting further instruction from ODPM.</p>	<p>In progress</p>
<p>Procurement – Parkman, Domiciliary Care (Report issued 03/04)</p>	<p>R3 Review and implement the most appropriate contract arrangement for the procurement of spot and block purchased domiciliary care hours, including</p> <ul style="list-style-type: none"> • clarifying the contract arrangements with the four spot only providing agencies; and • reviewing the volume of care hours specified as block during the re-tender process using the strategy (see R1) and market intelligence to balance more appropriately the volumes of block and spot purchasing in order to achieve greater value for money. 		<p>Peter Brennan</p>	<p>Modernisation of Home Care Service underway, steering group has identified actions for the re tendering of Domiciliary Care Contracts, initial expressions of interest have been sought and received</p>	<p>In progress</p>
<p>Procurement (Report Issued 03/04)</p>	<p>R6. Clarify and focus the roles of the directorates and the CPU (stated in 7.3 of Section A of the Procurement Framework) to ensure improved liaison and consistent high quality procurement.</p>	<p>Mar 2006</p>	<p>Mike Stringer</p>	<p>Guidance on respective roles issued during last quarter of 2005 to reflect new structure of Business Development team. Presentation given to SPSG at awayday December 2005. Being included in refresh of Procurement Framework which is currently underway and due to be presented to SPSG in May 2006.</p>	<p>In progress</p>
<p>Programme Governance November 2004 (Report Issued 04/05)</p>	<p>R13. Implement formal processes for handover and acceptance of the project outcomes and products to operational departments in order that the project team and operational units are clear on responsibility and accountability.</p>	<p>Mar 2006</p>	<p>Ray Whitehouse</p>	<p>A process has been set-up for PIG Panel/Group which is a Mechanism from Portfolio Management to Project Management and final support for the product. Completion expected to be July 06.</p>	<p>In progress</p>

LOW PRIORITY RECOMMENDATIONS					
Reports	Recommendations	Date Due	HoS Responsible	Current Position	Classification
Procurement (Report Issued 03/04)	R12. Monitor the use of project management of procurement process to evaluate use and learn lessons.	Mar 06	Mike Stringer	Lessons learnt reported to SPSG. Reports to SPSG each month on significant procurement projects. Project support team now in place. Project team highlight report now being submitted each month to Members and SPSG. Outcomes being fed into refresh of Procurement Framework	In progress
Baseline IT Risk Assessment (Report Issued 05/06)	R1. The IT security statement should be updated and should address the items identified in paragraph 12 of the report.	31.03.06	Ray Whitehouse	This should be available early in 2006	Not Started (dependent on resources)

APPENDIX 2 ONGOING External Audit Recommendations – 2003/04 & 2005/06 (None from 2004/05)

Corporate Governance Arrangements 2002/3				
<i>(Report Issued 03/04)</i>				
Recommendations	Priority	Reported By	Date Due	Current Position
<p>R17 The Council should develop an approved listing of Agencies, from which contractors can be recruited. Contracts should be established with such Agencies which specify pay rates, qualifications and the reference checks which should be made. Monitoring procedures should be established to ensure compliance with the contract. Staff are currently recruited from different agencies with which the Council has no contract. The only contract in place is with Adecco for non skilled staff. Corporate Human Resources and the Purchasing section do not have a listing of all the Agencies used by the different service areas.</p>	High (3)	Executive Director Finance and Planning (Rita Greenwood) via Business Development Manager and Assistant Chief Executive Corporate Human Resources (David Ede)	Ongoing	<p>Agreed. This will be taken forward as part of the strategic procurement arrangements. Contracts are in fact in place for other agency arrangements, in particular office/administrative staff.</p> <p>Draft procedures being considered for agency staff by ACE (HR).</p> <p>The Council is working as lead authority on an LCOE procurement project on agency staff. This cross-London project will address this particular recommendation but will take some time to bring to fruition. The project commenced in August 2005. The Council has recently been granted further funding to deliver an expansion to the scope of the project. It is now envisaged that the project will be delivered in March 2007. In the meantime, the Council is progressing plans for a managed service agency contract. Implementation of this will depend on which approach to the contract is taken.</p>
Audit of Grant Claims and Returns – 2003/2004				
<i>(Report Issued 05/06)</i>				
Recommendations	Priority	Reported By	Date Due	Current Position
<p>R1 Ensure claims are submitted by the audit deadline</p>	High (3)	Heads of Services/Finance Manager	Ongoing	<p>Grant co-ordinator distributes schedule of all claims due to EDs, HOS and Finance Managers by 30 April. Claims schedule is incorporated as part of year end account closure plan. The timetable requires all claims to be submitted to Financial Services one month in advance of deadline set by grant body. Reminders are sent to claim compilers 1 month before Financial Services deadline. Non compliance triggers escalation process to HoS. Monitoring reports are presented to Project Board monthly throughout the audit process.</p>

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R2 Ensure all officers are aware of working paper requirements, including the terms and conditions of schemes, and that the latest copies of correspondence between the grant paying body and the Council are included in the working paper file.	High (3)	Heads of Service/Finance Manager/Grants Co-ordinator	Ongoing	Grant management protocol in place available on the intranet. Training has been provided to all staff (finance and non-finance) involved in grant management. Refresher courses are arranged ahead of the audit schedule. In addition to workshops a standard training course for grant management is being developed. Working paper checklist is re-issued as part of the closedown process together with guidance on what is adequate documentation. Grant Co-ordinator distributes copies of certification instructions which are sent used by audit for testing.
R3 Ensure senior officer review of files prior to submission to audit is robust to ensure completeness, accuracy and compliance with grant instructions.	High (3)	Heads of Service/Finance Manager/Grants Coordinator	Ongoing	Finance Managers are expected to review all files against checklist. Grant Coordinator ensures that the checklist, indicating review, has been signed by Finance Managers prior to submitting claims for signature. All files have been subject to a review prior to submission for audit for 2004/05
R4 Ensure the checklist accompanying claims submitted to audit is properly completed including specific references to working papers provided and N/A where the requirement does not apply to that claim.	Medium (2)	Grants Co-ordinator	Ongoing	Training has been provided to all staff on working paper requirements. Refresher courses are arranged ahead of the audit schedule. Grant co-ordinators carries out final review before submitting file for signature by HoFS. Working paper checklist is re-issued together with guidance on what is adequate documentation.
R5 Ensure an analytical review is included in the working paper file, comparing both year on year expenditure and income and budgeted to actual figures. All analytical reviews should include appropriate explanations for significant variances.	High (3)	Heads of Service/Finance Manager/Grants Coordinator	Ongoing	Compliance will not apply to all claims as value of grants will vary from year to year, dependant on available resources from the grant body. Finance Managers ensure that staff complete files in accordance with protocol and checklist. Grant co-ordinator ensures that section is completed prior to submitting claims for signature.
R6 Ensure the reasoning behind all apportionments to claims are fully documented and that administration sums claimed can be fully supported.	High (3)	Heads of Service/Finance Manager	Ongoing	GD/HoS to provide finance staff with reasons for apportionment. Staff will keep detailed records of time spent on grant activities where applicable. A sample check of grant claims is carried out. Guidance will be issued to staff as part of the pre-audit training.
R7 To enable certification by the audit deadline, ensure officers are aware of the need to provide full responses to audit queries on a timely basis.	Medium (2)	Heads of Service/Finance Manager	Ongoing	All staff dealing with grants are written to reminding them of the importance of dealing promptly with requests. Where possible all audit queries will be put in writing and copied to the Grants Co-ordinator. Grants Co-ordinator has introduced a procedure for monitoring responses to queries to ensure responses are dealt with in a timely manner. Process includes provision for escalation where responses are not forthcoming.

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<p>R8 Ensure an adequate audit trail is prepared and maintained, thus facilitating the audit process and enabling a smooth hand over where claim compilers change during the audit year.</p>	<p>High (3)</p>	<p>Heads of Service/Finance Manager</p>	<p>Ongoing</p>	<p>HoS and Finance Managers ensure that adequate arrangements are in place and will work with the Grants Co-ordinator on the grants file and working papers, including checklists and certification instructions</p>
<p>R9 Take appropriate action to ensure all officers have a clear understanding of capital and revenue expenditure classifications.</p>	<p>Medium (2)</p>	<p>Heads of Service/Finance Manager/Grants Coordinator</p>	<p>Ongoing</p>	<p>Definition of Revenue and Capital expenditure is currently published and available on the intranet from the Financial Framework (Sections A and B). Reminder was issued as part of post 04-05 grant claim audit debrief. However this issue appears to be specific to the 03-04 audit as it has not subsequently been raised in 04-05</p>
<p>R10 Produce an action plan to address all qualification and other issues identified in Sections one to six of this detailed report.</p>	<p>High (3)</p>	<p>Heads of Service/Finance Manager/Grants Coordinator</p>	<p>Ongoing</p>	<p>Action Plan for addressing current qualification issues from 2003/04 was developed and has been monitored by Grants Co-ordinator and reported to Project Board as part of the 2004/05 grants audit.</p>

APPENDIX 3

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

	Review in 2003/4	HoS Responsible	High	Medium	Low	Position as at end MAR 06		
						In Progress	Not Started	Position/ Status Unknown
	Public Lighting	Bob Wenman		7		7		
	Final Accounts	Bob Wenman	1	4		5		
	Pensions	Jeff Potter		3	1	4		
	Community Care Packages	Peter Brennan *		1	2			3
	Homecare	Peter Brennan *		1		1		
	Libraries	Dylan Champion		1		1		
	Community Care Placements	Peter Brennan *	2	4	1	3		4
	Total		3	21	4			

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	Review in 2004/05	HoS Responsible	High	Medium	Low	Position as at end MAR 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		
	Freedom Passes and Taxi Cards	Mike Stringer		1		1		
	Crime & Disorder Reduction CCTV	Christine Dooley	1	3	1	5		
	Domestic Refuse Collection	Bob Wenman	1	1	1	3		
	Trade Refuse Collection	Bob Wenman	1	1	1	3		
	Landscape Works A1306	Mike Robinson	2	1		3		
	Consultants Fees	Christine Dooley		1				1
	Child Protection	Ruth Jenkins			1	1		
	Highways	Bob Wenman		2		2		
	Capital & Repair Work Pro-Active	Mike Stringer			1	1		
	Business Continuity	David Ede			1	1		
	Debtors	Jeff Potter			1	1		
	Telecoms System	Ray Whitehouse			2	2		
	Physical Security	Ray Whitehouse	1			1		
	On Street Parking (Permits and Disks)	Mike Robinson		1		1		
	Council Tax	Jeff Potter		1		1		
	NNDR	Jeff Potter		1			1	
	(2004/05) Rent Accounting (& Collection Arrears)	Mike Stringer		1		1		
	Lessee Charges	Barry Kendler		1		1		
	New Employees (Including References) Pro Active	David Ede	1	2				3
	Home Care Providers Pro Active	Peter Brennan		1	1			2
	Telephone Abuse Pro-Active	Ray Whitehouse		1		1		
	Anti-Virus Protection	Ray Whitehouse		1		1		
	(2004/05) Quality & Contract Management in Care for the Elderly	Peter Brennan		1		1		
	Partnership Arrangements	Mike Robinson	2	1		3		
	BS7799	Ray Whitehouse		1		1		
	Total		9	26	10			

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Review in 2005/6	HoS Responsible	High	Medium	Low	Position as at end MAR 06		
					In Progress	Not Started	Position/ Status Unknown
Cash & Bankings	Dylan Champion		1				1
Counsel Payments & Legal Services Contract Monitoring	Christine Dooley		3	4			7
Housing Grants	Barry Kendler		1		1		
Approved Lists & Contracts Register	Mike Stringer – 2 Med In Prog Mike Stringer/Mike Robinson – 2 Med In Progress		4		4		
Fraud Policy & Response Plan	Mike Stringer – 2 Med, 1 Low all In Progress David Ede - 1 Med, P/S unknown		3	1	3		1
Housing Aid	Barry Kendler		4	1	4		1
Prov of Services Learning Disabilities	Peter Brennan		2	4			6
Parking Tickets Issue & Processing	Mike Robinson		1	1	1	1	
Permits & Other Parking	Mike Robinson - 1 Medium, In Prog Dylan Champion – 1 Low, P/S unknown		1	1	1		1
Freedom of Information	Ray Whitehouse		2		2		
Hospitality & Gifts Registers	Chris Dooley – 1 Low, P/S unknown			1			1
Climate Change Levy	Dennis Holmes/Mike Day		1		1		
Personnel	David Ede		1				1
Housing Grants & Allowances (Redecoration Vouchers)	Barry Kendler		3				3
Voids	Barry Kendler		2		1		1
Agencies Pro-Active	Mike Stringer	1	1		2		
Final Accounts Housing Projects	Barry Kendler		1				1
Project Assessment & Monitoring	Rita Greenwood		1		1		
Placements Pro-Active	Peter Brennan	2	1		3		

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					In Progress	Not Started	Position/ Status Unknown
	Consultants	David Ede – 1 Med, P/S unknown		1			1
	Cheques Pro-Active	Mike Stringer		1	1		
	ops Acit Cheques Pro-Active	Dylan Champion					2
	Total		3	35	15		

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 4 Ongoing Internal Audit Recommendations 2003/4, 2004/5, 2005/6

Pensions <i>(Report Issued 2003/04)</i>				
Recommendations	Priority	Reported By	Date Due	Current Position
R1 Compile a procedure manual.	Medium	Pensions Manager	Ongoing	The Interim Pensions Manager is currently in the process of constructing the procedure manual. A number of procedures have already been written and are retained in a folder. As each new task is performed within the section, a procedure is written and added to the folder, this is also saved electronically.
Swift <i>(Report Issued 2003/04)</i>				
Recommendations	Priority	Reported By	Date Due	Current Position
R8 ANITE should be requested to create a log that lists unsuccessful login attempts.	Low	Richard Wells/Mark Kelly	Ongoing	Registers of locked-out users have been requested and will be supplied by ICT. It is possible to keep a log of all failed attempts but these are very numerous so an approach based on repeated log-in failures will be developed
Business Continuity <i>(Report Issued 2004/05)</i>				
Recommendations	Priority	Reported By	Date Due	Current Position
R12 Heads of Service should be required to complete Business Continuity templates by 28/02/05 so that LBH Business Continuity plan is in place by 31/07/05	High	Head of Corporate Safety & Facilities Management	Ongoing	As BC plans, policies and procedures are developed and changed so will BC plans created by Services change. As with R1, a complete and thorough review of Business Continuity is ongoing and new cross Council arrangements have been established to ensure this recommendation is met. However, as this is a very fluid area, a complete end date is not possible to achieve. But by July 2006 the Council will have further developed a complete set of Business Continuity Plans.
Approved Lists & Contracts Register <i>(Report Issued 2005/06)</i>				
Recommendations	Priority	Reported By	Date Due	Current Position

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<p>R6 The Surveying Service Manager/ Business Development Manager should monitor the level of firms not returning bids. If the level of firms not bidding starts to exceed 15% of the total number of firms invited over the previous 3 months then systems should be introduced so that the firms declining to bid are contacted in order that the reasons for them not bidding are identified and recorded. [if for all tenders then this will be the Business Development Manager, if only for construction then Surveying Services Manager]</p>	<p>Low</p>	<p>The Surveying Service Manager/ Business Development Manager</p>	<p>Ongoing</p>	<p>Monitoring has commenced and reported by SSM to SPSG on a quarterly basis.</p>
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Hospitality & Gifts Registers

(Report Issued 2005/06)

<p>Recommendations</p>	<p>Priority</p>	<p>Reported By</p>	<p>Date Due</p>	<p>Current Position</p>
<p>R1 Continue to issue reminders to staff regarding the procedures to be followed in respect of Hospitality and Gifts.</p>	<p>Low</p>	<p>SMT (R Greenwood)</p>	<p>Ongoing</p>	<p>Reminder is annual. Last reminder in Inside Havering was Dec 05.</p>

Appendix 5 Key Performance Indicators

KPI	Definition	Target	Qtrs 1	Qtrs 2	Qtr 3	Qtr 4
KPI 01	Number of total actual audit days completed as a percentage of total planned annual days (1250). Compute, Total number of audit days completed to final stage plus days spent on fraud work/Total number of planned audit days	audits = fraud = 100% cumulative	14 70 7%	183 178 29%	360 259 49%	746 330 86%
		100% cumulative	2 2%	21 20%	45 44%	88 93%
		100% cumulative	37 37%	70 68%	83 81%	95 100%
KPI 02	The number of audit reviews completed as a percentage of the total annual number of planned reviews (102). Compute, Total number of audit reviews completed to final stage/Total number of planned reviews.	100% cumulative	2 2%	21 20%	45 44%	88 93%
		100% cumulative	37 37%	70 68%	83 81%	95 100%
KPI 03	The total number of audit briefs agreed as a percentage of the total annual number of planned reviews (102). Compute, Total number of audit briefs issued to final stage/Total number of planned reviews.	100% cumulative	37 37%	70 68%	83 81%	95 100%
KPI 04	Total number of input days on audits as percentage of the total number of planned days (1250) Compute, Total no of input days on the contract/total no of planned days.	100% cumulative	336 27%	694 56%	912 73%	1240 99%
		in time	1	3	13	19
KPI 05	Performance against target time: Maximum 28 days between release of the formal draft and receipt of response Measure number of days between formal draft date and date response received. Only count when a formal has been sent.	out of time	0	1	1	8
		no formal	1	17	31	61
		95%	100%	75%	93%	70%
		100% cumulative	100%	75%	93%	70%
KPI 06	Performance against target time: Percentage of reviews where the final report was issued within 5 available working days of receipt of the response agreeing to the formal report. Compute, number of days between response to the formal report and distribution of a final.	in time	0	3	9	17
		out of time	0	0	4	5
		no formal	2	18	32	66
		100%	100%	100%	69%	77
KPI 07	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.	within 50 days	2	20	36	65
		Outside days	0	1	9	23
		100%	100%	95%	80%	74%
KPI 08	Reports followed up which require a follow-up. Compute, total number of reviews requiring follow up and total number of follow up's undertaken (38 in year: started as 36 4 added and 2 deleted) Count when final sent.	number	1	6	16	25
		100% cumulative	3%	16%	42%	100%
KPI 09	System Audits Survey Forms. Compute, the total no of survey forms collected to total number of survey forms distributed. Results analysed over categories.	100%	33%	42.0%	58%	53%
KPI10	Fraud Audits Survey Forms. Compute, the total number of survey forms collected to total number of survey forms distributed. Results analysed over categories.	100%	0%	0%	57%	91%

APPENDIX 6 Comparative Analysis of Internal Audit Plans

Latest position for the year ended 31st March 2006.

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	38	10	11	11	25	95	100
Audits Completed to date	37	10	6	10	25	88	92.63
Audits at Formal draft stage	0	0	0	0	0	0	0
Audits at Consultation draft stage	1	0	5	1	0	7	7.37
<i>Briefs issued</i>	0	0	0	0	0	0	0
<i>Still to be started</i>	0	0	0	0	0	0	0
Total	38	10	11	11	25	95	100.00

Last years position as at 31st March 2005

Detail	Systems	Contract	Computer	Pro-Active	Follow ups	Totals	%age
Original number of audits	59	13	23	13	n/a	108	100
Final Number of Audits	56	15	22	15	n/a	108	100
Audits Completed to date	51	14	15	11	n/a	91	84.3
Audits at Formal draft stage	1	1	0	0	n/a	2	1.9
Audits at Consultation draft stage	2	0	5	2	n/a	9	8.3
Briefs Issued	2	0	2	2	n/a	6	5.6
Still to be started	0	0	0	0	0	0	0
Total	56	15	22	15	0	108	100.0

APPENDIX 7 – 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 and bailiffs being progressed however former delayed due to charges issue. • Targets set for main areas of income. • Regular reviews of Debt by Debt Management Board. • Services assessing 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 Officer	Ongoing	<ul style="list-style-type: none"> • Priority activities being identified across the Council to assist in development of overall plan • Audit of procedures in place commenced • RMG over viewing matters.

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<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. • Monthly corporate complaints report agreed; 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.

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<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"> • Prepare an overall Council continuity plan • Deliver a full disaster recovery solution • Ensure 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, monitored and reviewed.</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 arrangements. • 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 	<p>ACE Strategy & Communi- cations</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Relevant parties involved in the audit are to meet on 19th June '06. The arrangements made by the Services will be contained within the review. • The Head of Financial Services has produced and distributed the partnership risk report.

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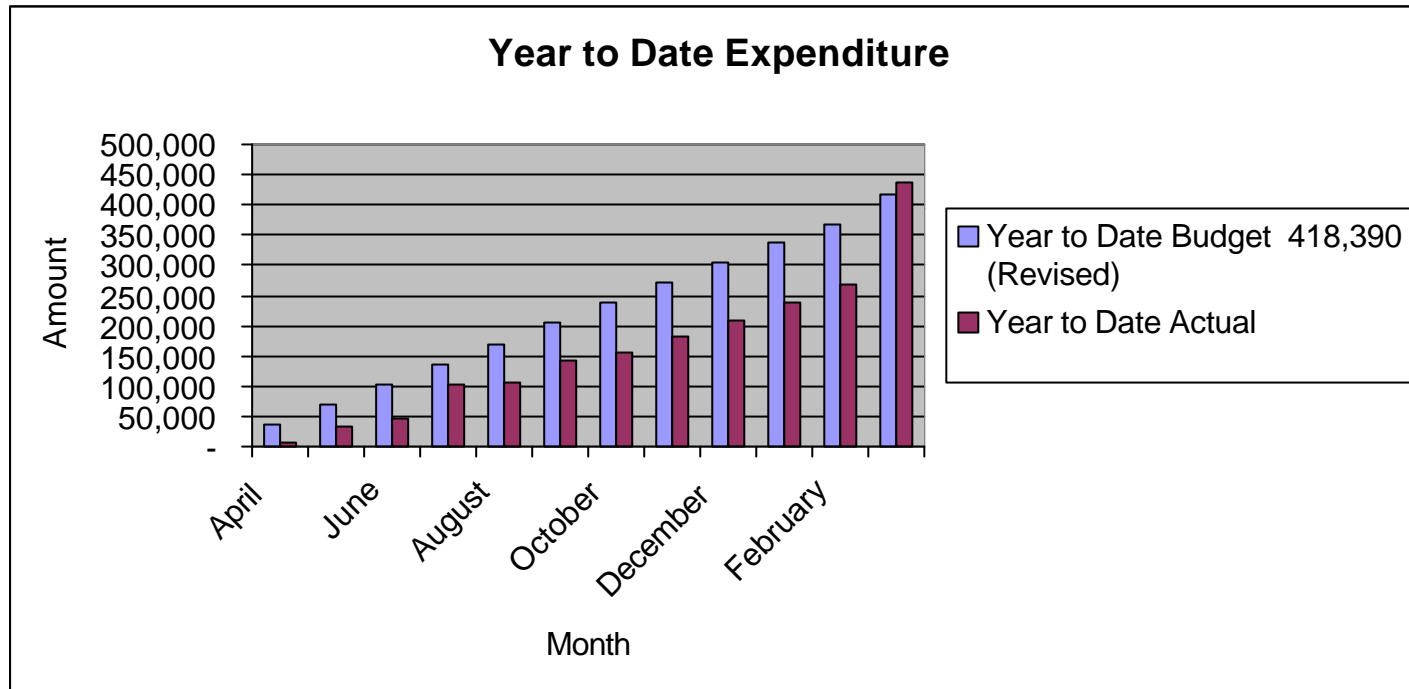
	the risks associated with partnerships.			
9. There have been some financial control weaknesses in Leisure projects/activities which are the subject of formal reports.	<ul style="list-style-type: none"> • Review by relevant Overview and Scrutiny or Audit Committee • Independent review to ensure remedial action is effective 	Public Realm Group Director	March '06	<ul style="list-style-type: none"> • Action has been taken to prevent a re-occurrence.
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"> • Continue to co-operate and take action to provide additional reassurance about the validity of the marriages.

Appendix 8 2005/2006 Budget Analysis

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

	April	May	June	July	August	September
Year to Date Budget	37,619	70,365	103,163	135,894	169,356	204,796
Year to Date Actual	5,520	34,705	46,174	101,449	106,102	141,319
Variance	32,099	35,660	56,989	34,445	63,254	63,477

	October	November	December	January	February	March
Year to Date Budget	237,535	271,186	303,914	336,621	368,420	418,390
Year to Date Actual	156,034	183,157	209,595	237,097	269,214	435,759
Variance	81,501	88,029	94,319	99,524	99,206	17,369



Appendix 7 CORPORATE RISK REGISTER		
	4	

Appendix 10. RISK MANAGEMENT STRATEGY

1. **Introduction:**

Risk Management is the management of integrated or holistic business risk in a manner consistent with the virtues of economy, efficiency and effectiveness. In essence, it is about making the most of opportunities (making the right decisions) and achieving objectives once those decisions are made. The London Borough of Havering will achieve it by:

- Controlling risks
- Transferring risks
- Living with risks.

The Risk Management Strategy assists the Council in achieving its vision priorities and objectives by ensuring that for each Council function, activity, operation or service the level of risk is known, recorded and monitored. In each case, a conscious decision must be taken on how to manage that risk whether through controlling it, transferring it or living with it.

2. **Benefits of a robust Risk Management programme :**

A robust and systematic approach to risk management provides London Borough of Havering with the following benefits:

- On-going risk management framework and action plans;
- Corporate Governance support;
- Identified managed and unmanaged risks;
- Increased risk control awareness and focus on key risk areas;
- Promotion of effective and efficient controls
- Identification of roles and responsibilities;
- A system for continuous improvement;
- Greater assessment of financial impact and control of costs in its services and operations;
- Support for the Best Value process and;
- The means to protect and enhance London Borough of Havering's reputation.

The Lead Member Resources and the Group Director Financial and Commercial take overall responsibility for risk management in the authority.

3. **Role and responsibility for Risk Management (see Appendix 1 for details):**

Risk Management is not simply a compliance issue. It is a fundamental and critical part of ensuring that we most efficiently deploy our resources and effectively deliver our services. Members, Senior Management Team, Managers. Staff and Partners are all risk managers. Each manager within the Council is responsible for managing the risks inherent in the operations for which they are responsible.

Managers will discharge this responsibility by:

- identifying the risks in those operations
- determining the severity of those risks
- assessing whether the level of risk being carried for each function is appropriate (neither too much risk being carried nor a too risk averse approach being taken)
- allocating responsibility for the management of those risks.

Where stakeholders assess levels of risk as being appropriate for the function, managers will continue to monitor risk to ensure that this remains so. Where stakeholders assess levels of risk as being inappropriate then managers are required to take remedial action such as:

- Put in place strengthened controls to reduce risk to an acceptable level to management
- Act to mitigate or transfer the impact of the risk such as, where appropriate, insuring against the risk occurring.
- Equally, if the function is being managed in too risk averse a fashion this can cause operations to be ineffective by stifling initiative and in addition can cause inefficiency and lack of economy by operating unnecessary or excessive controls. In this situation, it may be appropriate to reduce controls.

Responsibilities:

a) Elected Members

Members have the role of overseeing the effective management of risk by Officers. In effect, this means that they will agree the proposed strategy framework and process put forward by Officers - as well as the priorities for action. They will also review the effectiveness of risk management. The Audit Committee have overall responsibility for overseeing risk management arrangements.

b) Senior Management Team

The Senior Management Team has a crucial role to play in Risk Management. The Management Team needs to take a lead in ensuring that there is the identification and management of risks and opportunities facing the Council.

c) Heads of Services and Service Managers

These managers will initiate and/or extend the process cascaded from levels above to within their own service areas. Managers are responsible for identifying, evaluating, and managing risks in their service area. They are responsible for managing and reporting actions on their respective registers that contribute to the corporate and service risk register.

d) Staff

Staff has the responsibilities of participating in the risk management activities of their service areas and Directorates. Staff should use the opportunities to obtain applicable risk training, identify risks and ensure that adequate controls are in place, and notify their managers of changes in the risk environment.

e) Corporate Risk Management Group

The role will be to act as a source of guidance and advice to Directorates and Managers, and to co-ordinate the integrated process. The Group will:

- Determine the proposed strategy, framework and process
- Identify, analyse and profile corporate and cross-cutting risks associated with new policies and service delivery methods and with existing operations
- Determine the Council's risk appetite and priorities for action
- Lead in providing reports to stakeholders on the effectiveness of the risk management framework, strategy and process.

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- Increase the awareness of all Council employees of the value of Risk Management and to encourage ownership of the principles of Risk Management ethics
- Raise the profile of Risk Management and provide a co-ordinated approach and point of reference for all Risk Management activities through the Officer Groups
- Develop expertise in reducing risk by providing a fund of knowledge and the evaluation of new Risk Management approaches
- Promote Risk Management activities within all service departments of the Council through publications, seminars and other means of dissemination
- Monitor the effectiveness of Risk Management initiatives

f) Internal Audit

Internal Audit has an integrated role in the Authority's risk management strategy. Internal Audit has to:

- Focus audits on areas of risk
- Provide an independent opinion
- Provide assurance on the risk management strategy
- Facilitate risk management improvement
- Promote risk awareness
- Provide proactive risk advice and support

g) Partners

It is important that partners be brought into the risk management framework. At times, it will be appropriate for joint profiles to be undertaken. However, it is essential that accountabilities are adequately determined and that London Borough of Havering does not overlook any risks that may fall on it arising from its part in a joint venture. Even where there is transfer of operational risks, for example under a PFI, there will undoubtedly be some residual risks falling on the Council. It is not possible to outsource the risk management process.

4. **Corporate Governance:**

Risk Management fits into the Corporate Governance process in the following areas

- Community Focus: Strategic Development, Visioning and Community Development activities
- Structures and Processes: Effectiveness of political and managerial structures and open and robust decision making
- Service Delivery: Continuous improvement through the Best Value Review and Performance Management processes
- Risk Management Internal Controls: Corporate approach to risk management and guidance on internal controls
- Standards of Conduct: Policies that define the expected standards of personal behaviour and conduct by members, staff, and officers involved in service delivery.

5. **Risk categorisation:**

<u>STRATEGIC RISKS</u> Risks that require consideration when assessing medium to long-term objectives of the council. These may be:	<u>OPERATIONAL RISKS</u> Risks that managers encounter in their day-to-day work. These may be:
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<p align="center"><u>STRATEGIC RISKS</u></p> <p>Risks that require consideration when assessing medium to long-term objectives of the council. These may be:</p>	<p align="center"><u>OPERATIONAL RISKS</u></p> <p>Risks that managers encounter in their day-to-day work. These may be:</p>
<p>Political: Those associated with a failure to deliver local or central government policy or meet the Council's Strategic Objectives</p>	<p>Professional: Those associated with the particular nature of each profession (e.g. social work service concerns over children at risk; housing service concerns as to the welfare of tenants)</p>
<p>Economic: Those affecting the ability of the Council to meet its financial obligations. These include budgetary constraints and consequences of proposed investment decisions</p>	<p>Financial: Those associated with financial planning and control commitments and the adequacy of insurance cover</p>
<p>Social: Those relating to changes in demographic, residential or socio-economic trends on the Council's ability to deliver its objectives.</p>	<p>Legal: Those related to ultra vires, non-compliance with legislation, procedural issues leading to judicial review and challenges, failure to deliver the service i.e. complexity and capacity issues.</p>
<p>Technological: Those associated with the capacity of the Council to deal with technological change and changing demands. This may also include the consequences of technological failure.</p>	<p>Physical: Related to fire, security, accident prevention and health and safety (e.g. hazards/risks associated with buildings, vehicles, plant and equipment, etc).</p>
<p>Legislative: Those associated with current or potential changes in national or European Law (e.g. the appliance or non-appliance of TUPE Regulations).</p>	<p>Contractual: Those associated with the failure of contractors to deliver services or products to the agreed cost and specification, and/or there financial failure.</p>
<p>Environmental: Those relating to the environmental consequences of progressing the Council's objectives (e.g. in terms of energy efficiency, pollution, recycling, landfill requirements, emissions, etc).</p>	<p>Technological: Those relating to reliance on operational equipment (e.g. IT systems or equipment).</p>
<p>Competitive: Those associated with the competitiveness of the Service (cost/quality) and its ability to deliver value for money efficiency of operations.</p>	<p>Environmental: Those relating to such issues as pollution, noise or energy.</p>
<p>Customer Focus: Those associated with the failure to meet current and future needs and expectations of customers and citizens</p>	<p>Business continuity: Those relating to failure to establish an alternative service arrangement and/or plan ahead.</p>
<p>Reputational: Those associated with events/activities in the Council's operations that may lead to negative publicity, like the failure to secure adequate resources to deliver an ambitious project.</p>	
<p>Human Rights Act: "The Act gives every citizen a clear statement of rights and responsibilities. And it requires all of us in public service to respect human rights in everything we do" Tony Blair July 1999</p> <p>For Havering, the Act makes it a legal duty to act compatibly with the Convention rights. If a person's rights are harmed, he or she can take the Council to criminal or civil court.</p>	

<p align="center"><u>STRATEGIC RISKS</u></p> <p>Risks that require consideration when assessing medium to long-term objectives of the council. These may be:</p>	<p align="center"><u>OPERATIONAL RISKS</u></p> <p>Risks that managers encounter in their day-to-day work. These may be:</p>
<p>Corporate Manslaughter: This Act deals with the circumstances in which an organisation and/or officers can be prosecuted for manslaughter committed in the course of its operations.</p>	

6. Risk Management Framework:

Risk Management is not about eliminating risk but rather about understanding risk in the London Borough of Havering's processes and managing it more effectively. The Risk Management Framework consists of:

- A. Approval by Strategic Management Team of a risk management strategy.
- B. Ownership of risk by Members, Managers and Staff. This includes the consideration of risk for all decisions and proposals.
- C. Executive support for the Risk Coordinator and the Risk Management Group.
- D. Provision of appropriate training and qualifications for stakeholders on an annual and continuous basis as required.
- E. Active participation by the Risk Management Group (see roles and responsibilities).
- F. Establishment of the Corporate and Service risk registers.
- G. Bi-annual review and continuous identification and evaluation of the corporate risk registers (March and October) and service risk registers (March and September).
- H. Responsibilities for the risks on the register:
 - 1 Corporate Risk Register, which covers the big cross cutting issues affecting the achievement of business objectives – Strategic Management Team
 - 2 Service Level, which covers the issues affecting the achievement of service objectives – Heads of Service
 - 3 All risks, which covers issues affecting the achievement of service project and operational objectives – Managers
- I. Action to deal with risks through the MTFS and establishment of adequate budgets and resource redirection as necessary.
- J. Risk Management assessment in all committee reports and best value reviews and BVPP's.
- K. Reporting and monitoring of identified risks to the Risk Management Group, Project Board, and Audit Committee.
- L. Internal & External Audit involvement by facilitating risk management, establishing risk based audits, monitoring the Council's risk management programme, and providing assurance on the effectiveness of the programme.
- M. Communicating of risk management issues.
 - 1. Financial Services Briefing Edition to Senior Managers to include examples
 - 2. Articles drafted for Living in Havering and Inside Havering
 - 3. The Risk Management Group to include the Council's insurance provider
 - 4. Key officers encouraged to attend professional associations like ALARM and Better Governance Forums.
- N. Undertaking bi-annual reviews of the risk management process and annual reviews of the strategy.
- O. Programme of training and awareness of risk management issues.

7. **The Risk Management Process at Havering**

	<u>Key objective</u>	<u>Actions</u>
Step 1	Identification of Risks looking at our vulnerabilities and the risk owners	There is a need to identify the potential risks that may arise if informed decisions are to be made about policies or service delivery methods. These risks may arise because of the generality of the environment in which a Council operates or in relation to a specific option under consideration or decision made. The key element of this stage is that all appropriate categories of risk are considered in relation to the specific objectives of the option or decision and that an appropriate and suitable risk owner is assigned.
Step 2	Analysis of Risks	Available data should be used to provide information to help assess the likelihood of any risk arising and looking at existing controls and the consequence or impact it may have if it does arise.
Step 3	Profiling/Rating Risks	Risks can then be profiled according to their likelihood and impact having regard to existing controls and arrangements. How the Council assesses this is set out in the table below.
Step 4	Determine risk appetite to prioritise actions	Further action can then be determined based on the Council's appetite for, or tolerance to, risk and the availability of limited resources.
Step 4	Determining Further Action on Risk	The risk owner should then consider the best course of action for the Council can then be determined. Can or should resources be directed so the risk be avoided, eliminated, reduced, transferred or accepted, and what impact will this have on the risk profile/rating?
Step 5	Controlling Risk	Once appropriate action is decided for each risk and the responsibility for this allocated, the control process can start. This involves taking action to minimise the likelihood of a risk occurring and/or reducing the severity of the consequences should it occur.
Step 6	Monitoring and Reporting on Progress	Progress in managing risks should be monitored and reported so that losses are minimised and intended actions are achieved. Reporting upwards is necessary on the whole spectrum of risks in the risk profile - not just on those being controlled.

In order to profile/rate risks, the authority considers over the next 3-5 years:

- The impact – this being the extent to which the issue (assuming it were to manifest itself to the degree defined in the consequences) would impact on the organisation's ability to achieve its vision and priorities on the following scale:
 - 1 – negligible
 - 2 – marginal
 - 3 – critical
 - 4 – catastrophic

- The likelihood – taking into account existing measures to manage the issue (not those planned or not yet in operation) how likely is the impact to occur within the timeframe of the Corporate Plan on the following scale:
 - 1 – almost impossible
 - 2 – low
 - 3 – significant
 - 4 – high

8. External Review:

In August 2005, the Audit Commission undertook a follow up of a performance audit review of the Council's Risk Management Strategy, as part of the agreed Audit and Inspection Plan. The report, issued in October 2005 noted that the Council had made good progress in implementing the recommendations.

In addition, ZM undertook a review and this concluded that the London Borough of Havering should be proud of its achievements in embedding strategic risk management throughout the authority as it has made a lot of progress in a short period of time. In most areas it meets the key criteria for the Risk Management Key Line of Enquiry and this report has made a number of recommendations that further support the development and implementation of a complete risk management process.

Particular issues to consider at this time are:

- The need for clarity in the Strategy around who takes responsibility for risk management within the authority, the allocation of responsibility for mitigating controls and the review timescales for the risk management process
- More focus and detail needed on identification and analysis of risks
- The improved consistency of the risk management process at service level
- More consistent and robust action planning elements to be included in or attached to all risk registers
- Risk management in partnerships
- Continued training of both staff and members to increase awareness and understanding of risk management processes throughout the authority.

9. Gaining and Maintaining Competence:

It is essential that the London Borough of Havering have the right competencies to deliver effective risk management. Risk Management is a core competency from which the Council can build enhanced service delivery and secure the confidence of funders, regulators, business and the public. The ability to recognise and manage risk should be a prime consideration for those who direct corporate strategy and affairs. Sensitivity and receptiveness towards issues of risk is becoming part of the Council's culture. This progress demands continued depth of experience and skill to identify, profile and take effective action on all types of risk.

In this sense, traditional views of risk management as being bound up with insurance, worthy only of cursory attention on a once per annum basis, has been left behind. Risk Management is dynamic. In broadest application, it is concerned as much with optimising risk as it is with minimising it. This requires the building of competency and provision of risk management training for all involved in developing the strategy and in operations.

It will have become apparent that effective risk management depends not only on commitment, culture and the competence of individuals, but also on the sharing of knowledge and the availability of reliable data and information. London Borough of Havering will continue to ensure that its knowledge management and information systems facilitate effective risk management.

10. Annual Review of the Risk Management Strategy

The annual review of this strategy is planned to take place during August 2006.

Summary of roles and responsibilities

Appendix 1

	Elected Members	Strategic Management Team	Heads of Services	Risk Management Group	Internal Audit	Service Managers	Service providers (contractors, partners)
Framework, Strategy and Process	Agree the Council's risk management policy and strategy	Approve the strategy, framework and process	Implement the strategy in line with the framework	Determine the strategy, framework and process. Provide support to services on implementing the strategy	Ensure the adequacy of the Council's strategy and framework	Analyse and profile service risks	Ensure Councils risk management policy is understood
Identifying risks	Obtain appropriate risk identification training. Identifying risks in proposals and proposals and cross-profiling activities of cutting risks the Council	Identify strategic and cross-cutting risks	Identify risks in their service areas.	Provide advice and support in the bi-annual corporate and service risk reviews	Undertake an annual risk plan review to inform the risk based audit plan. Use the service risk registers in systems work	Obtain appropriate risk management training. Actively participate in the bi-annual corporate and service risk reviews	Ensure Council is notified of any contractual risks
Analysing & profiling	Analyse and profile risks in proposals and activities of the Council	Analyse and profile strategic and cross-cutting risks	Analyse and profile service risks	Analyse and profile corporate and service risks	Analyse and profile the risk based audit plan. Assess the Council's corporate risk register	Analyse and profile operational and cross-cutting risks	Maintain awareness of the impact and cost of risks in their service
Establishing of risk registers	Determine the risk appetite and prioritising risks	Approve and monitor the corporate risk register. Ensure resources to action risks.	Establish appropriate service risk registers	Provide support in the establishment and monitoring of the corporate and service risk registers	Produce a risk based audit plan	Actively participate in the establishment, implementation, monitoring and reviewing of service registers	Maintain and provide the council a risk register for contracted service

Audit Committee, 29 June 2006

	Elected Members	Strategic Management Team	Heads of Services	Risk Management Group	Internal Audit	Service Managers	Service providers (contractors, partners)
Implementing actions to control identified risks	Ensure appropriate risk controls in proposals. Consider controls in activities of the Council	Determine action on corporate risk registers and cross-cutting risks	Establish an action plan for identified risks in the service risk register	Provide guidance and support for actions on identified risks	Undertake reviews to identify and manage weaknesses in control	Determining actions on service risk registers. Ensure actions to control risks are implemented. Promptly report any adverse results to HoS and Risk Coordinator	Implement actions to reduce the Council's exposure to contractual risks
Monitoring and reporting on progress	Monitor the Council's risk management strategy	Monitor all aspects of the risk management strategy ensuring compliance to corporate governance	Undertake bi-annual service risk reviews	Continuously monitor implementation of the risk management strategy, providing support to the Risk Coordinator.	Review the Council's risk management strategy as part of its corporate governance work	Timely provide risk management information. Monitor the risk management process and register for service area	Monitor the contract during its life to ensure that all risks are addressed

Notes:

The Lead Member Resources and Group Director Finance

The Audit Committee has responsibility for overseeing risk management in the authority

Appendix 11 Benefit Investigations 1st April 2005 – 31st March 2006

The full year results against targets are:

	2005/6 Target	2005/6 Net Value £	YTD Target	YTD Target £	Achieved	Net Value £
Official Cautions administered	54	64,800	54	64,800	39	46,800
Administration Penalties administered	54	64,800	54	64,800	3	3,600
Administration Penalties Fines administered	54	4,050	54	4,050	3	1209
Summonses Issued	14	16,800	14	16,800	20	24,000
Prosecutions (convictions)	14	28,000	14	28,000	10	20,000
Prosecution Costs	14	-9,450	14	-9,450	10	-15,402
TOTAL		169,000		169,000		80,207

Targets

Although the target for summonses issued has been significantly exceeded, the number of cases subsequently heard at court has been adversely affected by an increase in not-guilty pleas. For the same reason, prosecution costs are higher than anticipated due to the additional work required to prepare a case for trial, and the additional court attendances.

The level of sanctions (cautions and administrative penalties) were low as the Benefit Investigation Team operated with two vacant investigator posts throughout the year.

BVPI 76

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

Description	Annual Target	Average @ 4th Quarter
- Number of claimants visited, per 1,000 caseload	5	26.86
- Number of fraud investigators employed, per 1,000 caseload	0.29	0.17
- Number of fraud investigations, per 1,000 caseload	47	20.75
- Number of prosecutions and sanctions, per 1,000 caseload	6	3.0

From January 2006, the Visiting Module of the Verification Framework was implemented by the Benefits Section and the Visiting Officers are attached to the Investigation Section. The targets for visits, as shown above, did not take this implementation into account as a date had not been set at that time.

Appendix 12 Anti-Money Laundering Policy

Introduction

1. There have been significant changes recently to the legislation concerning money laundering (the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2003), which have broadened the definition of money laundering and increased the range of activities affected by the statutory framework.
2. The new obligations now impact on certain areas of local authority business and this requires local authorities to establish internal procedures to prevent the use of their services for money laundering activities. The Proceeds of Crime Act affects all individuals, Council employees or otherwise. Therefore the Council must ensure that all staff are made aware of these changes.

Scope of the policy

3. This Policy applies to all employees and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the requirements which must be followed to enable the Council to comply with its legal obligations.
4. Further information is set out in the accompanying Anti-Money Laundering Procedures. Both the Policy and the Procedures sit alongside the Council's Whistleblowing Policy and Anti-Fraud and Corruption Strategy.

What is money laundering?

5. Money laundering means:

concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the Proceeds of Crime Act 2002);

entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328);

acquiring, using or possessing criminal property (section 329); and

facilitating the use of proceeds resulting from any of the above.

6. These are the primary money laundering offences and thus prohibited acts under the legislation.
7. The accompanying Procedures give examples of possible signs of money laundering activities. This Policy and the Procedures set out the obligations of the Council and staff members and explain how any concerns should be raised.
8. Whilst the risk to the Council of contravening the legislation is low, it is extremely important that all members of staff are familiar with their legal responsibilities: Serious criminal

charges and sanctions may be imposed on the Council and/or its employees for breaches of the legislation. There is also the risk of disciplinary action on those staff (e.g. accountants and legal staff) affiliated to a professional body.

What are the obligations of the Council?

9. The Council has:

appointed a Money Laundering Reporting Officer ("MLRO") to receive reports from staff, members, contractors, the public or the Police, about suspected and known instances of money laundering activity (through their own involvement or anyone else's); and implement a procedure to enable the disclosure of suspicions and incidents of money laundering to the National Criminal Intelligence Service.

10. The accompanying Procedures on Anti-Money Laundering, which derive from this Policy, set out:

What constitutes a money laundering offence;

Possible signs of money laundering activity;

Responsibilities in respect of reporting, record keeping, document retention and confidentiality;

The ramifications and consequences of any failure to report;

The care needed to avoid a 'tipping off' offence; and

Awareness training to be provided.

The Money Laundering Reporting Officer

11. The officer nominated to receive disclosures about money laundering activity within the Council is the Client Manager Internal Audit and can be contacted on Extn 2946. In the absence of the MLRO, the Audit Services Manager is authorised to act as the Deputy MLRO and can be contacted on Extn 2610.

Conclusion

12. The legislative requirements concerning anti-money laundering procedures are lengthy and complex. This Policy has been written so as to enable the Council and all its employees to meet the legal requirements.

13. Internal Audit will undertake reviews to assess both the adequacy of the Policy and compliance with the Procedures.

14. Should you have any concerns whatsoever regarding any financial transactions then you should contact the MLRO.

Policy Review Date

15. This policy is to be reviewed by the 8th March 2007.

Procedures on Anti-Money Laundering

INTRODUCTION

1. Historically, legislation seeking to prevent the laundering of the proceeds of criminal activity was aimed at professionals in the financial and investment sector. However, it was subsequently recognised that those involved in criminal conduct were able to “clean” the proceeds of crime through a wider range of businesses and professional activities.
2. New obligations in respect of money laundering were, therefore, imposed by the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2003 which broaden the definition of money laundering and increase the range of activities affected by the statutory control framework. In particular, there is a duty to report suspicions of money laundering and criminal charges or sanctions may be imposed on any individual, and their employer, for failure to do so.
3. As a result, the Council needs to have an **Anti-Money Laundering Policy** and appropriate procedures and measures in place. The content of these procedures is as follows:

What is money laundering?

- The offence
- Possible signs

What is the money laundering procedure?

- Client identification
- Record keeping
- Reporting
- Confidentiality
- Failure to disclose
- 'Tipping off'

5. These procedures are supported by the following appendices:
 - Appendix 1: Anti-money laundering flow chart
 - Appendix 2: Signs of money laundering
 - Appendix 3: Money laundering reporting forms
 - Appendix 4: Disclosure
6. All Heads of Service must ensure that these procedures are brought to the attention of all staff.

WHAT IS 'MONEY LAUNDERING'?

The Offence

7. Under the legislation there are two main types of offences, which may be committed: money laundering offences and failure to report money laundering offences.
8. Money laundering now covers a range of activities and it is technically defined as any act constituting an offence under sections 327 to 329 of the Proceeds of Crime Act 2002 i.e.:
 - concealing, disguising, converting, transferring, criminal property or removing it from the UK (section 327);
 - entering into or becoming concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328);
 - acquiring, using or possessing criminal property (unless there was adequate consideration) (section 329); and even
 - an attempt, conspiracy or incitement to commit such an offence; or
 - aiding, abetting, counselling or assisting in the procurement for such an offence.
9. "Criminal property" is widely defined as money or property representing a person's benefit from criminal conduct. It includes all proceeds such as property (situated in the UK or abroad) real or personal, including money, and it also covers an interest in land or property and land rights.
10. Where it is reasonable to suspect that a money laundering incident has occurred, it is likely that the law will treat you as knowing it. Consequently, if you deliberately shut your mind to the obvious, this will not absolve you of your responsibilities under the above mentioned legislation.
11. Although you do not need to have actual evidence that money laundering is taking place, mere speculation or gossip is unlikely to be sufficient to give rise to knowledge or suspicion that it is.

Possible signs

12. It is impossible to give a definitive list of ways in which to spot money laundering or how to decide whether to make a report to the Money Laundering Reporting Officer (MLRO). However examples have been given in Appendix 2. Staff should be vigilant over those residents and clients:
 - requesting refunds after having made payments in cash (e.g. due to an intentional overpayment);
13. Money laundering can also occur through the provision of services. Facts that suggest something odd is happening may be sufficient for a reasonable suspicion of money laundering to arise.

14. In short, the money laundering offences apply to your own actions and to matters in which you become involved.

WHAT IS THE MONEY LAUNDERING PROCEDURE?

16. Below is an outline of the 3 main steps in the money laundering procedure, and this is followed by specific detail:

- Suspicions and known instances of money laundering must be reported to the MLRO;
- Staff must follow a specific protocol of confidentiality in relation to suspicions and known instances of money laundering; and
- Staff must take due care not to contravene the rules around "tipping off".

Reporting and record keeping

17. Your reporting of suspected cases should be made to the MLRO by telephone, initially, so that you may discuss your concerns and consult the MLRO. Where appropriate, and requested by the MLRO, this discussion should be followed up promptly (i.e. within hours, not weeks or months later) by your submission of a report to the MLRO (see MLRF Appendix 3). **SHOULD YOU NOT DO SO, THEN YOU MAY BE LIABLE TO PROSECUTION and/or disciplinary action.**

18. The Client Manager Internal Audit (Extn 2946) is the officer nominated to receive disclosures about money laundering activity within the Council. The Deputy MLRO is the Audit Services Manager (Extn 2610).

19. The MLRO must maintain records of reports received and disclosures made, so that they may be used as evidence in any subsequent investigation by appropriate agencies. The records must be capable of providing an audit trail that identifies the client and the relevant transaction.

20. MLRO will determine what, if any, communication needs to be made with your line manager/Head of Service/Director. You must not take any further action without the expressed permission of the MLRO. The MLRO has a duty to consider your submission promptly, undertake any investigation, including contacting the National Criminal Intelligence Service.

Confidentiality

21. The MLRO will maintain all forms and applicable records of suspected cases in a confidential file, and for a minimum of five years. The MLRO will also maintain a confidential log of activities.

Failure to report offences

22. The **failure to knowingly report offences** and/or compromise the investigation may result in your prosecution.

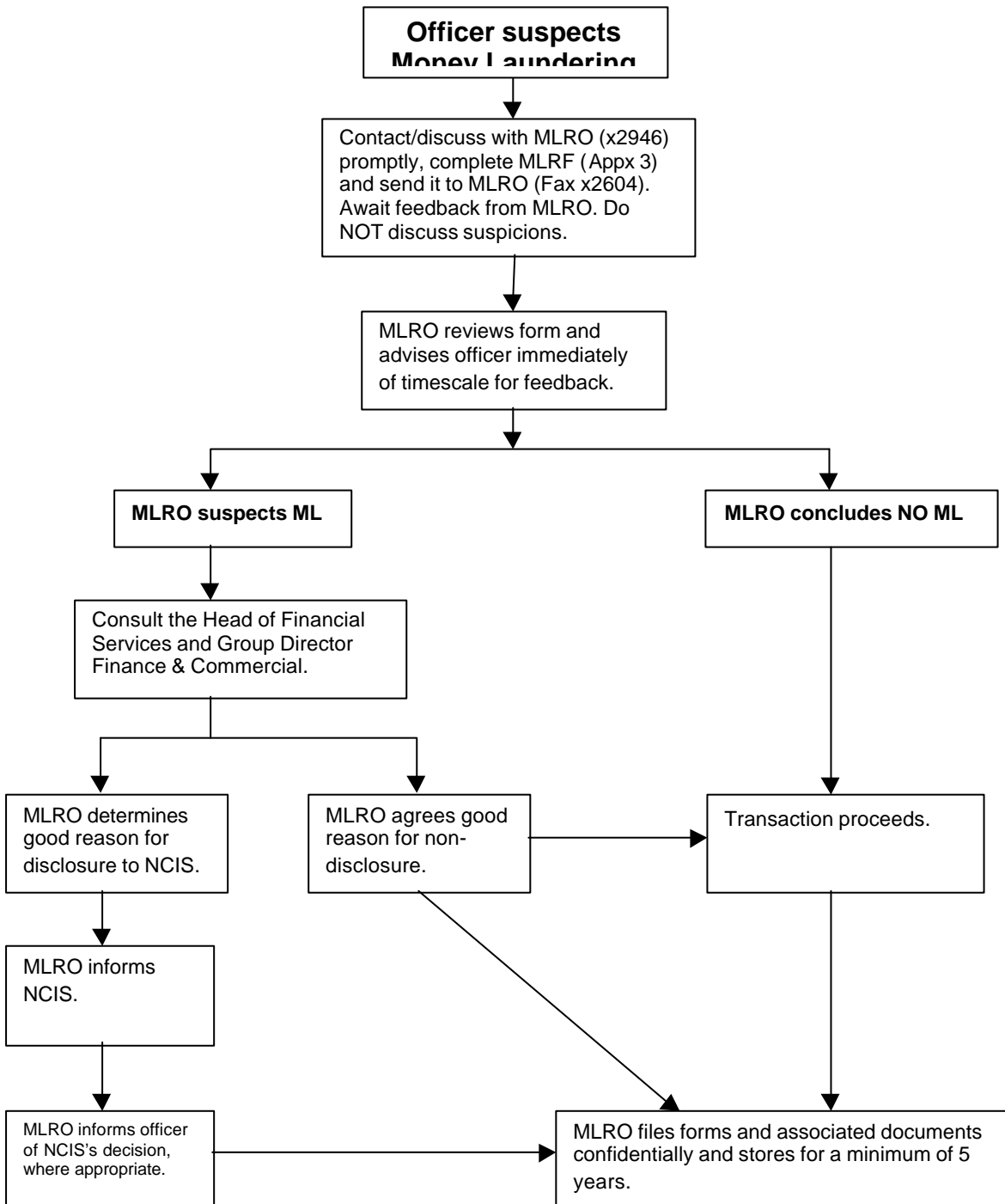
23. Under section 333 of the Proceeds of Crime Act 2002, there is a further offence of **'tipping off'** where a person, knowing or suspecting a disclosure has been made, informs another person. For example, an officer who reports his/her suspicions of a money laundering offence by a resident to the MLRO may commit a tipping off offence if they report the disclosure to that resident or a partner of the resident.

Awareness Training

24. Awareness training will be provided for those staff in high risk roles, where they are more likely to experience possible signs of money laundering. High risk roles will include the Cashiers, Right to Buy Staff, Legal Services and those involved in the payment of refunds.
25. **Please take prompt and proper action if you have any suspicions** and feel free to consult the MLRO at any time should you be concerned regarding a matter.

Anti-money laundering flow chart

Appendix 1



Key	
ML	Money Laundering
MLRO	Money Laundering Reporting Officer (performed by the Client Manager Internal Audit)
MLRF	Money Laundering Reporting Forms
NCIS	National Criminal Intelligence Service

Possible signs of money laundering

Appendix 2

General

- Payment of a substantial sum in cash (over £10,000);
- Overpayments by a client followed by a refund;
- A secretive client: e.g. refuses to provide requested information without good reason;
- Concerns about the honesty, integrity, identity or location of a client;
- A previous transaction for the same client which has been, or should have been, reported to the MLRO.

Property

matters

- Right to buy property sold before expiry of discount period;
- Purchase of land and buildings re-sold within 3-12 months; and
- Purchase of council assets re-sold within 3 months.

Report to Money Laundering Reporting Officer

Appendix 3

To: CLIENT MANAGER, INTERNAL AUDIT
From (staff member's name):
Post Title:
Directorate:
Extn/Tel No:

DETAILS OF SUSPECTED OFFENCE:

Name(s) and address(es) of person(s) involved:
[if a company/public body please include details of nature of business]

Nature, value and timing of activity involved:
[Please include full details e.g. what, when, where, how. Continue on a separate sheet if necessary]

Nature of suspicions regarding such activity:
[Please include details of any indicators. Continue on a separate sheet if necessary]

Has any investigation been undertaken (as far as you are aware)? [Please tick the relevant box] Yes No

If yes, please include details below:

[Empty box for details]

Have you discussed your suspicions with anyone else? [Please tick the relevant box] Yes No

If yes, please specify below, explaining why such discussion was necessary:

[Empty box for explanation]

Have you consulted any supervisory body guidance re money laundering? (e.g. the Law Society) [Please tick the relevant box] Yes No

If yes, please specify below:

[Empty box for details]

Do you feel you have good reason for not disclosing the matter to the NCIS? (e.g. are you a lawyer and wish to claim legal professional privilege?) [Please tick the relevant box] Yes No

If yes, please set out full details below:

Please set out below any other information you feel is relevant:

Signed:..... Dated:.....

Please do not discuss with anyone the content of this report or the circumstances relating to it. To do so may constitute a 'tipping off' offence, which carries a maximum penalty of 5 years imprisonment and/or it could lead to disciplinary action.

THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MLRO

Date report received:

Date receipt of report acknowledged:

Unique case reference number used:

CONSIDERATION OF DISCLOSURE:

Action plan:

OUTCOME OF CONSIDERATION OF DISCLOSURE:

Are there reasonable grounds for suspecting money laundering activity?

If there are reasonable grounds for suspicion, will a report be made to the NCIS? *[Please tick the relevant box]* Yes No

If yes, please confirm date of report to NCIS:

and complete the box below:

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the NCIS, please set out below the reason(s) for non-disclosure:

[Please set out good reason(s) for non-disclosure]

Date consent given by you to employee for any prohibited act transactions to proceed:

.....

Other relevant information:

Categories:

- Debt/charge Yes/No
- Overpayment Yes/No
- Refund Yes/No
- Cashier error Yes/No
- Land/buildings resale within 3-12 months Yes/No
- House resale before expiry of discount period Yes/No
- Assets resale within 3 months Yes/No
- Other

Signed:..... Dated:.....

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

Disclosure

Appendix 4

Reporting by staff to the Money Laundering Reporting Officer

1. Staff members must:
 - (a) Report their suspicions or knowledge of money laundering activity;
 - (b) Retain full documentation about the transaction;
 - (c) Not arouse suspicion that they are concerned;
 - (d) Not tip off;

Consideration of disclosure by the Money Laundering Reporting Officer

2. Upon receipt of a disclosure report, the MLRO must note the date of receipt on his section of the report and acknowledge receipt of it. She/he should also advise you of the timescale within which he/she expects to respond to you.
3. The MLRO will consider the report and any other available internal information she/he thinks relevant and undertake such other reasonable inquiries she/he thinks appropriate in order to ensure that all available information is taken into account in deciding whether a report to the NCIS is required. Where necessary, the matter will be discussed with the Head of Financial Services and the Group Director Finance and Commercial. The MLRO may also need to discuss the report with you.
4. Where the MLRO concludes that it is necessary to make a disclosure, he/she must disclose the matter as soon as practicable to the NCIS on their standard report form and in the prescribed manner. The only exception to this is where it is felt that there is good reason for non-disclosure to the NCIS (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information).



MEETING	DATE	ITEM
AUDIT COMMITTEE	29 JUNE 2006	11

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: WORK PLAN 06/07

SUMMARY

This report sets out the plan of work for the year and the proposed training arrangements for members of the Audit Committee.

RECOMMENDATION

1. Members consider the proposed work plan.
2. Members add any areas/topics that they wish covered having regard to the information/reports elsewhere on the agenda.
3. Members consider and approve the training arrangements.

REPORT DETAIL

1. Committee Work Plan

- 1.1 The Audit Committee is currently planned to meet on 5 occasions over the next municipal year. There are specific reports planned throughout the year, commencing with the statement of accounts and running through a mix of quarterly progress reports and annual reviews of specific strategies and policies within the remit of the Committee, together with progress reports from the Council's external auditor, the Audit Commission.
- 1.2 A work plan of coverage at each of these meetings is set out in Appendix A. This shows the activities already completed over recent meetings and the items planned for the current municipal year.
- 1.3 As indicated in the plan, there are a range of reports that the Committee will receive. Members may identify other areas or topics that they wish covered that

arise from the information/reports elsewhere on the agenda, and are therefore asked to identify any at this stage for inclusion in the plan.

2. Member Training Programme

2.1 In addition, it is important that all the Members of the Committee are adequately trained and briefed to achieve the terms of reference of this Committee, which is:

- To consider and monitor the authority's risk management and internal control environment
- To focus audit resources
- To receive and approve the Annual Statement of Accounts
- To monitor performance of internal and external audit
- To monitor proactive fraud and corruption arrangements.

2.2 A training programme has been drawn up and this is attached as Appendix B. This currently envisages the majority of the programme being undertaken during August 2006, on specific dates to be agreed. Members may wish to consider elongating the programme but should bear in mind the work plan and the need to induct themselves as soon as possible into the work of the Committee.

3. Financial Implications and Risks:

3.1 None arising directly from this report.

4. Legal Implications and Risks:

4.1 None arising directly from this report.

5. Human Resource Implications and Risks:

5.1 None arising directly from this report.

Staff Contact: Rita Greenwood
Title: Group Director, Finance & Commercial
Telephone: 01708 432218

STEPHEN EVANS
Chief Executive

Background Papers

Audit Committee agenda papers for following meetings:

- 26 October 2005
- 8 December 2005
- 9 February 2006
- April 2006

AUDIT COMMITTEE – FORWARD PLAN 2006/07
BOLD = COMPLETED

FORWARD PLAN	TOPIC
26 October 2005	<ul style="list-style-type: none"> • SAS 610 • Audit Commission Progress/Work • IA Client Report • Internal Audit Work • Annual Letter Progress • Audit Strategy 05/06 – postponed • Annual School Report • Review of Risk Management Arrangements • Annual Grants Performance – Debbie • Contract Arrangement
8 December 2005	<ul style="list-style-type: none"> • Audit Commission Progress/Work • A Client Report • Internal Audit Work • Annual Letter Progress • Audit Strategy 06/07 • Review of Fraud and Corruption Arrangements
9 February 2006	<ul style="list-style-type: none"> • Audit Plan Agreed • Audit Commission Progress/Work • IA Client Report • Internal Audit Work • Annual Letter Progress
4 April 2006 Check annual review of ongoing recs. in place.	<ul style="list-style-type: none"> • Audit Commission Progress/Work • IA Client Report • Internal Audit Work • Annual Letter Progress • Annual Report on activity to release to full Council • Receive Annual Letter 2004/05 • Training Programme inc RM
29 June 2006	<ul style="list-style-type: none"> • Statement of Accounts 2005/06 • Statement of Internal Control • Audit Commission Annual Audit Plan 2006/07 • IA Client Report • Internal Audit Work including Quarter 4 2005/06 Audit Reports • Annual Audit Letter Progress • Annual Head of Internal Audit Report 2005/06 • CIPFA Compliance Report • Anti-Money Laundering Strategy • Risk Management Strategy • Audit Committee Work Plan including Training Programme

Audit Committee, 29 June 2006

FORWARD PLAN	TOPIC
28 September 2006	<ul style="list-style-type: none"> • Audit Commission Progress/Work • IA Client Report • Internal Audit Work including Quarter 1 2006/07 Audit Reports • Annual Letter Progress • Annual Grants Performance/Co-ordinator effectiveness • Annual School Report • Opinion on Audit of Accounts 2005/06 • Annual Review of Risk Management Arrangements
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
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	
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

AUDIT COMMITTEE

SUPPLEMENTARY

AGENDA

7.30pm	Thursday, 29 June 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

5. ANNUAL STATEMENT OF ACCOUNTS 2005/2006

For information about the meeting please contact: Tomi Rotowa (01708) 432032
E-mail: tomi.rotow@havering.gov.uk



Audit Committee, 29 June 2006



MEETING	DATE	ITEM
AUDIT COMMITTEE	29 JUNE 2006	5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: STATEMENT OF ACCOUNTS 2005/06

SUMMARY

- 1 Under the code of accounting practice, the Statement of Accounts has to be presented to the Council's relevant committee by the 30 June 2006.
- 2 The Statement of Accounts is attached (or to follow) and is presented at this stage subject to audit.
- 3 The key issues are set in Appendix B for information. If this is not appended it will be circulated separately.

RECOMMENDATION

1. That the Committee:
 - Consider the Statement of Accounts and raise any queries with officers
 - Consider the key issues set out in Appendix B
 - Receive and approve the Statement of Accounts for signature by the Chairman.
 - Note the work taking place to continue to meet the requirements of the Whole of Government Accounts process
2. That the Chairman signs and dates the Statement of Accounts as required by the Accounts and Audit regulations 2003.

REPORT DETAIL

- 1 The Statement of Accounts for 2005/06 is attached at appendix A and is at present subject to audit by the Audit Commission. When the audit is completed the final printed Statement of Accounts will be sent to every Member of the Council.
- 2 The Accounts and Audit Regulations 2003 require that the Chairman presiding at the meeting receiving the Statement of Accounts should sign and date the statement.
- 3 Copies of the published Statement will be distributed as normal and it will be published on the Council's website.
- 4 The Statement of Accounts is a public document and every year, as part of the annual audit, local government electors for the borough are given a period of four weeks to inspect the Council's accounts and supporting records. The dates for inspection are advertised in the local press.
- 5 Members of the Committee have previously been briefed on the Statement of Accounts, its purpose and the key issues arising. The key issues are also set out in Appendix B for information. If this is not appended, this will be circulated separately.
- 6 Members of the Committee are aware that for the third year running the Council is required to prepare its Statement of Accounts one month earlier than in previous years with the date moving to 30 June 2006 for the 2005/06 Accounts. These changed deadlines have proved to be stretching and officers will continue to review processes in order to seek further improvements and to ensure that these timescales continue to be achieved. As is the norm; a post completion review will take place to assist in this and finance officers along with the Strategic Management Team will make any necessary changes. The Council has put in place arrangements to meet the requirements of the Whole of Government Accounts process which aims to amalgamate the accounts of all public bodies.
- 7 The Statement of Accounts includes a copy of the Statement of Internal Control which is the subject of a separate report also included on this agenda.

Financial Implications and risks:

- 8 None arising from this report.

Legal Implications and risks:

- 9 The consideration and signing of the accounts is part of the process to comply with the Council's obligations to produce the accounts.

Human Resources Implications and risks:

10 None arising from this report.

Equalities and Social Inclusion implications:

11 None arising from this report.

Staff Contact: Mike Board
Designation: Corporate Finance Manager
Telephone No: 01708 432217

STEPHEN EVANS
Chief Executive

Background Papers List

None

Key Issues

1. OVERVIEW

This report advises Members of the outturn position for 2005/06 and highlights the key reasons for the variances as reported by the Heads of Service.

A summary of the revenue position for the Council's General Fund is set out below and shows that for 2005/06 management are reporting a balanced budget.

A summary of the forecast variances is shown below.

	Outturn Variance £000	Revised Budget £000
Public Realm Group	1,056	30,476
Children's Services Group	2,467	169,805
Finance and Commercial Group	(3,612)	(11,813)
ACE - Legal & Democratic Services	(88)	3,053
ACE - Human Resources	(138)	657
ACE - Strategy & Communications	11	1073
Sustainable Communities Group	1,175	60,113
Contingency	(871)	871
	0	254,235

The full detailed report including explanations of any changes from the Period 11 forecast will appear in the Monthly Member Performance pack.

2. GROUP DIRECTOR FINANCE AND COMMERCIAL'S OVERVIEW OF FORECAST VARIANCE

This report sets out the outturn position for the Council which shows the outturn balanced to the budget. The position prior to the earmarked reserves being set up was a marginal underspend, however the majority of earmarked reserves set up by the Lead Member were for certain activities which are carrying on into 2006/07 and the relevant specific funding is therefore required to support these, e.g. UDP.

There are several significant variations at service levels, and some of these changed between period 11 and the outturn. Reasons for these are being explored to ensure improved accuracy for 2006/07 and reports will be forthcoming to the relevant Lead Members and Lead Member Resources. The increased adverse variations have been mitigated by:

- i) Not requiring the expected level of contingency for closedown purposes as estimated for provisions.
- ii) Financial Services taking positive action during closedown to increase underspendings via treasury management action to reduce borrowing and increase the use of available receipts pending their use for designated matters.
- iii) Benefit subsidy not requiring adjusting for local authority errors.

3. REASONS FOR VARIANCES

The major variances (i.e. those over £100k) arising during 2005/06 are given below:

Public Realm Group £1,056k

This overspend represents 3.5% of the directorate budget. The major variances are as follows:

- Indoor Sport & Recreation £150k –
 - a) Reduced income at Chafford sports complex of £50k following temporary closure.
 - b) Additional expenses at the Ice Rink of £35k to meet statutory requirements not included in the insurance cover.
 - c) Additional costs of fitting out and maintenance at the Central Park Leisure Centre
- Supervision Management £450k – this is primarily Grounds Maintenance and relates to increases in agency staff and vehicle hire costs.
- Corporate and Community Response (The Green Patrol) £100k – Savings targets were not achieved due to redeployment issues and redundancy costs.
- Hornchurch Sports Centre £430k – Anticipated income arising from increased membership and attendance have not materialised since the extensive refurbishment works were undertaken.
- Parking Facilities £205k – reflecting a shortfall in the number of tickets issued in the first quarter of the new year whilst new attendants were being recruited and trained, and the continued low levels of tickets issued. This overspend has been partly mitigated by a surplus in car parks and parking meter income of £50k.
- Refuse Collection & Waste Disposal of £270k – due to payments of backdated tonne mileage to ELWA.

Children's Services Group £2,467k

The main variances relate to:

- Assessment Services C&F £425k – The overspend arises mainly from the cost of agency staff with delays in staff becoming permanent - £349k. The agency staff was originally funded from the safeguarding grant but it is fully committed in 2005/06.
- Resources Children & Families £1,040k – This overspend is due to the continued pressure on placements and reflects the current increased activity and the number of Children In Placement. All applications are subject to scrutiny by the Group Director and all placements are being reviewed monthly at Children's Board.
- Other Children & Families £437k – This overspend relates to increased legal costs for complex placements. It also includes £155k of savings identified in 2003/04 as part of the MTFs process that are unachievable and relate to the following: £25k Independent Visitors; £50k Early Intervention; and £80k Respite Care.
- Asylum Seekers £191k – This overspend is in relation to the costs of Leaving Care Asylum Seekers. A claim has been made against the Government's contingency fund, but we have been informed that due to the fact that our asylum seeker numbers are considered below the minimum threshold we will receive no funding.

The authority no longer supports adults and families due to changes in Government funding arrangements.

Finance & Commercial Group (£3,612k)

This is due principally to the favourable variance in Finance and Commercial Group arising from:

- a) savings in external interest payments,
- b) work undertaken to reduce debt charges to assist the position as part of closedown, and
- c) successful improvements in benefits which has resulted in no need to provide for Local Authority error on the final outturn benefit subsidy claim.

Sustainable Communities Group £1,175k

The outturn overspend represents approximately 1.9% of the directorate's total budget .

The significant variances are in the following areas:

- Older People £512k – This relates to a number of staffing and care service matters including pressure on the Homecare budget.

- Physical Disabilities £450k – mainly related to the anticipated overspend in homecare budgets due to very the expensive packages required for a small group of service users.
- Transport Accounts £157k – The major cause of the variance were additional leasing/hiring costs of £130k.
- Commissioning £345k – This is due to the Emergency Duty Team that provides a service for out of hours social work cover for Children's and Adults Social Services in Havering and is under contract by London Borough of Barking and Dagenham.

In 2005/06, the Head of Strategy and Commissioning was trying to re-negotiate the contract to reduce the cost from £208k per year. The budget for the service comprises £50k from mainstream budgets and £82k from an Adults ring fenced budget – Access and Systems grant. This re-negotiation was not concluded. This means there is a significant pressure for providing this service.

In addition, an un-accrued invoice of £102k relating to 2004/05 together with the additional costs in 2005/06 mentioned above combine to produce additional budgetary pressure totalling £180k.

ACE Legal & Democratic Services (£88k)

The underspend represents approximately 2.9% of their budget.

ACE Human Resources (£138k)

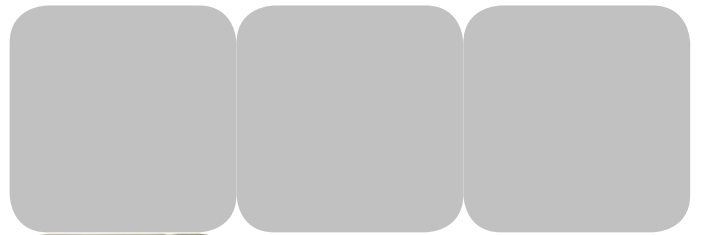
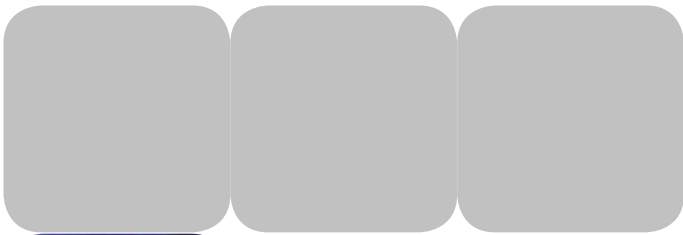
The underspend represents approximately 20.1% of their budget.

ACE Strategy and Communications £11k

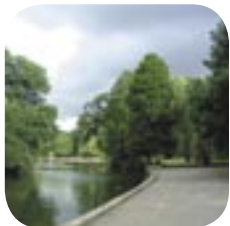
The overspend represents approximately 0.1% of their budget.

4. OTHER MATTERS FOR THE ATTENTION OF THE COMMITTEE

- Members will have attended a detailed briefing on the accounts prior to the Committee meeting.
- The Authority is preparing for the Whole Government Accounts arrangements.
- A summary of the position will be included in Living in Havering
- The audit process is commencing and Officers are making arrangements to ensure that working papers are in place.
- A post completion review is also being undertaken to learn from issues for next year as well as identify process changes to achieve an earlier deadline.
- The accounts have been prepared one month earlier than last year in accordance with the statutory requirements.



Finance &
Commercial
Financial
Services



Draft

Statement of Accounts 2005-2006



INVESTOR IN PEOPLE



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Explanatory foreword

1. Introduction from the Responsible Financial Officer

I am pleased to introduce the Council's statement of accounts for 2005/06. Havering Council is a large and wide ranging organisation whose priorities are:

- To promote financial efficiency and value for money.
- To improve the quality of our services.
- Make Havering a better place in which to live and work.

This publication incorporates all the financial statements and disclosures required by statute. Financial information is also included in this foreword to help the reader understand the financial performance of the Council.

Once again the accounts have been produced promptly and to a high standard. This would not have been possible without the hard work of finance staff across the Council. My thanks go to all finance staff along with other staff for their assistance in the preparation of these accounts and for their support throughout the year.

2. Review of 2005/06

The Havering element of the Council Tax increase was held at 2.9%; however increased efficiencies were identified which enabled resources to be redirected to priority services.

Amongst the financial achievements of the year, it is particularly pleasing to note that:

Effective budgetary control has enabled the Council to deliver a balanced budget despite continued pressure on Social Services.

Interest arising from beneficial cashflow assisted in supporting cost pressures in priority front lines services.

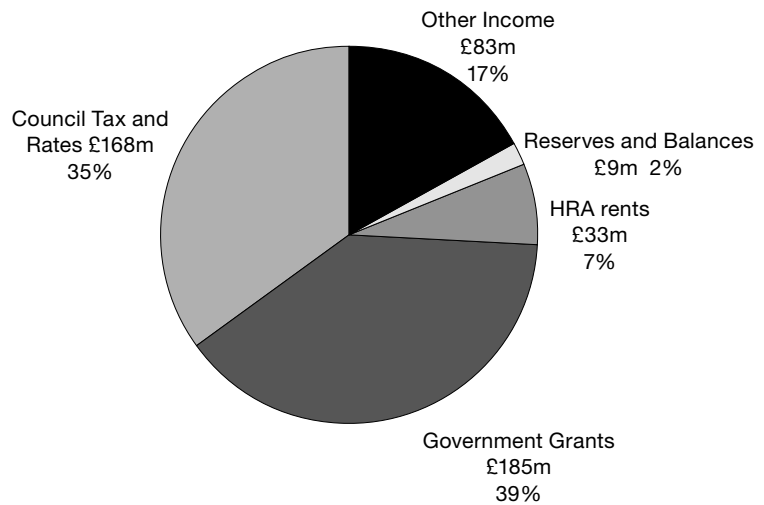
Overall financial performance was consistent with longer term goals as set out in the medium term financial strategy and corporate plan.

The Council has made significant progress in achieving "Value for Money" as recognised in the Comprehensive Performance Assessment.

3. Revenue Expenditure and Services Provided

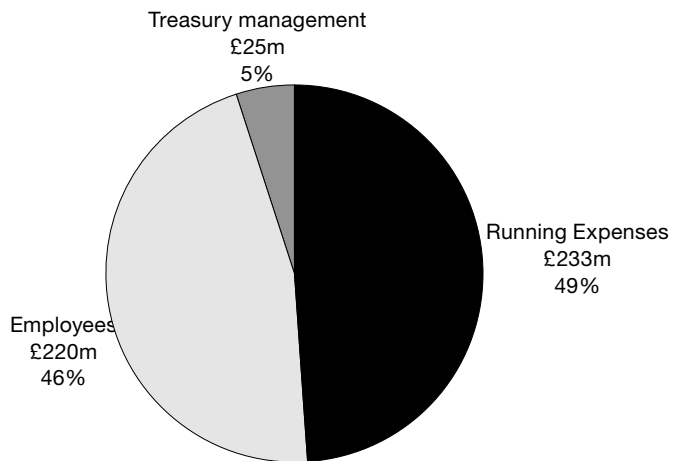
A. Revenue Funding

The Council's total revenue spending (as set out in the Consolidated Revenue account) is funded from various sources as illustrated on the right. Taxes and rates include business rates and domestic council taxes. Government grants include revenue support grant and specific grants. Other income includes fees and charges for services and bank interest.



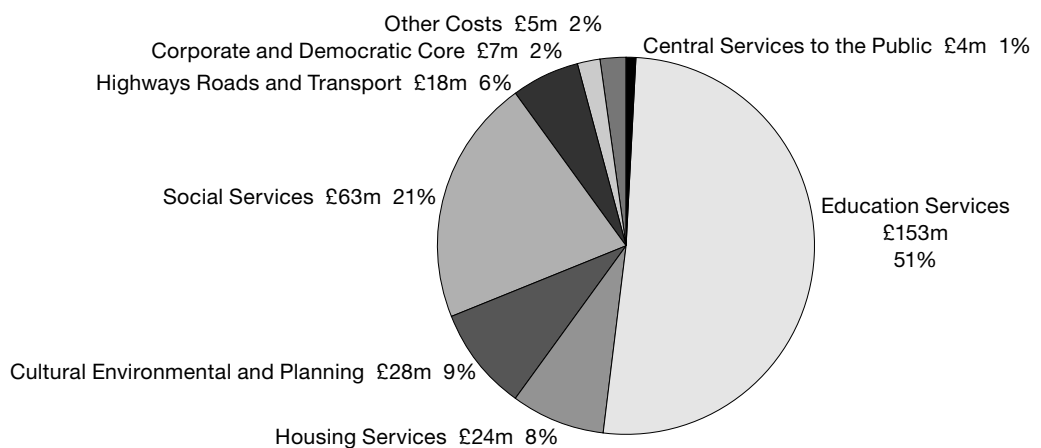
B. Revenue Expenditure

This chart shows the main categories of expenditure over all its services. Running expenses include all maintenance of buildings, vehicles costs, purchases of supplies and services and net recharges between Council services. Employee costs accounts for 46% of total service expenditure.



C. Services Provided

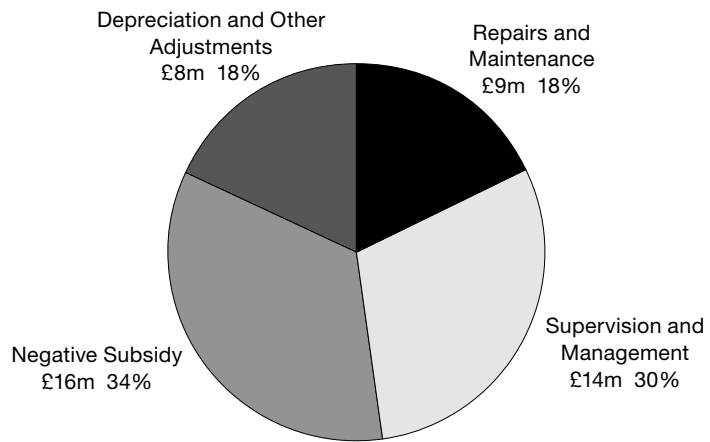
This chart shows the proportion of the Council's net expenditure on the different service areas (as shown in the Consolidated Revenue account).



3. Revenue Expenditure and Services Provided (continued)

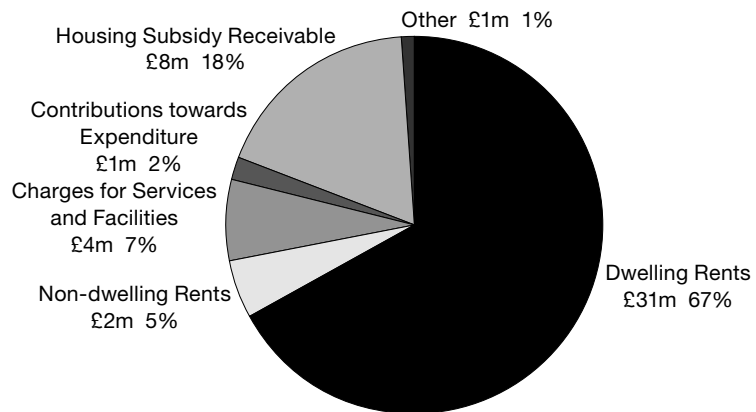
D. Housing Revenue Expenditure

This chart shows the main categories of expenditure within the Housing Revenue Account totalling £47m in 2005/06.



E. Housing Revenue Income

This chart shows the main categories of income within the Housing Revenue Account totalling £47m which is used to fund HRA expenditure as set out in chart D.



4. The 2005/06 Budget

	Original Budget £'000	Outturn £'000	Difference £'000
Total Budgeted Expenditure	262,715	262,715	0
Budgeted Income: Revenue Support Grant/Business Rates (NNDP)	169,466	169,466	0
Council Tax and Collection Fund Surplus	93,249	93,249	0
Total Budgeted Income	262,715	262,715	0

The main components of the General Fund Budget for 2005/06 and how they compare with actual income and expenditure are set out above.

Significant variations within the overall balanced position are as follows:

There was additional expenditure of £2.5 m on Children's Services as compared with the original budget, almost half of which related to the increased activity and cost pressures on children's placements. Additional cost pressures on assessment services and asylum seekers also contributed to increased spending in this area.

There was an additional £1.2 million of expenditure on sustainable communities mainly due to the continuing cost pressures on adult services including homecare services.

Income from sports and recreation was £0.6 m lower than planned following the impact of the temporary closure at Chafford sports complex and the extensive refurbishment works at Hornchurch Sportcentre along with the opening of other non Council leisure facilities in the area.

Interest arising from beneficial cash flow assisted in supporting cost pressures in priority front lines services.

5. Capital

In 2005/06 the Council spent £46.3m on capital projects. Of this expenditure £9.9m was on the enhancement and improvements of Council dwellings. The other main areas of capital expenditure were: £11.6m on schools and other education facilities; £6.9m on roads, parking and lighting; £3.2m on libraries leisure and sports; £2m on environmental improvements; £4.5m on public offices; £3.3m on IT software and other costs and £4.9m on grants for social housing and other improvements in the community.

Like most local authorities the Council has been financing a substantial level of its capital expenditure from the sale of assets. In 2005/06 £13.3m of capital expenditure was financed in this way. The balance of the funding requirement came from capital grants (£19.3m), loans (£2.1m), revenue

contributions (£2.3m) and Major Repairs Allowance (£9.3m). Total long term loans outstanding owed to external lenders amounted to £39.8m. This sum should be viewed in relation to the Council's fixed assets, which have a net book value of £1,070m as at 31 March 2006.

6. Reserves and Balances

There was no movement in the General Fund working balance in 2005/06. The net contribution from earmarked reserves and balances was £15,000 (excluding schools balances).

7. Further Information

Further Information about the accounts is available from:

Group Director Finance and Commercial
Town Hall, Romford RM1 3BD

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For 2005/06 the inspection period was planned for 19 July 2006 to 15 August 2006. These dates are advertised in the local press.

Rita Greenwood, CPFA
Group Director Finance and Commercial
June 2006

Councillor David Grantham
Chairman, Audit Committee
June 2006

E mail: finance@haverling.gov.uk

Website: www.haverling.gov.uk

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Group Director Finance and Commercial
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts

The Group Director Finance and Commercial's Responsibilities

The Group Director Finance and Commercial is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Group Director Finance and Commercial has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Group Director Finance and Commercial has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts, the Consolidated Revenue Account and the Consolidated Balance Sheet present fairly the Council's income and expenditure in 2005/06 and the Council's financial position as at 31 March 2006.

Councillor David Grantham
Chairman, Audit Committee
29 June 2006

Rita Greenwood, CPFA
Group Director Finance and Commercial
29 June 2006

Statement on Internal Control

Scope of Responsibility

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Havering is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the London Borough of Havering's functions and which includes arrangements for the management of risk.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks of the achievement of the London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at the Council for the year ended 31st March 2006 and up to the date of approval of the annual accounts.

The Internal Control Environment

Establishing and Monitoring the Achievement of the Authority's Objectives.

The Corporate Plan 2006 - 2009 sets out the Council's three corporate priorities that support the Community Strategy (the long term strategy for improving the quality of life in Havering) and reflect the Council's role as community leader. These objectives are the result of a wide-ranging consultation programme over many years and reflect the concerns and aspiration of residents, businesses and community groups. A hierarchy of more detailed objectives link statutory plans and other Council plans. Priorities for improvements are pursued on a three year rolling programme and include reviews and actions to progress the corporate objectives, and any outstanding actions from previous reviews. Progress in implementing improvement plans and outcomes achieved are

also included within the Council's Corporate Development Plan.

Policy and Decision-making

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The full Council of fifty four elected members determines the budget and policy framework. The Executive, responsible for most member-level decisions, comprises the Leader and Cabinet Members who oversee specific areas of Council business. Prior notice of matters for Executive decisions is published within the Forward Plan. Matters outside of the budget and policy framework are referred to the full Council for decision. Service Overview and Scrutiny Committees assist in policy development and consider Executive decisions.

Some regulatory functions remain the responsibility of the Council rather than the Executive and most of these are delegated to a small number of regulatory committees. All meetings are open to the public but a small number of confidential matters are considered in private. All committee reports are subject to independent officer scrutiny, to ensure that the implications and risks are set out for informed decision making. Council officers provide appropriate advice at the points of consideration and decision, and report to members on progress and the outcome of decisions taken.

Compliance With Established Policies, Procedures, Laws and Regulations

The Council's rules of procedure are designed to ensure that it acts lawfully and to ensure compliance with its policies and procedures. These rules include budget framework procedure rules, contract procedure rules, financial procedure rules and rules for legal proceedings, and they are underpinned by Codes of Conduct for members and staff respectively and by the Council's Code of Corporate Governance. There are various manager's handbooks providing more detailed guidance and other detailed corporate instructions for staff. Chief Officers (Strategic Management Team and Heads of Service) also maintain detailed procedure notes for specific services and systems within their own services.

The Council's policies and procedures have been implemented via levels of management with appropriate briefings and guidance provided as necessary. Communication and compliance has been enhanced through a number of facilities including the availability of courses and manuals, induction, training and the Council's intranet site.

Services are delivered by trained and experienced staff. All posts have a detailed job description and person specification. Training needs are identified through the Personal Development and Appraisal Scheme and addressed by managers and the Organisational Development Team.

The Council has designated the Assistant Chief Executive, Legal and Democratic Services as Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service/Chief Executive and each other, either the Chief Finance Officer or the Monitoring Officer will report to the full Council if she considers any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report would have the effect of stopping the proposal or decision being implemented until the report has been considered. The Monitoring Officer also has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Constitution is also regularly scrutinised and updated by the Monitoring Officer.

Chief Officers are responsible for risk management within their directorates and services, with advice and instructions from the Council's Risk Manager and the Corporate Risk Management Group. The Council's Risk Management Strategy sets out the approach and risk registers exist at both Corporate and Service level to identify the principal risks to the achievement of the Council's objectives. These registers set out the actions being taken to mitigate and control the risks and are formally reviewed every six months by the Council's Risk Manager. Chief Officers annually certify their own Statement of Internal Control. Risk awareness is continually developed through everyday practices and project management. Each Directorate is represented on the Corporate Risk Management Group and representatives ensure appropriate risk awareness by staff whilst Internal Audit helps embed risk management by cyclical audits and other risk management initiatives.

Economical, Effective and Efficient Use of Resources, and Securing Continuous Improvement

Value for money, stabilisation of council tax levels, the provision of quality services and continuous improvement are cornerstones of the Council's approach. Service and financial plans flow from the Council's corporate priorities and are aligned via annual service plans and annual budget plans prepared throughout the Council. Annual key issues and other improvement priorities and individual performance targets, all contribute to continuous improvement. Services are subject

to budget reviews and to regular quality and performance reviews and are also subjected to a range of optional external quality accreditations, in addition to statutory inspections.

Financial Management

The system of internal financial control is based on a coherent accounting and budget framework including financial procedure rules, a system of delegation and accountability, segregation of duties, management supervision, administrative procedures and regular management information. In particular, the system includes:

- scrutiny committees
- comprehensive corporate accounts and corporate budgeting systems
- budget strategies and an annual budget approved by the Council
- medium-term financial plans
- targets set to measure financial and other performance
- formal project management disciplines, as appropriate
- all accounting codes and legal requirements
- the preparation of regular financial reports which indicate actual expenditure against the forecasts
- clearly-defined capital expenditure guidelines
- delivery of efficiency savings
- treasury controls via the key recommendations in CIPFA's Treasury Management Code of Practice
- Internal Audit.

Performance Management

Departmental and corporate performance systems integrate into a well-developed performance regime that underpins the Council's priorities. Key objectives, targets for statutory indicators and other areas for improvement are approved following detailed business planning across Council services. These tasks and targets are assigned to individual Chief Officers, cascaded down through the management chain and published within the annual Corporate Development Plan and Best Value Performance Plan both of which include relevant prior-year data.

Monthly monitoring systems operate within services. The Chief Executive reports regularly to all Members on progress against policy items, key issue and performance indicators and the Executive meet to review this performance with the Strategic management Team. Performance Management has been strengthened by services being subject to review by a Commissioner Board, consisting of the Cabinet and other Group Leaders and the annual planning process includes a review via Star Chambers. Overview and Scrutiny Committees regularly consider performance issues.

Review of Effectiveness

The Council has responsibility for conducting at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment and also by comments made by the external auditors and other review agencies and inspectorates.

Internal Audit operates to the mandatory standards of internal audit practice established by the Code of Practice for Internal Audit in Local Government in the UK, published by the Chartered Institute for Public Finance and Accountancy in 2003. They also assist External Audit by reviewing material systems in accordance with the International Standards of Auditing, effective from 1st April 2005. Audit work is based on an analysis of risks to which the Council is or may be exposed and its plans are endorsed by the Chief Finance Officer and by the Audit Committee.

The primary objective of internal audit is to assist management to ensure that internal controls and financial systems are secure and thereby reduce the likelihood of fraud or abuse. Reports are issued to management following the completion of audits and an agreed process is followed to ensure that all recommendations are implemented.

All significant issues are reported to the Council's Chief Officers and the Audit Commission (the Council's external auditors). The Council's Audit Committee receives reports directly from the Client Manager Internal Audit and the Audit Services Manager, so that the members are aware of key control issues and can obtain assurances from executive officers (when necessary), that appropriate actions have been applied.

The Audit Commission (the Council's external auditor) carry out their own review of the Council's finances and related controls and make recommendations where appropriate. The external auditors also review the work of internal audit with particular regard to audit planning, management, effectiveness and independence in reporting. Whilst the Audit Commission are currently auditing the Council's accounts for 2005/6, worthwhile assurance can be gained from the unqualified opinion issued as a result of the previous years audit.

The Council is also subject to various Inspection regimes:

- OFSTED undertake inspections and report upon the performance of schools on a cyclical basis. It also inspects and reports upon the organisation and management of Local Education Authorities.
- BFI is an Inspectorate of the Department of Work and Pensions. It inspects and reports upon Social Security Benefit administration and counter-fraud activity in a local authority.
- CSCI inspects Social Services provision and the organisation and management of service provided by the local authority.
- CPA is a corporate assessment of services provided by a local authority that results in a ranking and opinion of the authority. The Audit Commission undertakes this.

Issues arising from these inspection agencies are reported to the appropriate scrutiny committees for review and follow-up.

The review conducted has also taken account of the other methods employed by the London Borough of Havering in providing corporate and service-based assurance on the overall system of internal control in operation.

The other information utilised includes:

- Local Management Information Systems
- Overview and Scrutiny arrangements
- Best Value Performance Plan
- Performance Indicator Information
- Residents/Staff survey
- Analysis of awards/accreditations
- Self assessments against various frameworks
- Corporate accreditation of Investors In People
- Chief Officer individual SIC returns.

Significant Internal Control Issues

The Council's annual review of the effectiveness of the system of internal control has identified some areas where action is appropriate to enhance the internal control environment and ensure continuous improvement. These areas are already included within existing corporate or departmental plans and work is currently underway on each of the action points:

No.	Significant Issue and action already taken if identified in the previous years Statement on Internal Control	Action
1	Continue to improve the recovery of debt <ul style="list-style-type: none"> • Debt management policy in place • Corporate contracts being put in place for Bailiff arrangements • Regular review of all arrears • Targets set for all key areas 	<ul style="list-style-type: none"> • Continue to focus on reducing arrears and recovering debt promptly. • Continue regular monitoring of debt and reporting against targets and standards • Reduce arrears • Undertake review of debt recoveries and associated cost of recovery actions
2	Succession and service continuity plans <ul style="list-style-type: none"> • Service business continuity plans are in place throughout the calendar year. • Documented procedures commenced. 	<ul style="list-style-type: none"> • Continue to work on ensuring up to date documented procedures are in place. • Review continuity plans • Implement a workforce strategy.
3	The consultation strategy has been implemented; there is a need to publish and get adherence to corporate standards from all service areas. <ul style="list-style-type: none"> • Development of a consultation strategy. 	<ul style="list-style-type: none"> • Implement the consultation strategy developed by Communications. • Ensure that the consultation strategy contains effective monitoring and reviewing procedures
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. <ul style="list-style-type: none"> • Regular reviews take place at service level. 	<ul style="list-style-type: none"> • Implement a single complaints system for the whole Council
5	There is a need to address the underlying difficulties within the Adult Social Services budget. <ul style="list-style-type: none"> • Regular reviews • Specialist income team set up • Revised monitoring system at service level 	<ul style="list-style-type: none"> • Actions have eradicated some weaknesses, but underlying problems with income systems remain.
6	There is a need to address the underlying difficulties in balancing the Children's Social Services budget. <ul style="list-style-type: none"> • Regular reviews • Revised monitoring system at service level • Invest to save initiatives being implemented 	<ul style="list-style-type: none"> • Continue with special monitoring. • Progress actions identified to reduce overspends. • Assess the position for 2007/08 budget process.

Significant Internal Control Issues (continued)

No.	Significant Issue	Action
7	Disaster recovery and business continuity plans. <ul style="list-style-type: none"> Strategy and resources for full disaster recovery in place 	<ul style="list-style-type: none"> Prepare an overall Council continuity plan Deliver a full disaster recovery solution Ensure all business critical activities have up to date procedures Work on documenting key feeder systems to Statement of Accounts will support continuity planning.
8	Important partnerships and their activities are mapped and being defined and scrutinised to ensure that their corporate governance, accountability and risk management arrangements are adequately controlled, monitored and reviewed.	<ul style="list-style-type: none"> An internal audit 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 arrangements. 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 key risks associated with partnerships.
9	There have been some financial control weaknesses in Leisure projects/activities which are the subject of formal reports. Action has been taken to prevent a re-occurrence.	<ul style="list-style-type: none"> Review by relevant Overview and Scrutiny or Audit Committee. Independent review to ensure remedial action is effective.
10	There has been an issue in respect of premises licensed for marriage, due to an oversight in licensing arrangements. Significant action has taken place including discussions with the Registrar General and Counsel, and a test court case.	<ul style="list-style-type: none"> Continue to co-operate and take action to provide additional reassurance about the validity of marriages.

In addition the 2004/05 Statement on Internal Control identified the need to:
report on the control weaknesses identified last year (see above significant issues, items 1 – 7);
improve performance on specific grant returns – this issue has been addressed and arrangements are embedded into our working practices;
improve the internal procedures for updating the Financial Framework – this is no longer considered to be a significant control issue due to measures which have been implemented.

Conclusion

We are satisfied that the Council's internal control framework has been effective throughout 2005/6 and up to the date of this statement. We are also satisfied that there are suitable plans to address areas where action is appropriate to ensure continuous improvement.



Rita Greenwood
Group Director Finance and Commercial
June 2006



Stephen Evans
Chief Executive
June 2006



Councillor Michael White
Leader of the Council
June 2006

**Independent Auditor's Report to Havering
London Borough Council**

Statement of Accounting Policies

General Principles

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This code sets out the application of Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) on local authority accounts. The accounts have also been prepared to comply with the Accounts and Audit Regulations 2003.

Additional accounting policies applicable to the Pension Fund are set out on page 50.

Accruals Basis of Accounting

The Accounts have been prepared on the normal accruals basis whereby debtors and creditors are included in the balance sheet in respect of goods supplied and services rendered but not paid for at 31 March. An exception to this in previous years had been rent accounting in the HRA. The Council included the equivalent of 52 weeks rent in the HRA rather than accruing for rent due as at 31 March on the grounds that the amount involved was not considered material. From 2005/06 it has changed this policy in order to comply with normal accounting practice. The amount involved in 2005/06 for one additional day's rent is £99,000. In leap years 2 days rent will be accrued. This change in accounting practice enables a more accurate reporting of rental income on an annual basis rather than requiring an extra weeks rent to be credited into the HRA every 5 to 6 years.

Intangible Fixed Assets

Expenditure on the purchase of intangible fixed assets is capitalised at cost on an accruals basis and amortised to revenue over the estimated economic life.

In Havering's case, the purchase of software licences is the only category of intangible asset currently recognised in the accounts but other costs whose capitalisation is permitted by statute when associated with bringing computer programs into operation are also included as part of this category.

Amortisation of Intangible Fixed Assets

The maximum life attributed to software assets is currently five years on the grounds that this is a reasonable estimate of the life of computer systems and is the life applied to computer hardware for depreciation purposes. The assets are amortised to revenue on a straight line basis.

Tangible Fixed Assets

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis in the accounts. Expenditure on tangible fixed assets is capitalised, provided that the fixed asset yields benefits to the Council and the service it provides, for a period of more than one year. Expenditure on routine repairs and maintenance of fixed assets is charged direct to service revenue accounts.

Havering has the following de minimis rules for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

works to buildings	£5,000
infrastructure	£5,000
office and information technology	£5,000
other furniture and equipment	£5,000

There are no de minimis limits for the following categories: land acquisition, vehicles & plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled and intangible assets & deferred charges.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital expenditure below £5,000.

Council dwellings are valued at existing use value for social housing as specified by the Office of the Deputy Prime Minister (ODPM).

Other operational land and buildings have been included in the Consolidated Balance Sheet at the lower of net current replacement cost or net realisable value in existing use.

Infrastructure assets have been included on the basis of depreciated historical cost.

Community assets are included at historical cost where known or otherwise at £1 per asset.

Vehicles, plant and equipment are included at depreciated historical cost.

Non-operational assets have been included at the lower of net current replacement cost or net realisable value.

Fixed asset valuations are certified by G K Green, FRICS, the Property Strategy Manager in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institute of Chartered Surveyors.

Assets acquired under finance leases are capitalised in the Council's accounts, together with the liability to pay the capital element of future rentals.

In accordance with the Statement of Recommended Practice 2004 the Council has separately identified HRA non operational assets and has classified the Queen's Theatre as an operational asset with effect from 2004/05.

Depreciation

Depreciation is provided for on a straight line basis on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- buildings other than investment properties are depreciated over their estimated useful lives
- newly acquired or completed assets are not depreciated in the year of acquisition or completion
- land is not depreciated
- infrastructure assets are depreciated over a 20 year period
- equipment assets are depreciated over a 5 year period
- vehicles and plant are depreciated over the life assigned by the Transport Manager.

The depreciation charge begins in the year following the capital expenditure.

Impairment

Where the Council has reason to believe that the value of an asset has reduced materially in an accounting period a special impairment charge equivalent to the reduction in value is made to the asset management revenue account and recharged to the service revenue account. Examples of events which may lead to such reductions include significant declines in market value, obsolescence or physical damage and changes to the regulatory environment. The Council carried out an impairment review for 2005/06 and impairment charges have been included in the accounts where required.

Charges To Revenue

All General Fund and Housing Revenue Account services, central support services and trading accounts are charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision

for depreciation plus a capital financing charge determined by applying a specified notional rate of interest to net asset values (3.5% for current value assets and 4.95% for historical cost assets in 2005/06). The charge to individual services is determined on the basis of the balance sheet value of the assets they use.

Capital charges to the Housing Revenue Account are adjusted below the net cost of service to an amount equivalent to the statutory capital financing charge. This charge from the General Fund is calculated in a manner determined by the Secretary of State.

External interest payable, depreciation and impairment of tangible fixed assets and amortisation of deferred charges, intangible fixed assets and premiums paid on early debt redemption are charged to the Asset Management Revenue Account. This account is credited with all capital, impairment and amortisation of deferred charges and intangible assets recharged to services, with capital grants released for depreciating assets and with discounts on early debt redemption. Capital charges, therefore, have a neutral impact on the amounts to be raised by local taxation and council house rents.

Premiums and discounts on the premature repayment of loans are written off immediately unless replacement loans are taken within a year of the repayment, in which case they are written off over the life of the replacement loans.

In accordance with SORP 2005 gains and losses on the repurchase of borrowing are shown separately in the Consolidated Revenue Account.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately as appropriations on the face of the Consolidated Revenue Account, below net operating expenditure.

Deferred Charges

Deferred charges represent expenditure which may properly be capitalised, but which does not result in, or remain matched with tangible or intangible fixed assets controlled by the authority. Examples include Improvement Grants and other grants to third parties for capital purposes.

The 2004 Statement of Recommended Practice (SORP) introduced a new economic benefits test to determine the length of period over which deferred charge expenditure should be written off to the revenue account.

In accordance with the SORP 2004 the Council has changed its accounting policy and has wholly written out all deferred charge expenditure to revenue in with effect from 2004/05. Previously deferred charges have been written off to revenue either in the subsequent financial year or over longer periods where justified.

Pooling of Housing Capital Receipts

In accordance with the Local Government Act 2003 a proportion of capital receipts from the sale of housing assets is paid over to central government. This replaces the previous requirement to set aside a proportion of housing receipts for the repayment of debt. This new arrangement took effect from the beginning of 2004/05 and payments to the pool are shown on the face of the Consolidated Revenue Account (CRA). The payment is matched within the CRA by a transfer from the Useable Capital Receipts Reserve. The remaining "usable" receipts are held in the Reserve to finance new expenditure.

Group Accounts

The SORP for 2004 introduces stricter requirements regarding external interests in subsidiaries, associates and joint ventures and the preparation of Group Accounts. Havering has examined all its external interests and has determined that there are no material interests such as would require the production of group accounts.

Government Grants and Other Contributions

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

Income is credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants for fixed assets, initially to the Grants Unapplied Account and then to the Grants and Contributions Deferred Account once used to finance the assets.

Amounts are released from the Grants and Contributions Deferred Account to the Asset Management Revenue Account to offset any provision for depreciation charged to the revenue account in respect of the fixed assets to which the grants relate. These sums are also charged as appropriations in the Consolidated Revenue Account and credited to the Capital Financing Account in order to ensure a neutral effect. Grants towards expenditure on fixed assets are also written off to the Capital Financing Account via the Consolidated Revenue Account if the expenditure

they finance is not materially increasing the value of the assets.

Capital grants received in respect of deferred charges are credited to the Grants Unapplied Account and then netted off against the deferred charge once incurred before it is written off to revenue.

Redemption of Debt

Repayments of principal on all external borrowings are applied to reduce loans outstanding. The total of depreciation and impairment charged to revenue and the total amortisation of deferred charges and intangible fixed assets written off to revenue in the year count towards the Government's required minimum revenue provision for debt repayment and a balancing appropriation is made to the Capital Financing Account from the Consolidated Revenue Account.

Housing Revenue Account

As a result of the Local Government Act 2003 responsibility for administering rent rebates has transferred from the HRA to the General Fund with effect from 1st April 2004. The 2003 Act also abolished the requirement to set aside a Minimum Revenue Provision in respect of the HRA element of external loans.

Leases

Rental payments under finance leases are apportioned between the finance charge and the principal element. The finance element of rentals is charged to the Asset Management Revenue Account. The principal element reduces the deferred liability in the balance sheet.

Rentals payable under operating leases are charged to revenue on an accruals basis.

Reserves

Capital reserves are divided between cash-backed and non-cash backed reserves. The cash-backed reserves which can be used to fund new capital expenditure are the Usable Capital Receipts Reserve, the Major Repairs Reserve and the Grants Unapplied Reserve. The non cash-backed reserves are the Capital Financing Account, the Fixed Asset Restatement Account, the Grants Deferred and Deferred Receipts Accounts which represent balances arising from past funding, valuation surpluses or deferred income.

Revenue reserves are either Earmarked Reserves or General Reserves and Fund balances.

More details of all reserves are given on pages 36 to 38 of the accounts.

Provisions

Provisions have been established for losses or liabilities that are likely to be incurred where the amount or date of the liability is uncertain. Material provisions are described on page 34 of the accounts.

Support Service Costs

Support services are fully recharged to services on the basis of their budgeted costs except for those overheads which fall within the definitions of the corporate and democratic core and non distributed costs as set out in the Best Value Accounting Code of Practice. The recharges to services are either on the basis of service level agreements or estimated time spent in supporting those services. Administrative building costs are recharged to services on the basis of floor area occupied. The costs of the corporate functions of the Council, including costs associated with democracy, are retained centrally.

Other Investments

Investments other than those of the Pension Fund are included in the balance sheet at cost. In accordance with SORP 2005 losses on investments are disclosed on the face of the CRA.

Stocks

The Council has a number of small stocks, which are mainly valued on an historical basis. They are all reviewed regularly and any deemed obsolete are written off.

Pension Provision

The Council participates in two different pension schemes to meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers

This is a national scheme administered by the Department for Education and Skills (DfES). The employer's pension cost charged to the accounts is fixed by the contribution rate set by DfES on the basis of a notional fund.

Other Employees

Other employees are eligible to join the Local Government Pension Scheme. This is a funded defined benefit scheme, which is administered by the Council.

The accounts fully reflect the provisions of FRS17. Under FRS 17, the amount charged to services is the amount of pension benefit earned during the year, known as the current service cost. This replaces the cash contributions made by services to the Pension Fund. Past service contributions to the funds and discretionary benefits are no longer shown within net operating costs but form part of the appropriation between the CRA and the Pension liability that is designed to ensure that the net cost to the General Fund remains unchanged.

Where elements of FRS 17 costs cannot be directly identified to specific accounts they have been apportioned between the HRA and General Fund in proportion to actual employer's contributions which are calculated based on pensionable pay.

Consolidated Revenue Account 2005/2006

This shows the expenditure and income for all the Council's services during the year and the final outturn after taking account of income from the Collection Fund.

2004/05		2005/6			
Net Expenditure £'000		Notes	Expenditure £'000	Income £'000	Net Expenditure £'000
3,933	Central Services to the Public		21,798	17,866	3,932
28,252	Cultural, Environmental and Planning	1	43,886	15,674	28,212
145,582	Educational Services		195,164	41,983	153,181
17,112	Highways, Roads and Transport Services		22,384	3,964	18,420
2,824	Housing General Fund Services		47,575	46,035	1,540
24,039	Housing Revenue Account		68,247	46,174	22,073
58,141	Social Services		90,991	28,538	62,453
132	Coroner's Court		136	-	136
7,731	Corporate and Democratic Core		7,604	205	7,399
5,921	Non Distributed Costs		5,928	1,365	4,563
293,667	Net Cost of Services		503,713	201,804	301,909
9,338	Levies Counting as Havering Expenditure	10			8,480
(48,537)	Asset Management Revenue Account	13			(44,604)
6,300	Contribution of Housing Capital Receipts to Government Pool				5,103
351	Net Losses on Repurchase of Borrowing				341
(5,425)	Interest and Other Investment Income				(5,381)
2	Investment losses				69
6,230	Pensions Interest Cost and Expected Return on Pension Assets	8			4,790
261,926	Net Operating Expenditure				270,707
	Appropriations				
1,521	Transfer of HRA Surplus/(Deficit) to HRA Reserve				(186)
2,035	Contributions To/(From) Earmarked Reserves	14			115
(402)	Contributions To/(From) General Reserves				(130)
(12,946)	Contributions To/(From) Capital Reserves	15			(7,195)
(1,720)	Contribution To/(From) Pension Reserve	8			(630)
250,414	Amount To Be Met By Government Grant and Local Taxpayers				262,681
	Financed By				
(90,261)	Demand on Collection Fund				(93,169)
(310)	Collection Fund Transfer of Estimated Surplus				(80)
(62,633)	Contribution from Non-Domestic Rate Pool				(74,840)
(98,935)	Revenue Support Grant				(94,626)
(1,725)	Net General Fund (Surplus)/ Deficit				(34)
(18,016)	Balance on General Fund Brought Forward				(19,741)
(19,741)	Balance on General Fund Carried Forward				(19,775)
(8,516)	General Fund Balance attributable to Schools				(8,550)
(11,225)	Balance on General Fund excluding Schools				(11,225)



Rita Greenwood, CPFA
Group Director Finance and Commercial
June 2006

Notes to the Consolidated Revenue Account

1 Building Control

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control Unit divided between the chargeable and non-chargeable activities. The net cost of this service is included in Cultural, Environmental and Planning Services.

Expenditure	Chargeable £000	Non Chargeable £000	Total £'000
Employees	514	313	827
Premises	19	18	37
Transport	21	4	25
Supplies and Services	46	33	79
Central and Support Services	107	25	132
	707	393	1,100
Income			
Building Regulation Charges	860	0	860
Miscellaneous	0	5	5
	860	5	865
Surplus/(Deficit) for the year	153	(388)	(235)
2004/05	129	(355)	(226)

2 Agency Income & Expenditure

There were no agency activities in 2005/06. Agency work was carried out for the East London Waste Authority (ELWA) in 2004/05 at a value of £11,000 which represented full reimbursement of costs.

3 Local Authorities (Goods and Services) Act 1970

The Council is empowered by the Act to provide goods and services to other public bodies. Services provided by the Council to Havering Sixth Form College, Brentwood Ursuline, and other bodies inside and outside the borough amounted to £174,000 (£177,000 in 2004/05). This represents the full reimbursement of costs incurred.

4 Publicity Account

Local Authorities are required by section 5(1) of the Local Government Act 1986 to keep a separate account of expenditure on publicity, including advertising for staff. The details of expenditure in 2005/06 relating to publicity are as follows:

	2005/06 £000	2004/05 £000
Staff Advertising	761	812
Other Publicity	407	306
	1,168	1,118

5 Leases

a) Finance leases

The Council held some equipment under finance leases until 2004/05. Rentals and settlements paid in 2004/05 amounted to £101,000. Of this, £33,000 was charged to revenue and the balance of £68,000 cleared the outstanding capital liability. There are now no undischarged obligations under finance leases.

b) Vehicle, Plant and Equipment Operating Leases

Operating lease rentals paid in the year amounted to £769,000 (£965,000 2004/05). Outstanding commitments under operating leases amounted to £1,444,000 at 31 March 2006 (£1,786,000 at 31 March 2005).

6 Employee's Remuneration

The number of employees (including teaching staff) whose remuneration, excluding pension contributions, was £50,000 or more, in bands of £10,000 were:

	2005/06	2004/05
£50,000 - £59,999	98	66
£60,000 - £69,999	22	8
£70,000 - £79,999	11	18
£80,000 - £89,999	17	6
£90,000 - £99,999	2	7
£100,000 - £109,999	2	-
£110,000 - £119,999	-	-
£120,000 - £129,999	-	-
£130,000 - £139,999	1	1
	153	106

7 Members Allowances

Payments in the year were £951,071 including expenses (£929, 992 in 2004/05). Additionally payments to co-opted members totalled £2,462 (£1,900 in 2004/05)

8 Pension Costs

As part of the terms and conditions of employment the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make these payments. This has to be disclosed at the time that employees earn their future entitlement.

The authority participates in two pension schemes:

- The Teacher's Pension Scheme – this is a national scheme administered by the Department for Education and Skills (DfES). The employer's pension cost charged to the accounts is fixed by the contribution rate set by the DfES on the basis of a notional fund.
- The Local Government Pension Scheme for other employees which is administered by the Council. This is a funded defined benefit scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The cost of retirement benefits are recognised in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the authority is required to make against council tax

is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after net operating expenditure.

The following transactions have been made in the Consolidated Revenue Account during the year:

	2005/06 £'000	2004/05 £'000
Net Cost of Services		
Current Service Cost	11,160	10,090
Past Service Cost	150	440
Net Operating Expenditure		
Interest Cost	22,600	23,380
Expected Return on Pension Fund Assets	(17,810)	(17,150)
Amounts to be Met From Government Grants and Local Taxes		
Movement on Pension Fund Reserve	(630)	(1,720)
	15,470	15,040
Actual Amount Charged Against Council Tax for Pensions in the Year		
Employers Contributions Payable to The Scheme	14,110	13,721
Retirement Benefits Payable to Pensioners	1,360	1,319
	15,470	15,040

Note 32 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. Note 1 to the Statement of Total Movement in Reserves details the movement on the Pension Reserve and note 7 analyses the actuarial gain.

Teachers – In 2005/06 the Council paid £9.4m (£8.9m 2004/05) to the Department for Education and Skills in respect of teachers' pension contributions. This represented 13.5% of teachers' pensionable pay. (13.5% in 2004/05)

9 Audit Costs

The Council incurred the following fees relating to external audit and inspection:

	2005/06 £'000	2004/05 £'000
Fees payable to the Audit Commission with regard to external audit services carried out by appointed auditor	342	299
Fees payable to the Audit Commission in respect of statutory inspection	58	131
Fees payable to the Audit Commission for the certification of grant claims and returns	198	243
	598	673

10 Levies Counting as Havering's Expenditure

Havering must pay levies to the following bodies:

	2005/06 £'000	2004/05 £'000
East London Waste Authority	7,832	8,256
Environment Agency		
Thames	149	138
Anglian	13	13
Greater London Magistrates' Courts Authority	-	463
London Pensions Fund Authority	233	227
Lee Valley Regional Park	253	241
Total Levies	8,480	9,338

11 Related Party Transactions

Information in respect of material transactions with related parties, not disclosed elsewhere in the Statement of Accounts is as follows:

	Payments by the Council £'000
London Borough of Havering Pension Fund Payment of Employer's Pension Contributions	15,417

Membership of Other Organisations:

Members, the Chief Executive, Executive Directors and Heads of Service have made declarations of their interests in the following organisations, which in most cases relate to official Council appointments:

	Payments by the Council £'000
Age Concern (Havering)	261
Councillor June Alexander Councillor Steven Kelly	
Association of London Government	163
Councillor Michael Armstrong Councillor Andrew Curtin Councillor Steven Kelly Councillor Andrew Mann Councillor Michael White	
East London Waste Authority (ELWA)	7,832 (levy)
Councillor Owen Ware Councillor Andrew Mann Group Director Public Realm is a Director of ELWA	
Havering Citizens Advice Bureau	162
Councillor Roger Ramsey	
London Boughs Grants Scheme	805
Councillor Andrew Curtin	

	Payments by the Council £'000
Local Government Association	88
Councillor Andrew Curtin Councillor Ray Harris Councillor Steven Kelly Councillor Barbara Reith Councillor Michael White	
Havering Theatre Trust	430
Councillor Wendy Brice Thompson Councillor Malvin Brown Councillor Andrew Curtin Councillor Jean Gower Councillor Bill Harrison Councillor Roger Ramsey Councillor Louise Sinclair Councillor Reginald Whitney	
Havering and Barking Relate	62
Councillor Wendy Brice Thompson Councillor Steven Kelly	
Havering Association for People with Difficulties	105
Councillor Steven Kelly Councillor Patricia Mylod	
London and Quadrant housing Trust	303
Councillor Jean Gower	

Councillor Ray Harris and the Head of Regeneration and Partnerships have declared a related party transaction with London Riverside Ltd. The Council provides staffing resources to the Company and contributes directly to various regeneration projects co-ordinated and funded by the company.

Councillor Michael White is a board member of the London Thames Gateway Development Corporation, which receives funding from the ODPM for delivery of economic regeneration in the Thames Gateway area.

Councillor Ray Harris was the chairman of the Centre for Engineering and Manufacturing Excellence Ltd. (CEME) until it was restructured in 2005 as a company limited by guarantee with a new board of directors. Following the restructuring, the Council became a member of CEME and the Chief Executive is the Council's representative on the board of CEME Ltd. CEME is one of the Council's regeneration and skills partners and the Council made payments to CEME of £75,000 in 2005/06.

Councillor Joseph Webster is a director, and the Head of School and Student Services is an alternate director of the London East Connexions Partnership. The Council received a grant in the order of £1,173,000 from the company in 2005/2006 to provide careers advice and guidance.

Councillor Barbara Reith is a trustee of Cleanaway Havering Riverside Trust and Cleanaway Havering Riverside Maintenance Trust. The Trusts provide external funding to the Council for environmental and community projects.

Councillor Jan Davis's husband is Chairman of Parkhill Estate and Tenants Association to whom Havering paid 222,000 in 2005/06.

12 Trading Accounts

	2005/06 Income £'000	2005/06 Expenditure £'000	2005/06 (Surplus)/Deficit £'000	2004/05 (Surplus)/Deficit £'000
a) Open Air Market				
The Council operates an open air market three days a week	867	763	(104)	(102)
b) Other Trading Accounts				
Highways	3,878	3,801	(77)	21
Leisure Management	2,332	2,760	428	180
Schools/Welfare Catering	4,382	4,482	100	(63)

The surplus and deficits from these trading accounts in 2005/06 are included within the relevant service in the Consolidated Revenue Account.

13 Asset Management Revenue Account

The Asset Management Revenue Account is credited with notional charges made for the use of fixed assets in the delivery of services and with the release of grants used to fund those assets. It is debited with actual capital financing costs incurred during the year. The balance on the account is taken to the Consolidated Revenue Account to ensure that the notional charges for capital have no impact on the level of Council Tax.

	2005/06 £'000	2004/05 £'000
Income		
Capital Charges		
General Fund	(30,974)	(36,163)
Housing Revenue Account	(29,218)	(33,786)
Grants Released	(9,072)	(9,605)
	(69,264)	(79,554)
Expenditure		
Provision For Depreciation	19,885	20,160
Impairment	(595)	2,663
Intangibles Amortised	1,755	776
Deferred Charges	1,528	5,396
External Interest Charges	2,087	1,989
Finance Lease Payments	–	33
	24,660	31,017
Balance to Consolidated Revenue Account	(44,604)	(48,537)

14 Contributions To/(From) Earmarked Reserves

The following sums were appropriated to / (from) earmarked reserves:

	2005/06 £'000	2004/05 £'000
Reserves Earmarked for Capital	(14)	(773)
Insurance Fund	(618)	(882)
Workforce Issues Reserve	750	750
Specific Performance Improvement Initiative Reserve	(60)	–
Health and Safety Reserve	257	213
Reserve for Grant Repayment	36	400
Streetcare Improvement Reserve	(475)	200
Standard Fund Reserve	157	8
Crematorium & Cemetery Funds	(77)	(33)
VAT Reserve	–	1,000
Realignment Reserve	81	500
Other Minor Reserves	78	652
Net contributions	115	2,035

15 Contributions To/(From) Capital Reserves

An appropriation must be made between the Housing Revenue Account and the Major Repairs Reserve where the housing depreciation charge differs from the Major Repairs Allowance in the year.

A proportion of capital receipts from the sale of HRA assets must be paid to a central government pool. An appropriation must be made for this purpose from the Usable Receipts Reserve to the revenue account. The contribution to the pool is recorded separately in the Consolidated Revenue Account below the Net Cost of Services.

Where revenue resources are used to finance capital expenditure, this is recorded as an appropriation to the Capital Financing Account.

Capital grants written down to the Asset Management Revenue Account are appropriated to the Capital Financing Account.

An adjustment must also be made with the Capital Financing Account in respect of the Minimum Revenue Provision (see note 16).

The transactions in 2005/06 were as follows:

	2005/06 £'000	2004/05 £'000
HRA Contribution to/(from) Major Repairs Reserve	(813)	(1,564)
Transfer from Usable Capital Receipts Reserve For Government Pooling	(5,103)	(6,300)
Contributions to/(from) Capital Financing Account		
Revenue Financing of Capital Expenditure		
From General Fund	2,309	2,798
From HRA	31	-
Capital Grants Release	9,072	9,605
Minimum Revenue Provision Adjusted	(12,691)	(17,485)
Net Contribution to / from Capital Reserves	(7,195)	(12,946)

16 Minimum Revenue Provision

The Local Government Act 2003 continues the previous requirement in the Local Government and Housing Act 1989 for the Council to charge the revenue account a minimum revenue provision (MRP) for the repayment of external loans.

The adjustment to achieve the required provision is included in the Contributions to and from Capital Reserves in the Appropriation Account on the face of the Consolidated Revenue Account (see note 15 above). From 2004/05 onwards there is no MRP requirement for the Housing Revenue Account or for interest on finance leases.

The details of the minimum revenue provision made are shown below:

	2005/06 £'000	2004/05 £'000
Non-Housing – 4% of Adjusted Capital	889	1,406
Minimum Revenue Provision	889	1,406
Charged As		
General Fund Depreciation	10,892	10,055
Impairment	(595)	2,663
Intangibles Amortised	1,755	776
Deferred Charges Amortised	1,528	5,397
Adjustment from Capital Financing Reserve	(12,691)	(17,485)
	889	1,406

17 2004/05 Restated Figures

Education expenditure has been increased by £371,000 in 2004/05 as the bank interest received by schools is now included with all other Interest and Investment income.

To comply with the SORP, schools' balances are now included as part of the General Fund balance instead of Earmarked Reserves. The 2004/05 actuals have all been adjusted accordingly.

Housing Revenue Account 2005/06

The Housing Revenue Account (HRA) includes all transactions relating to the provision, management and maintenance of the Council's housing stock. The Account is "ring-fenced" in accordance with the Local Government and Housing Act 1989. Transfers to and from the General Fund are only permitted in certain specified circumstances.

These accounts have been prepared on a resource accounting basis. The new financial framework brings the housing accounts onto a more directly comparable basis with Registered Social Landlords. The intention is to ensure the accounts reflect the true cost of the service and therefore these accounts show the cost of capital assets employed in housing. From 2004/05, responsibility for administering rent rebates has transferred from the HRA to the General Fund.

2004/05 £'000		notes	2005/06 £'000
	Income		
31,067	Dwelling rents		31,215
2,484	Non-dwelling rents		2,313
1,902	Charges for Services and Facilities		3,437
927	Contributions Towards Expenditure		978
8,857	Housing Subsidy Receivable	8	8,262
45,237	Total Income		46,205
	Expenditure		
7,295	Repairs and Maintenance		8,629
13,079	Supervision and Management		13,843
521	Rents, Rates, Taxes and Other Charges		532
14,923	Negative Subsidy Payable to the Secretary of State	8	15,666
280	Increased provision for bad/doubtful debts		301
23,024	Cost of Capital Charge	5	19,858
10,106	Depreciation of Tangible Fixed Assets	3 & 6	8,992
251	Intangible Fixed Assets Amortised	7	252
405	Deferred Charges Amortised	7	116
46	Debt Management		58
69,930	Total Expenditure		68,247
24,693	Net Cost of Services		22,042
(24,002)	Net Income on Asset Management Revenue Account	5	(20,456)
(654)	Sums directed by the Secretary of State – Transfers to the General Fund		(686)
372	Pensions Interest Cost and Expected Return on Pension Assets		311
133	Amortised Premiums and Discounts		126
(327)	HRA Investment Income		(287)
215	Net Operating Expenditure		1,050
	Appropriations		
(172)	HRA Share of Contribution To/(From) Pensions Reserve		(82)
(1,564)	Net Contribution to/(from) Major Repairs Reserve	3	(813)
–	Revenue Contribution to Capital Financing Account		31
(1,521)	Deficit/(Surplus) for the Year		186
(1,007)	Surplus at Beginning of the Year		(2,528)
(2,528)	Cumulative Surplus at the End of the Year		(2,342)

Notes to the Housing Revenue Account 2005/06

1 Information on Housing Fixed Assets

a) Number of dwellings

	2005/06 Number	2004/05 Number
Flats		
1 Bedroom	3,487	3,516
2 Bedrooms	2,605	2,637
3 Bedrooms	491	493
4 or More Bedrooms	18	18
Houses		
1 Bedroom	410	410
2 Bedrooms	1,236	1,256
3 Bedrooms	2,550	2,568
4 or More Bedrooms	126	129
	10,923	11,027

In addition to the stock above, 4 hostels providing 75 units of accommodation are owned by the Council and accounted for in the HRA. There are also 6 properties in which the Council has a 50% shared ownership. There has been no change from the previous year.

b) Balance Sheet Value of HRA Tangible Fixed Assets

	2005/06 £'000	2004/05 £'000
Operational		
Dwellings	530,299	621,943
Other Land and Buildings	16,559	13,985
Equipment	303	370
Infrastructure	4,757	4,200
	551,918	640,498
Non-Operational		
Investment Properties	17,243	15,443
Surplus Property	648	663
	17,891	16,106
Total Tangible Fixed Assets	569,809	656,604

2 Valuation of Council Dwellings at Year End

	2005/06 £'000	2004/05 £'000
Vacant Possession Value	1,433,240	1,323,283
Excess of Vacant Possession Value Over Balance Sheet Value	902,941	701,340

The difference between the vacant possession value of HRA dwellings shown here and the balance sheet value of the dwellings shown in note 1 is a measure of the cost to the Government of providing council housing at less than market rents.

3 Movement on Major Repairs Reserve

	2005/06 £'000	2004/05 £'000
Total Depreciation From Capital Financing Reserve	8,992	10,106
Net Contribution (To)/From HRA for Difference Between Major Repairs	(813)	(1,564)
Net Income Equal to Major Repairs Allowance	8,179	8,542
Capital Expenditure on HRA Capital Assets		
Dwellings	(7,535)	(7,070)
Other Land and Buildings	(811)	(805)
Equipment	(65)	(107)
Infrastructure	(820)	(921)
Mobility Grants	(28)	(58)
Other Deferred Charges and Intangibles	(16)	(220)
Total Capital Expenditure	(9,275)	(9,181)
Balance Brought Forward at Start of Year	1,218	1,857
Balance Carried Forward at End of Year	122	1,218

4a) Total Capital Expenditure and Funding

	2005/06 £'000	2004/05 £'000
Capital Expenditure on HRA Property and Other Assets		
Dwellings	10,103	8,790
Other Land and Buildings	634	692
Equipment	65	106
Infrastructure	834	1,018
Mobility Grants	28	58
Other Deferred Charges and Intangibles	88	221
Total Expenditure	11,752	10,885
Financed From		
Borrowing	2,114	2,034
Major Repairs Reserve	9,275	9,181
Grants and Contributions	260	140
Revenue Contributions	31	0
Capital Receipts	72	0
Capital Creditors	0	(470)
Total Funding	11,752	10,885

4b)

	2005/06 £'000	2004/05 £'000
HRA Capital Receipts		
Right To Buy Sales	6,802	8,645
Other Property Sales	474	321
Other Receipts	283	60
Total Cash Receipts	7,559	9,026
Transferred For Pooling	(5,103)	(6,300)
Total New Usable	2,456	2,726

5 Cost of capital: HRA Asset Management Revenue Account adjustment

The cost of capital charge reflects the notional cost of capital tied up in council housing and other HRA assets. It is currently calculated as 6% of the value of HRA operational assets. However, this notional charge has no impact on the amount of income to be generated to achieve a balanced budget. As in previous years, the actual statutory charge for capital is the HRA share of the total debt and financing costs of the Council. To reflect this, a credit is made to the HRA from the Asset Management Revenue Account for the difference between the notional cost of capital charge and the actual HRA debt charges.

	2005/06 £'000	2004/05 £'000
Cost of Capital Charge	(19,858)	(23,024)
Deferred Charges and intangibles amortised	(368)	(656)
HRA Share of External Interest	(230)	(322)
Balance to Housing Revenue Account	(20,456)	(24,002)

6 Depreciation charge

The depreciation charged to the HRA breaks down as follows:

	2005/06 £'000	2004/05 £'000
Dwellings	8,263	9,499
Other Operational Buildings	306	222
Equipment	132	145
Infrastructure	277	225
Surplus Property	14	15
Total HRA Depreciation	8,992	10,106

7 Amortisation of Deferred Charges and Intangible Fixed Assets

	2005/06 £'000	2004/05 £'000
Mobility Grants and Other Deferred Charges	116	405
Intangible Assets Computer Software	252	251
Total Amortised	368	656

Deferred charges arise where capital expenditure is incurred but no physical asset is created in Havering's ownership. Deferred charges are now written off in the year they are incurred and no longer appear in the balance sheet at the year end but from 2004/05 the purchase of software licences and associated costs are treated as intangible fixed assets and written off over an appropriate period, currently a maximum of 5 years.

8 Housing Revenue Account Negative Subsidy

	2005/06 £'000	2004/05 £'000
Allowances		
Major Repairs	8,179	8,542
Defective Housing Grant	83	315
Management and Maintenance	16,929	16,265
Others	725	636
Guide Line Rent	(33,424)	(32,713)
Prior Years Adjustments	104	889
Total	7,404	6,066

9 Rent Income, Arrears and Bad Debts

	2005/06 £'000	2004/05 £'000
Average Weekly Rent (including service charges unpooled 1 April 2004)	59.13	55.99

The increase in average weekly rents represents an increase of 5.61%.

	2005/06 £'000	2004/05 £'000
Rent Arrears at 31 March	1,429	2,415
Bad Debts Provision at 31 March	1,125	1,223

10 HRA Contribution To The Pension Reserve

Under FRS 17 the pension amount charged to each council service is the amount of pension benefit earned in the year, as determined by the actuary. This replaces the cash contributions made by services to the Pension Fund. This principle has been applied to the HRA. In addition the HRA has been charged with its share of the pension interest cost and the return on pension assets, and these together with the change in service costs have been matched by an appropriation from the Pension Reserve such that the net outturn on the HRA is not altered by these accounting adjustments.

11. 2004/05 Restated figures

In order to comply with the statutory requirements of Schedule 4 of the Local Government and Housing Act 1989 the 2004/05 comparative figures have been re-stated as follows. There is no overall impact upon the HRA out-turn or the level of the HRA balance.

HRA Item	Original 2004/05	Adjustment	Restated
	£,000	£,000	£,000
Contribution towards expenditure	(1,550)	623	(927)
Contribution to the General Fund	(31)	31	0
Sums directed by the Secretary of state – Transfers from the General Fund	0	(654)	(654)
Reduced provision for bad debts	(62)	62	0
Write offs	342	(342)	0
Increased Provision for bad debts	0	280	280
Total	(1,301)	0	(1,301)

Collection Fund 2005/06

These Accounts represent the transactions of the Collection Fund and have been consolidated with the Authority's main Accounts. The Accounts have been prepared on an accruals basis except in respect of sums due to or from the General Fund and the Greater London Authority for their shares of surpluses and deficits.

Income and Expenditure Account

2004/05 £'000		Note	2005/6 £'000
	Income		
98,298	Income From Council Taxpayers	1	102,074
	Transfers From General Fund		
13,736	Council Tax Benefit		14,736
31	Prompt Payment Discounts		35
(2)	Transitional Relief		(2)
48,452	Income Collected From Business Rates	2	49,959
1	Income from Community Charge Adjustments		-
160,516	Total Income		166,802
	Expenditure		
111,152	Precepts and Demands	3	115,270
380	Distribution of Previous Year's Council Tax Surplus		98
	Business Rate		
48,166	Payment to National Pool		49,675
286	Cost of Collection		284
	Bad and Doubtful Debts Provision		
826	Write-offs		197
5	Provisions		725
160,815	Total Expenditure		166,249
(299)	Movement In Fund Balance		553
478	Net Surplus at Start of Year		179
179	Net Surplus Carried Forward		732

Notes to the Collection Fund Accounts

1 Income From Council Tax

The Local Government Finance Act 1992 abolished the Community Charge and established the Council Tax. This Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Authority set the level of Council Tax in 2005/06 at £1,328 for band D properties. The number of band D equivalent properties in each band making up the Council Tax base were as follows:

Band	Number of Band D Equivalent Properties
A1	2
A	2,873
B	6,067
C	18,620
D	30,339
E	16,706
F	8,371
G	4,720
H	424
Allowance for Losses in Collection 1.5%	(1,322)
Tax Base	86,800

2 Income From Business Rates

Under the arrangements for uniform business rates, the Authority collects Non-Domestic Rates (NNDR), for its area which are based on local rateable values (£155.2 million at 31 March 2006 and £127.8 million at 31 March 2005) multiplied by a uniform rate. In 2005/06 the rate was 42.2p for large businesses and £41.5 for small (45.6p for all businesses in 2004/05). The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government. Under these arrangements the amounts included in these accounts can be analysed as follows:

	2005/06 £'000	2004/05 £'000
Gross NNDR Due in Year	56,106	50,730
Less: Allowances and Other Adjustments	(6,147)	(2,278)
	49,959	48,452

3 Precepts and Demands

The Collection Fund is required to meet in full the precept of the precepting authority and the demand of the billing authority. Details are as follows:

	2005/06 £000	2004/05 £'000
London Borough of Havering	93,169	90,261
Greater London Authority	22,101	20,891
	115,270	111,152

Consolidated Balance Sheet as at 31 March 2006

The Consolidated Balance Sheet reflects the Authority's position at the end of the year for all activities and services. Balances relating to the Pension Fund and Trust Funds have been excluded.

31 March 2005 £'000		Notes	£'000	31 March 2006 £'000
	Fixed Assets	1 – 7		
2,518	Intangible Fixed Assets	2	1,939	
	Tangible Fixed Assets			
	Operational Assets	1(a)		
621,943	Council Dwellings		530,299	
450,952	Other Land and Buildings		449,606	
10,192	Vehicles, Plant and Equipment		13,927	
37,436	Infrastructure Assets		44,628	
1,096	Community Assets		1,094	
28,054	Non-Operational Assets		28,892	
1,152,191	Total Fixed Assets			1,070,385
0	Deferred Charges	2	0	
4,143	Long-term Debtors	8	3,737	
1,156,334	Total Long-term Assets			1,074,122
	Current Assets			
241	Stocks and Work in Progress		217	
36,169	Debtors (net of provision for bad debts)	9	47,837	
89,603	Investments	10	73,459	
14,053	Cash in Hand	11	14,125	135,638
1,296,400	Total Assets			1,209,760
	Current Liabilities			
(1,350)	Borrowing Repayable within a Year	12	(1,267)	
(43,446)	Creditors	15	(38,083)	
(1,464)	Cash Overdrawn		(4,684)	(44,034)
1,250,140	Total Assets Less Current Liabilities			1,165,726
(33,797)	Borrowing maturing in more than a year	13, 14	(39,797)	
–	Finance Lease Liability	7	–	
(165,960)	Pension Deficit	33	(155,240)	
(4,728)	Provisions	16	(5,789)	(200,826)
1,045,655	Total Assets Less Liabilities			964,900
880,015	Fixed Asset Restatement Account	17	779,340	
218,001	Capital Financing Account	18	230,279	
23,881	Government and Other Grants Deferred	19	29,256	
3,896	Deferred Capital Receipts	20	3,573	
42,484	Usable Capital Receipts	21	33,461	
1,219	Major Repairs Reserve	22	122	
9,475	Unapplied Capital Grants and Contributions	23	10,712	
(2,556)	Deferred premiums net of discount	24	(2,190)	
12,153	Earmarked Reserves	25	12,269	
20,340	General Reserves	26	20,244	
2,528	Housing Revenue Account Balance	27	2,342	
179	Collection Fund Balance		732	
(165,960)	Pensions Reserve	34	(155,240)	
1,045,655	Total Net Worth			964,900

Rita Greenwood, CPFA,
Group Director Finance and Commercial
June 2006



1 Movement In Tangible Fixed Assets 2005/06

a) Operational Fixed Assets

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles Plant and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Total Operational £'000
Net Book Value as at 1 April	621,943	450,952	10,192	37,436	1,096	1,121,619
Revaluations	(88,581)	(7,318)	–	–	–	(95,899)
Additions	10,103	11,809	6,615	10,209	–	38,736
Transfers	–	–	–	–	–	–
Disposals	(4,903)	(729)	–	–	–	(5,632)
Impairment	–	595	–	–	–	595
Depreciation	(8,263)	(5,703)	(2,880)	(3,017)	(2)	(19,865)
Net Book Value as at 31 March	530,299	449,606	13,927	44,628	1,094	1,039,554

b) Non-operational Fixed Assets

	Investment Properties £'000	Surplus Assets £'000	Total £'000
Net Book Value as at 1 April	22,364	5,690	28,054
Revaluations	1,810	–	1,810
Additions	–	–	–
Transfers	–	–	–
Disposals	(258)	(696)	(954)
Impairment	–	–	–
Depreciation	–	(18)	(18)
Net Book Value as 31 March	23,916	4,976	28,892

2 Movement in Intangible Fixed Assets & Deferred Charges 2005/06

	Renewal, Mobility and Other Grants £'000	Other Deferred Charges £'000	Total Deferred Charges £'000	Intangible Fixed Assets Software and System Development £'000
Balance at 1 April	0	0	0	2,518
Capital Expenditure	4,859	1,529	6,388	1,176
Grants & contributions	(4,057)	(803)	(4,860)	–
Written off to revenue	(802)	(726)	(1,528)	(1,755)
Balance at 31 March	0	0	0	1,939

3 Fixed asset valuation

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are certified by G.K. Green, FRICS, the Property Strategy Manager, in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies.

Fixed Assets:	Council Dwellings £'000	Other Land and Buildings £'000	Community £'000	Infra-structure £'000	Vehicles, Plant, Machinery & Equip't £'000	Non-operational Assets £'000	Total value £'000
Valued at Historical Cost		12,307	1,094	44,628	13,927		71,956
Valued at Current Value in:							
2005/2006	530,299	14,896				17,399	562,594
2004/2005		57,129				5,489	62,618
2003/2004		340,085					340,085
2002/2003		10,580				6,004	16,584
2001/2002		14,609					14,609
Net Book Value	530,299	449,606	1,094	44,628	13,927	28,892	1,068,446

4 Information On Assets Held

Fixed Assets owned by the Authority include the following:

	Number as at 31 March 2006	Number as at 31 March 2005
Housing Property		
Council Dwellings	10,923	11,027
Housing Garages	2,817	3,047
Housing Commercial Property	310	311
Other Housing Property	124	119
Housing Surplus Property	1	1
General Fund Operational Buildings		
Central Administrative Offices	8	8
Social Services Homes/Offices	33	33
Indoor Sports Centres	4	4
Libraries & Arts Centres	11	11
Queens Theatre	1	1
Primary Schools*	55	55
Secondary Schools*	12	12
Special Schools	3	3
Other Education Property	56	56
Depots & Nurseries	2	2
Surface Car Parks	26	26
Multi-storey Car Parks	1	1
Cemetery & Crematorium Buildings	5	5
Social Halls	13	13
Public Conveniences & Market	29	29
Refuse & Street Cleansing Buildings	4	4
Outdoor Recreation	57	57
GF Vehicles, Plant & Equipment	198	154
Infrastructure Assets		
Highways (km)	612	612
Street Lights	16,951	16,650
Community Assets		
Cemetery & Crematorium Land	5 sites	5 sites
Parks Land	138 sites	138 sites
Allotment Land	29 sites	11 items
Civic Regalia	11 items	9 sites
Environmental Protection	9 sites	5 sites
Historic Buildings & Memorials	5 sites	5 sites
Non-operational Land and Buildings		
Commercial & Industrial	141	143
Surplus Property	18	19

*There are also 2 foundation schools and 13 voluntary aided schools in the borough which are not owned by the council and whose fixed assets are not included in this balance sheet.

5 Financing of Capital Expenditure and Movement In Capital Financing Requirement

The following statement shows how Havering's capital expenditure was financed and the consequent change in underlying borrowing:

Capital Expenditure	2005/06 £'000	2004/05 £'000
Operational Fixed assets	38,736	40,457
Intangible Fixed Assets	1,176	1,689
Deferred Charges	6,388	2,808
Total Capital Expenditure	46,300	44,954
Less Financed From		
Capital Receipts	(13,264)	(15,191)
Major Repairs	(9,276)	(9,181)
Revenue Funds	(2,340)	(2,798)
Grants and Contributions	(19,306)	(17,793)
Capital Creditors		2,043
Increase in Need to Borrow Supported by Government	2,114	2,034

The following statement shows the make-up of Havering's capital financing requirement under the prudential code:

Capital Financing Requirement	31 March 2006 £'000	31 March 2005 £'000
Tangible Fixed Assets	1,068,445	1,149,673
Intangible Fixed Assets	1,939	2,518
Restatement Account	(779,340)	(880,015)
Capital Financing Account	(230,279)	(218,001)
Grants Deferred Account	(29,256)	(23,881)
Net Requirement	31,509	30,294

The following statement shows how Havering's capital financing requirement under the prudential code changed:

Capital Financing Requirement	2005/06 £'000	2004/05 £'000
Balance at 1 April	30,294	42,355
ADD		
Supported Borrowing	2,114	2,034
DEDUCT		
Minimum Revenue Provision	(889)	(1,406)
Capital Receipts Set Aside	(10)	(10,646)
Capital Creditor and Other Adjustments		(2,043)
Balance at 31 March	31,509	30,294

6 Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in the years 2006/07 to 2008/09.

	Commitment 31 March 2006 £'000
General Fund	
Arts, Culture, Sport & Leisure	635
Roads, Footways and Bridges	3,198
Education Capital Schemes	3,485
Town Centre and Environmental Improvements	604
Office Accommodation, Equipment, ICT and Vehicles	2,595
Other Smaller GF Schemes	2,569
Total General Fund commitments	13,086
Housing	
Double Glazing and Window Replacement	2,309
Remedial, Structural and Electrical Works	49
Central Heating and Energy Efficiency	1
Other Small Housing Schemes	41
Total Housing Commitments	2,400
Total Capital Commitments	15,486

7 Fixed assets held under finance leases

There are currently no assets held under finance leases.

8 Long-term Debtors

These represent amounts owing to the Council but which are repayable over a period of time.

	31 March 2006 £'000	31 March 2005 £'000
Mortgages	2,840	3,150
Transferred debt	715	725
Car loans	142	223
Other	40	45
	3,737	4,143

9 Analysis of Debtors and Payments In Advance

	31 March 2006 £'000	31 March 2005 £'000
Collection Fund Debtors		
Council Taxpayers	11,205	9,920
Business Rate Pool Contribution	9,419	2,212
Business Ratepayers	3,776	3,096
Other Debtors		
Government Departments	6,938	5,951
Housing	2,060	2,972
Capital Debtors	2,867	2,524
Sundry Debtors	21,836	18,825
	58,101	45,500
Less Provision for Doubtful Debts		
Collection Fund	(7,700)	(5,925)
Other	(5,939)	(5,758)
	44,462	33,817
Payments In Advance	3,375	2,352
	47,837	36,169

10 Investments

	31 March 2006 £'000	31 March 2005 £'000
Investments at cost		
Externally Managed Funds	19,993	18,995
Less provision for Losses	(68)	
Internally Managed Deposits	53,533	70,607
Grave Maintenance Fund	1	1
	73,459	89,603

11 Cash

The cash in the hands of officers as at the year end is as follows:

	31 March 2006 £'000	31 March 2005 £'000
Schools – Under The Lms Cheque Book Scheme	13,550	13,256
Other	575	797
	14,125	14,053

12 Borrowing Repayable Within A Year

	31 March 2006 £'000	31 March 2005 £'000
Temporary Borrowing	1,267	1,350
	1,267	1,350

13 Borrowing Repayable In More Than a Year

	Range of Interest Rates Payable %	31 March 2006 £'000	31 March 2005 £'000
Public Works Loan Board	4.3 to 6.9	32,797	33,797
Market Loan*	3.6%	7,000	
Total		39,797	33,797

14 Analysis of Long-term Loans By Maturity

Maturing In	31 March 2006 £'000	31 March 2005 £'000
2 To 5 Years	7,000	7,000
5 To 10 Years	–	–
More Than 10 Years	32,797	26,797
	39,797	33,797

*A long-term market lender's option, borrower's option loan of £7m which might last for 60 years has been included as maturing at its earliest possible repayment date (November 2008).

15 Analysis of Creditors

	31 March 2006 £'000	31 March 2005 £'000
Collection Fund Creditors		
Income In Advance:		
Council Taxpayers	4,190	4,101
Business Ratepayers	1,394	1,001
	5,564	5,102
Other creditors		
Central Government	3,375	2,480
Inland Revenue	4,045	3,809
Capital Creditors	4,042	5,505
Other Sundry Creditors	16,835	18,791
Income In Advance	4,222	7,759
	32,519	38,344
	38,083	43,446

16 Provisions

		31 March 2006 £'000	31 March 2005 £'000
Self Insurance Provision	a	5,789	4,705
Redundancy Payments	b	–	4
Dilapidations	c	–	19
		5,789	4,728

(a) Self Insurance Provision

The Council's insurance cover is arranged with Zurich Municipal with substantial excesses for which a self-insurance provision is maintained. The self-insurance provision has been set up to meet the excesses on the Council's public and employer's liability, property and motor vehicle insurances. The excess levels were as follows:

	1 Jan 2006	1 Jan 2005
Public and Employer's Liability	£135,000	£130,000
Motor Vehicles	£135,000	£128,000
Property	£50,000	£50,000

The Council's insurers have advised the level of provision required to meet known claims and a transfer from the Insurance Reserve has been made to meet the cost of these claims.

	2005/06 £'000	2004/05 £'000
Balance at 1 April	4,705	4,363
Contributions	1,541	1,537
	6,246	5,900
Payment of Claims	1,075	(2,077)
	5,171	3,823
Transfer from Insurance Reserve	618	882
Balance at 31 March	5,789	4,705

The Insurance Provision together with the Insurance Reserve total £6.6m. (2004/05 £6.1m).

b) Provision For Redundancy Payments

To meet the cost of employees made redundant during the year. This provision is no longer required.

c) Provision for dilapidations

To meet the cost of reinstatements at the end of a property lease. This provision is no longer required.

17 Fixed Asset Restatement Account

The Fixed Asset Restatement Account is not a cash resource available to finance expenditure. The balance mainly represents the cumulative difference between the historical cost of assets at 1 April 1994 and their revaluation since that date. The reserve is written down by the net book value of asset disposals and increased or reduced by any asset value changes.

The Statement of Total Movement in Reserves on pages 42 to 44 shows an analysis of the movement in the year of this account.

18 Capital Financing Account

The Capital Financing Account receives the sums set aside by statute or voluntarily from capital receipts and revenue.

It receives all sums representing the financing of current capital expenditure from usable receipts, from the Major Repairs Reserve or from revenue.

It contains the adjustment required each year to ensure that the revenue accounts are charged no more and no less than the statutory minimum revenue provision for external loan repayment after depreciation, impairment and deferred charges written off. It also receives the value of all deferred grants and contributions written off in the year.

A sum equal to the total depreciation charged to the Housing Revenue Account in the year

is transferred into the Major Repairs Reserve to permit the use of this sum for new capital expenditure on HRA assets. Apart from this, the Capital Financing Account is not available to support new capital expenditure.

The Statement of Total Movement in Reserves on pages 42 to 44 shows an analysis of the movement in the year of this account.

19 Government And Other Grants Deferred Account

Grants towards the cost of acquiring or improving fixed assets are transferred from the Grants Unapplied Reserve to the Grants Deferred Account when the related expenditure has been incurred.

The grants are credited to the Asset Management Revenue Account in line with the depreciation of the assets financed. A matching sum is charged as an appropriation from the Consolidated Revenue Account and credited to the Capital Financing Account in order to ensure that the Government's minimum revenue provision requirements are met and that the effect of the accounting arrangements is neutral for council taxpayers.

This reserve is therefore not a cash reserve usable for new capital expenditure but rather a reserve holding grants already applied but not yet written down to revenue.

The Statement of Total Movement in Reserves on pages 42 to 44 shows an analysis of the movement in the year of this account.

20 Deferred Capital Receipts

Under current legislation, the repayments of most loans or advances made by the authority are treated as capital receipts. The capital receipts that will arise from future repayments of the advances are included in this reserve.

The balance in this reserve is not usable for new capital expenditure, but when the mortgages or loans are repaid, the deferred receipts are realised and are transferred from this reserve to the Usable Capital Receipts Reserve.

The Statement of Total Movement in Reserves on pages 42 to 44 shows an analysis of the movement in the year of this reserve.

21 Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve holds the capital receipts available to finance expenditure in future years after the statutory sums have been set aside for the repayment of external loans. Capital receipts, once used, are transferred from this reserve to the Capital Financing Account.

The Statement of Total Movement in Reserves on pages 42 to 44 shows an analysis of the movement in the year of this reserve.

22 Major Repairs Reserve

This reserve was created in 2001/02 for the first time following the major change in financing and accounting for capital in the Housing Revenue Account (HRA). Housing authorities are now allocated a Major Repairs Allowance (MRA) as part of their revenue subsidy but this can only be used for capital purposes within the HRA. A sum equal to this MRA must therefore be charged to the HRA as depreciation and/or a direct appropriation to the Major Repairs Reserve.

Where the HRA depreciation charge is equal to the MRA, an equal sum is transferred from the Capital Financing Account to this new Major Repairs Reserve. If depreciation is less or more than the MRA, this difference must be transferred between the HRA and the Major Repairs Reserve.

Where the balance on the Major Repairs Reserve is used to finance new capital expenditure in the HRA, a transfer is made from this reserve to the Capital Financing Account.

The Statement of Total Movement in Reserves on pages 42 to 44 shows an analysis of the movement in the year of this reserve.

23 Unapplied Capital Grants Reserve

This reserve holds the balances of capital grants received which cannot yet be matched to expenditure on fixed assets or deferred charges. Where grants are applied to finance fixed assets, they are transferred from this reserve to the Government and Other Capital Grants Deferred Account. Where grants are used to finance deferred charges, they are transferred from this reserve to write down the relevant deferred charges.

The balance on this reserve is usable for new capital expenditure albeit most of the funds will be earmarked to particular schemes.

The Statement of Total Movement in Reserves on pages 42 to 44 shows an analysis of the movement in the year of this reserve.

24 Premiums Net of Discounts on Premature Payment of Debt

This account shows the balance outstanding from the net additional sums incurred in repaying debt prematurely. In accordance with recommended practice, premiums and discounts are written off immediately unless debt is replaced. In the latter case, the cost or benefit can be written off over the life of the new loans. The following statement shows the transactions during the year.

	2005/06 £'000	2004/05 £'000
Balance at 1 April	2,556	2,907
New Premiums	18	–
New Discounts	(43)	–
Written Off To Revenue	(341)	(351)
Balance at 31 March	2,190	2,556

25 Earmarked Revenue Reserves

The following earmarked reserves were maintained in 2005/06.

		31 March 2006 £'000	31 March 2005 £'000
Revenue Contributions For Future Capital Schemes	a	599	613
Insurance Reserve	b	809	1,427
Capital and Revenue Support Fund	c	1,028	1,028
Workforce Issues Reserve	d	2,250	1,500
Standards Fund LEA Contribution	e	704	547
Specific Performance Improvement Initiative Reserve	f	440	500
Health and Safety Reserve	g	945	688
Crematorium and Cemetery Funds	h	330	406
Reserve For Grant Repayment	i	788	752
IT Strategy Reserve	j	283	283
Streetcare Improvement Reserve	k	-	475
VAT Reserve	l	1,000	1,000
Realignment Reserve	m	581	500
Other Minor Reserves	n	2,512	2,434
		12,269	12,153

a) Revenue Contributions For Future Capital Schemes

This reserve holds revenue contributions for capital schemes where expenditure will be incurred the following financial year.

b) Insurance Reserve

In addition to the Insurance Provision (note 16) the Council has established a reserve against incurred but not reported claims and for potential increases in known claims values.

c) Capital and Revenue Support Fund

This fund can be used in the funding of the Council's capital programme or to support revenue expenditure.

d) Workforce Issues Reserve

This reserve is to cover costs relating to workforce issues.

e) Standards Fund LEA Contribution

This reserve is to meet the Council's contribution for Standards Fund in order to maximise Government grants to schools, which cover more than one financial year.

f) Specific Performance Improvement Initiative Reserve

This reserve has been set up to provide seed funding for service improvement and Council priorities, as well as provide match funding.

g) Health and Safety Reserve

This reserve has been set up in order to manage all the resources on health and safety initiatives across financial years.

h) Crematorium and Cemetery Funds

These funds have existed for many years to maintain cemeteries and to help finance improvements at the Crematorium.

i) Reserve for Grant Repayment

This reserve is for the possible repayment of grants.

j) Information Technology (IT) Strategy Reserve

This reserve has been set up for improvements to the Council's IT facilities, as IT is a key area which service delivery often relies on.

k) Streetcare Improvement Reserve

Streetcare is a key Council priority. These funds have been used to pilot a project which is aiming to deliver improvements in streetcare.

l) VAT Reserve

This reserve has been established to protect the Council in the event that it loses its exempt VAT concession

m) Realignment Reserve

This reserve has been established for costs arising from the realignment of the Council's management structure

n) Other Minor Reserves

These comprise a number of minor reserves for specific items.

2004/05 Restated Figures

To comply with the SORP, schools balances are now included as part of General Reserves rather than Earmarked Reserves. The 2004/05 actuals have been adjusted accordingly.

26 General Reserves

(a) General Fund Balances excluding schools

	2005/06 £'000	2004/05 £'000
General Fund	11,225	11,225
General Reserves	469	599
	11,694	11,824

(b) Schools Balances

Under the local management of schools any unspent delegated budgets are to remain available for use by schools in future years and must be set aside by Local Education Authorities (LEAs) for this purpose.

Schools in the North Romford Area also operate as a consortium, using a separate bank account. Balances are treated in the same way as other school balances.

	2005/06 £'000	2004/05 £'000
Balance at 1 April	8,746	7,312
Underspend on budgets	34	1,434
	8,780	8,746
Less Balances Due From (To) The Council	(230)	(230)
Balance at 31 March	8,550	8,516

Schools balances can be further analysed as follows:

	2005/06 £'000	2004/05 £'000
Schools In Surplus	8,379	7,806
Schools In Deficit	(273)	(108)
Consortium and Unallocated School Balances To Carry Forward	674	1,048
	8,780	8,746

27 Collection Fund Balance

The Council's share of the Collection Fund balance is £585,000 and the Greater London Authority's share is £147,000.

28 Analysis of Net Assets Employed

	2005/06 £'000	2004/05 £'000
General Fund	394,307	392,735
HRA	570,593	652,920
	964,900	1,045,655

29 Contingent Liabilities Employee Related Liabilities

- There are 5 complaints against the Council in the Employment Tribunals, which are at various stages in the process. At this time it is not possible to assess the potential liability because it is either too early in the process or it is in respect of a claim where there is no limit of liability.
- No provision has yet been made in the accounts following various court rulings in relation to claims of former and present employees in respect of previous statutory exclusion from the Local Government Pension Scheme and the teachers pension scheme. It is clear that some cases must be conceded by the Council. If correctly conceded there will be no immediate lump sum liability as back dated payments of employer contributions will be taken into account in the next actuarial valuation of the respective pension funds. There would only be an immediate liability upon the Council if a claim was incorrectly conceded. There are currently no claims against the Council in respect of incorrectly conceded cases and due care is being taken – in assessing whether or not claims should be conceded on the basis of the court ruling – to guard against the risk of incurring liability for immediate lump sum payments.
- There is also a potential liability from a dispute relating to Special Educational Needs assistants terms and conditions.

Other Liabilities

- There is a possibility that a liability may arise relating to local land charges procedures and charges. This has come to light as complaints have been made nationally on this issue.
- The Council acts as guarantor to the Havering Theatre Trust Ltd (see note 31). However, the Council has received no notification to date, which could result in it having to meet a liability.
- Judicial review proceedings have been instituted against the Council with regard to its decision to close residential homes. At this stage the Council is unable to quantify the financial implications if these proceedings were successful.

- There is a threat of judicial review proceedings against the Council (and the Department of Communities and Local Government) in respect of transferring Housing stock to the ALMO - Homes in Havering. At this stage the Council is unable to quantify the financial implications if such proceedings were successful.

30 Trust Funds

The Council acts as sole trustee for the following trust funds, which are not included in the Consolidated Revenue Account or Consolidated Balance Sheet

	Richard Ballard Charity £	Lucas Children's Playsite Charity £
Balance 1 April 2005	6,500	186,787
Receipts	290	7,565
Payments	(290)	(50,000)
Balance 31 March 2006	6,500	144,352

The Richard Ballard Charity

Interest on the capital from the sale of two properties sold for a street widening scheme is used for highway repairs.

The Lucas Children's Play Charity

The income from this charity may be applied towards the provision, maintenance and improvements of childrens' playgrounds and equipment in the borough.

31 Havering Theatre Trust Limited

The Havering Theatre Trust Ltd is a non profit making registered charity which was set up many years ago to manage the Queen's Theatre and produce theatrical performances. For the purposes of the Local Authorities (Companies) Order 1995, the Theatre Trust is a controlled company of the Council limited by guarantee. There is no share capital.

The Council provides an annual grant towards the running costs of the Trust and a budget for the maintenance of the Theatre building, grounds and insurance. The Queen's Theatre remains in the Council's ownership and there is no lease or rent paid for the building.

The Trust employs a financial controller reporting to the Council of Management.

The Theatre Trust Council of Management comprises eighteen members, all of whom are appointed by the Council. The Chair of the Council of Management, who is not a Council officer, is also the Company Secretary.

The company made a loss on ordinary activities (after taxation) of £119,015 for the period 1st April 2005 to 31 March 2006 and a profit (after taxation) of £19,367, for the similar period ending 31 March 2005. Net assets at 31 March 2006 were £289,883 (net assets of £283,635 at 31 March 2005).

The company continues to trade because the Council has guaranteed current and future debts. The company's accounts may be inspected at the Queen's Theatre, Billet Lane, Hornchurch. There have been no qualifications to the audit opinion by Clemence, Hoar Cummings of these accounts, which are not consolidated with the Council's accounts. The 2005/06 accounts remain subject to audit at this time.

32 Pension Assets and Liabilities

Note 8 to the Consolidated Revenue Account contains details of the authority's participation in the Local Government Pension Scheme in providing employees with retirement benefits.

The authority participates in the Local Government Pension Scheme and acts as an administering authority. The Local Government Pension Scheme is a defined benefit scheme based on final pensionable salary.

The most recent valuation was carried out as at 31 March 2004, and has been updated by the independent actuary to the London Borough of Havering Pension Fund (the Fund) to take account of the requirements of FRS17 in order to assess the liabilities of the Fund as at 31 March 2006. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value.

London Borough of Havering's contribution rate over the accounting period was 19.1% of Pensionable Pay. The contribution rates certified for London Borough of Havering at the 31 March 2004 valuation were as follows:

	% of Pensionable Pay
April 2005 to March 2006	19.1%
April 2006 to March 2007	20.3%
April 2007 to March 2008	21.5%

These figures include the past service element of the contribution rate.

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

	2005/06 £'000	2004/05 £'000
Estimated Liabilities In Scheme	(478,420)	(434,270)
Estimated Assets In Scheme	323,180	268,310
Net Asset/(Liability)	(155,240)	(165,960)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £155 million has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in a reduction of the overall balance from £1,120 million to £965 million a reduction of 14%. However, the statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy.

The deficit on the pension scheme will be made good by increased contributions over the working life of employees, as assessed by the actuary.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Hewitt Bacon and Woodrow, the actuaries to the London Borough of Havering Pension Fund have assessed the liabilities, estimates being based on the latest full valuation of the scheme as at 31 March 2004.

The main assumptions used for the purposes of this note are as follows:

	31 March 2006 % pa	31 March 2005 % pa
Discount Rate	4.9%	5.3%
Rate of Increase In Salaries	4.5%	4.4%
Rate of Increase In Pensions In Payment	3.0%	2.9%
Rate of Increase In Deferred Pensions	3.0%	2.9%
Rate of Inflation	3.0%	2.9%
Long-term Expected Rates of Return On:		
Equities	7.3%	7.7%
Government Bonds	4.3%	4.7%
Corporate Bonds	4.9%	5.3%
Property	6.3%	6.7%
Other Assets	4.6%	4.8%
Average Long Term Expected Rate of Return	6.2%	6.8%

Position in the Fund

Assets are valued at fair value, principally market value for investments. The proportions of total assets held in each asset type by the Fund as a whole at 31 March 2006 and 31 March 2005 are as follows:

	31 March 2006	31 March 2005
Equities	54%	60%
Bonds	35%	29%
Property	9%	9%
Other	2%	2%

With regard to the Teachers' Pensions Scheme, there is an accrued contribution of £1,012,000 payable to the TPA at 31 March (2004/2005 £944,000).

The scheme is a defined benefit scheme, administered by the Teachers Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employer's contribution rates paid by local education authorities (LEAs). However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purpose of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirements outside the terms of the Teachers' scheme. These benefits are fully accrued in the pensions liability.

33 Schools PPP Scheme

On the 16 May 2003 the Council entered into a Public Private Partnership (PPP) with Johnson Control Systems Limited (the Provider) for the provision of an essential energy project at three secondary schools (Bower Park, Brittons and Hall Mead). The Provider is responsible for upgrading, managing and the maintenance of energy services and controls.

	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010 onwards £'000
Bowers Park	48	69	70	70	71	675
Brittons	46	63	63	64	65	615
Hall Mead	52	60	60	61	61	581
LEA Share	52	75	76	77	78	734
Total	198	267	269	272	275	2,605

This contract will last for 15 years.

The initial capital investment was £3.2m from the Council and £1.6m from the Provider. Completion of the capital investment (originally scheduled for 26th July 2004 for all three schools) was on 18th November 2005 for Hall Mead and 26th April 2005 for the other two schools. Payments to the contractor have therefore been made from these dates, with no consequential change to the end date of the contract.

The schools contribute from energy and management savings in their school budgets, and the remaining unitary charge costs are split with the Council reflecting the level of services provided through the contract and repayment of the private sector investment.

- The schools share of the unitary charge is met from their respective delegated budgets
- The LEA share of the unitary charge is met from a separate revenue budget established for the purpose

The payments to the Provider may also vary by virtue of certain provisions within the contract. These primarily relate to:

- performance and availability deductions
- changes in law which affect the costs of the service
- variations in the contract which are approved by the Council

The contract has been assessed for the purposes of Section 40 of the Local Authorities (Capital Finance) Regulations 1997. The Council has determined that there is no need to recognise the assets provided by the Provider under this contract in the balance sheet of the authority during the term of this contract.

Payments due in 2005/06 reflect the fact that completion took place part way through the financial year. The payments for 2005/06 and projections based on an inflation rate in future years of 2.5% per annum are:

34 Pensions Reserve

Details of the Pensions Reserve are set out in note 7 to the Statement of Total Movements in Reserves on page 44.

Statement of Total Movements in Reserves

The Statement of Total Movements in Reserves brings together all the recognised gains and losses of the Authority during the financial year.

2004/05 £'000		Note	2005/06	
			£'000	£'000
	Surplus/(Deficit) For The Year			
819	General Fund		(96)	
(299)	Collection Fund		553	
1,521	Housing Revenue Account		(186)	
2,034	Movements on Earmarked Revenue Reserves		116	
(1,720)	Appropriation From Pension Reserve		(630)	
2,355	Total Increase/(Decrease) In Revenue Resources	1		(243)
3,581	Increase/(Decrease) In Usable Capital Receipts Before Pooling		(3,920)	
42	Increase/(Decrease) In Unused Capital Grants & Contributions		1,237	
3,623	Total increase/(decrease) in realised capital resources before pooling	2		(2,683)
(6,300)	Effect of Pooling of HRA Capital Receipts	2		(5,103)
(232)	Total Increase/(Decrease) in Unrealised Capital Resources	2		(323)
145,137	Gains/(Losses) on Revaluation of Fixed Assets		(72,961)	
(22,165)	Impairment Losses on Current Building Work		(21,128)	
122,972	Total Increase/(Decrease) In Unrealised Value of Fixed Assets	3		(94,089)
(21,490)	Value of Assets Sold, Disposed of or Decommissioned	4		(6,586)
25,837	Capital Receipts Set Aside		13,273	
(5,082)	Revenue Resources Set Aside		(1,279)	
7,208	Movement on Grants Deferred		5,375	
(1,563)	Movement on Major Repairs Reserve		(813)	
26,400	Total Increase/(Decrease) In Amounts Set Aside To Finance Capital Investment	5		16,556
351	Increase/(Decrease) on Premium and Discounts	6		366
(43,520)	Increase/(Decrease) on The Pensions Reserve Relating To Actuarial Gain/(Loss)	7		11,350
84,159	Total Recognised Gains and Losses			(80,755)

Notes to the Statement of Total Movements in Reserves

1 Movement in revenue resources 2005 – 06

	General Fund Balances £'000	Collection Fund Balance	Housing Revenue Account £'000	Earmarked Revenue Reserves £'000	Pension Reserve £'000
Surplus/(deficit)	(96)	553	(186)		
Appropriation (to)/from revenue				116	(630)
	(96)	553	(186)		(630)
Actuarial gains and losses relating to pensions see note 7 below					11,350
Balance brought forward at 1 April 2005	20,340	179	2,528	12,153	(165,960)
Balance at 31 March 2006	20,244	732	2,342	12,269	(155,240)

2 Movement in realised and unrealised capital resources 2005 – 06 and effect of pooling of HRA Capital receipts

	Realised Resources		Unrealised Resources
	Usable Capital Receipts £000	Unused Capital Contributions £000	Deferred Capitals Receipts £000
Amounts Receivable In Year	9,354	20,543	(323)
Amounts Applied			
To Finance New Capital Investment	(13,264)	(19,306)	
In Voluntary Set Aside For Debt Repayment	(10)		
Total Increase/(Decrease) In Capital Resources Before Pooling	3,920	1,237	
Total HRA Receipts Payable Into National Pool	(5,103)		
Total Increase/(Decrease) In Unrealised Capital Resources			(323)
Balance at 1 April 2005	42,484	9,475	3,896
Balance at 31 March 2006	33,461	10,712	3,573

A description of the function of the reserves outlined above is included in notes 20, 21 and 23 of the Consolidated Balance Sheet.

3 Movement In Unrealised Value of Fixed Assets 2005 – 06

	Fixed Asset Restatement Account £'000
Gain/(Losses) on Revaluation of Fixed Assets	(72,961)
Impairment Losses on Revaluation of Building Work	(21,128)
Total Increase In Unrealised Capital Value	(94,089)

4 Value of assets sold, disposed of or decommissioned

Amounts Written off for Disposals	(6,586)
Total Movement on Reserve	(100,675)
Balance Brought Forward at 1 April 2005	880,015
Balance Carried Forward at 31 March 2006	779,340

A description of the function of the Fixed Asset Restatement Account is outlined in note 17 of the Consolidated Balance Sheet.

5 Movement in amounts set aside to finance capital investment in 2005 – 06

	Capital Financing Account £'000	Grants and Contributions Deferred £'000	Major Repairs Reserve £'000	Total £'000
Capital Receipts Set Aside				
For Debt Repayment	10			
For New Capital Expenditure	13,263			
Total Capital Receipts Set Aside	13,273			13,273
Revenue Resources Set Aside				
Capital Expenditure From Revenue	2,340			
Loan Repayment Provision and Grants Adjusted	(3,619)			
Total Revenue Resources Set Aside	(1,279)			(1,279)
Grants Applied To Fixed Assets		14,447		
Grants Released Via Revenue Account		(9,072)		
Movement In Grants Deferred		5,375		5,375
Appropriation For Depreciation	(8,992)		8,992	
Major Repairs Reserve Applied	9,276		(9,276)	
Net Appropriation (To)/from HRA			(813)	
Movement on Major Repairs	284		(1,097)	(813)
Total Increase/(Decrease) In Amounts Set Aside To Finance Capital Investment	12,278	5,375	(1,097)	16,556
Balance Brought Forward At 1 April 2004	218,001	23,881	1,219	
Balance Carried Forward At 31 March 2005	230,279	29,256	122	

A description of the function of the reserves outlined above is included in notes 18, 19 and 22 of the Consolidated Balance Sheet.

6 Gains and losses on premiums & discounts incurred on the repayment of debt

	2005/06 £'000
Premium Losses In Year	(18)
Discount Gains In Year	43
Written Off To Revenue	341
Total Gains In Year	366
Balance Brought Forward at 1 April	(2,556)
Balance Carried Forward at 31 March	(2,190)

A description of deferred premium/discounts is outlined in note 24 of the Consolidated Balance Sheet.

7 Pensions Reserve

The actuarial gains identified as movements on the Pensions Reserve in 2005/06 can be analysed into the following categories, measured in absolute amounts and as a percentage of assets or liabilities at 31 March 2006.

	£'000	
Actual Return Less Expected Return on Assets	43,690	13.5% of Scheme Assets
Experience Gains and Losses on Pensions Liabilities	(1,160)	-0.2% of Scheme Liabilities
Changes In Assumptions Underlying The Present Values of Pension Liabilities	(31,230)	-6.5% of Scheme Liabilities
Total Actuarial Gain / (Loss) in year	11,300	2.4% of Scheme Liabilities
Adjustment for transfer of assets/liabilities	50	
Total Actuarial gain/(loss)	11,350	
Comparative Total for 2004/05	(43,520)	

Cash Flow Statement as at 31 March 2006

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2004/05 £'000		Note	2005/06 £'000	2005/06 £'000
	Revenue Activities			
195,118	Cash Paid To and on Behalf of Employees		208,809	
* 198,114	Other Operating Cash Payments		221,740	
17,709	Housing Benefit Paid Out		19,259	
49,843	National Non-domestic Rate Payments To National Pool		56,882	
20,961	Precept Payments		22,119	
5,146	Payments To Capital Receipts Pool		4,459	
* 486,891	Total Outflow			533,268
33,880	Rents		33,321	
97,210	Council Tax Receipts		100,680	
49,760	National Non-domestic Rate Receipts		50,521	
62,633	National Non-domestic Rate Receipts From National Pool		74,840	
98,935	Revenue Support Grant		94,626	
51,576	DSS Grant For Benefits	6	55,294	
29,444	Other Government Grants	6	37,191	
52,862	Cash Received For Goods and Services		50,792	
* 24,457	Other Operating Cash Receipts		27,069	
* 500,757	Total Inflow			524,334
(13,866)	Revenue Activities Net Cash Flow	1		8,934
	Returns On Investment and Servicing of Finance			
2,004	Interest Paid and Prepaid - Premiums (Outflow)		2,081	
33	Interest Element of Finance Lease Payments (Outflow)		-	
(3,753)	Interest and Discounts Received (Inflow)		(4,018)	
(1,716)	Net Cash Outflow From Servicing of Finance			(1,937)
	Capital Activities			
39,162	Purchase of Fixed Assets (Outflow)		41,171	
2,363	Other Capital Cash Payments (Outflow)		6,561	
(29,362)	Sale of Fixed Assets (Inflow)		(9,286)	
(16,767)	Capital Grants Received (Inflow)	7	(20,200)	
(51)	Other Capital Cash Income (Inflow)		(34)	
(4,655)				18,212
(20,237)	Net Cash (Inflow)/Outflow Before Financing	2		25,209
	Management of Liquid Resources			
414,774	Short-term Deposits Made (Outflow)		480,536	
(401,969)	Short-term Deposits Repaid (Inflow)		(496,680)	
12,805	Net Increase/(Decrease) In Investments	3		(16,144)
	Financing			
95,677	Repayments of Loans and Finance Leases (Outflow)		19,391	
(93,210)	New Loans Raised (Inflow)		(25,308)	
(2,467)	Net (Inflow)/Outflow From Financing	4		(5,917)
(4,965)	Decrease/(Increase) Movement in Cash	5		3,148

* restated figures

Notes to the Cash Flow Statement

1 Reconciliation of Net (Surplus)/Deficit to Cash Inflow from Revenue Activities

	2005/06 £'000	2004/5 £'000
General Fund Net (Surplus) / Deficit	(34)	(1,725)
HRA (Surplus) / Deficit	186	(1,521)
Collection Fund Net (Surplus) / Deficit	(553)	299
Net Revenue (Surplus) / Deficit	(401)	(2,947)
Interest	1,912	1,716
Non Cash Transactions		
Depreciation, Amortisation and Impairment	(22,573)	(28,996)
Adjustment For MRP	12,690	17,484
Direct Revenue Financing of Capital Expenditure	(2,340)	(2,798)
HRA contribution to major repairs reserve	813	1,564
HRA Contribution To Pooling	5,103	6,300
Net Contributions To Revenue Reserves	14	(1,128)
Net Contributions To/(From) Provisions	(1,061)	(295)
(Increase)/decrease In Revenue Creditors	3,900	(10,775)
Increase/(Decrease) In Stocks	(24)	(42)
Increase/(Decrease) In Debtors	11,242	6,402
Interest Prepayments Written Down	(341)	(351)
Revenue Activities Net Cash Flow	8,934	(13,866)

2 Movement In Net Debt

	31 March 2006 £'000	31 March 2005 £'000	Movement £'000
Liquid Resources	73,459	89,603	(16,144)
Borrowing and Finance	(41,064)	(35,147)	(5,917)
Net cash balances	9,441	12,589	(3,148)
	41,836	67,045	(25,209)

The net revenue and capital flows of cash and servicing of finance change the authority's net debt. This is represented by the movements in the level of borrowing, investments and cash in hand or overdrawn as shown below.

Full details of the Council's borrowing and lending activities are given in the Treasury Management Report on page 55.

3 Movement In Liquid Resources

	31 March 2006 £'000	31 March 2005 £'000	Movement £'000
Internally Managed	53,534	70,608	(17,074)
Externally Managed	19,925	18,995	930
	73,459	89,603	(16,144)

Havinging's internally managed liquid resources consist of sterling deposits not exceeding 364 days with banks, other financial institutions and other local authorities. Externally managed investments consist mainly of sterling certificates of deposit with major banks or other financial institutions but may also from time to time include UK gilt-edged securities. All or part of the funds under external management can be recalled at short notice.

4 Movement In Borrowing and Finance Leases

	31 March 2006 £'000	31 March 2005 £'000	Movement £'000
Long-term loans	(39,797)	(33,797)	(6,000)
Finance Leases	-	-	-
Short-term loans	(1,267)	(1,350)	83
	(41,064)	(35,147)	(5,917)

5 Movement In Cash

	31 March 2006 £'000	31 March 2005 £'000	Movement £'000
Cash With Officers	14,125	14,053	72
Cash Overdrawn	(4,684)	(1,464)	(3,220)
	9,441	12,589	(3,148)

6 Analysis of Government and Other Grants For Revenue

	2005/06 £'000	2004/05 £'000
Rent Allowances	19,554	16,618
HRA Rent Rebates	19,852	20,182
Council Tax Benefits	14,749	13,685
Housing Subsidies	(7,405)	(6,066)
Adult Education	1,940	1,886
Education Support and Training	22,580	12,589
Asylum Seekers	423	1,041
Teachers Threshold	12	2,562
Revenues and Benefits	1,139	1,091
Supporting People	2,751	2,811
Older People Nursing & Residential	2,452	1,043
Other Miscellaneous Grants	14,438	13,578
Total Revenue Grants	92,485	81,020

7 Analysis of Government and Other Grants For Capital

	2005/06 £'000	2004/05 £'000
Dpartment of Communities & Local Government	1,897	750
Department For Education & Skills	7,630	7,869
Contributions Raised By Schools	235	201
Lord Chancellor/Home Office	(51)	78
Department for Environment Food & Rural Affairs	132	-
Transport For London	2,961	3,675
National Lottery	66	1,493
Single Regeneration Budget	1,258	552
Department of Health	4,234	(23)
Other Public And European Authorities	128	108
Other London Boroughs	(282)	192
Developers' and Other Private Sector Contributions	2,006	1,873
Recoveries From Housing Tenants	(14)	(1)
Total Capital Grants	20,200	16,767

Pension Fund

Introduction

The Council's Pension Fund is operated under the Local Government Pension Scheme Regulations 2006; the Fund provides benefits for employees (excluding teachers) which include retirement pensions, spouse and children's pensions, death grants and other lump sum payments. During the current financial year civil partners were recognised as having the same benefits rights as members' spouses.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts.

Membership

The membership of the Pension Fund is as follows:

Maturing In	As At 31 March 2006	As At 31 March 2005
Contributors	5,613	5,395
Deferred Pensioners	2,580	2,375
Pensioners and Dependants	4,391	4,300

Employers in the Fund

The other employers in the Pension Fund are as follows:

Scheduled bodies

Abbs Cross School
 Havering College of Further Education
 Havering Sixth Form College
 Sacred Heart of Mary Girl's School
 The Coopers' Company and Coburn School
 The Frances Bardsley School for Girls

Admitted bodies

Havering Citizens Advice Bureau
 Acit Ltd
 Morrisons (formerly AWG)
 PPI Educational Services
 May Gurney

During the year ACIT and the PPI Educational Services ceased to be Admitted Bodies to the fund.

Investment arrangements

The overall direction of the Fund's Investment Strategy is delegated to the Council's Investment Committee. The Investment Committee also oversees the Fund's investment arrangements and each year publishes a Statement of Investment Principles (SIP) on the Council's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

The Group Director Finance and Commercial supports the Investment Committee and is responsible for the internal administration arrangements regarding the monitoring of the external investment managers' transactions and is also responsible for pensions administration. This was the first full year since the major restructure of the investment management of the Fund. Havering moved from a position of having a sole external manager to having five new managers with specific investment mandates. The five fund managers and the market value of assets under their management at the 31st March 2006 were as follows:

Manager	Mandate	Value	
		£,000	%
Standard Life	UK Equities	109,499	32.4
Alliance Bernstein	Global Equities	76,787	22.7
Royal London	Investment Grade Bonds	91,109	27.0
Westerns	Global Bonds	30,499	9.0
UBS	Property	29,454	8.7
Sub total		337,348	99.8
Other		547	0.2
Total Fund		337,895	100

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk and to maintain the ready marketability of the portfolio to meet the Fund's fluctuating cash requirements.

Havering uses the services of The WM Company to provide comparative statistics on the performance of this Fund against a benchmark of other local authority funds. In 2005/06, the overall return on the Fund's investments was 23.4% (2004/05 10.7%). This represented an outperformance of 3.1% against the benchmark return of 20.3% (2004/05 0.9% underperformance and 11.6% for the benchmark).

The Fund has significantly outperformed the benchmark. The year has seen a significant growth in the value of stocks throughout all asset classes over the past year. This is due to continued general improvement in world markets during the year to March 2006. The utilisation of the skills of the five specialist managers has also added to the enhanced performance achieved during 2005/06.

The longer term performance is as follows:

	3 years to 31/03/06	5 years to 31/03/06
Fund	18.6%	5.8%
Benchmark Return	18.3%	5.8%
Difference	0.3%	0.0%

Pension Fund Account for the year ended 31 March 2006

2004/05 £'000	Fund Account	Notes	2005/06 £'000
	Contributions and Benefits		
19,231	Contributions Receivable	3	21,780
3,495	Transfers In	4	3,504
22,726			25,284
(17,894)	Benefits payable	5	(19,235)
(5,560)	Leavers	6	(4,496)
(640)	Administration	7	(463)
(24,094)			(24,194)
(1,368)	Net Additions/(Withdrawals) From Dealings With Members		1,090
	Returns on Investments		
7,518	Investment Income	9	9,624
18,459	Change In Market Value of Investments	8	55,336
(1,159)	Investment Management Expenses	10	(1,181)
24,818	Net Returns on Investments		63,779
23,450	Net Increase/(Decrease) In The Fund During The Year		64,869
252,517	Net Assets of The Scheme at Start of Year		275,967
275,967	Net Assets of The Scheme at End of Year		340,836
31 March 2005 £'000	Net Assets Statement	Notes	31 March 2006 £'000
	Investments	11	
131,855	Equities		182,515
54,002	Fixed Interest Securities		61,055
25,342	Index-Linked Securities		27,381
799	Mortgage Backed Securities		1,034
59,543	Unit Trusts		62,316
	Cash Instruments		
541	Short-Term Securities		765
3,379	Cash and Deposits		5,880
275,461			340,946
506	Net Current Assets	12	(110)
275,967	Net Assets of The Scheme at End of Year		340,836

I certify that the Pension Fund Account and Net Assets Statement present fairly the income and expenditure in 2005/06 and the Pensions Fund's financial position as at 31 March 2006.



Rita Greenwood, CPFA
Group Director Finance and Commercial
June 2006

Notes to the Financial Statements

1 Basis of Preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and follows the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The Financial Statements summarise the transactions of the scheme and the net assets of the Fund. The Financial Statements do not take account of liabilities to pay pensions and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with on page 40 and these Financial Statements should be read in conjunction with them.

2 Accounting Policies

The Financial Statements have been prepared on an accruals basis but transfer values are included on a cash basis in accordance with the SORP. Investments are stated at market value with any surplus or deficit on valuation being debited/credited to the Fund account. Shares recorded on the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the last traded price. Other investments are valued at their mid-point market value on the last working day of the financial year.

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at rates ruling on the 31st March.

Investment income is taken into account where dividends are declared but not paid at the financial year end.

A proportion of relevant officers' salary costs, including related oncosts, has been charged to the Fund.

3 Contributions Receivable

2005/06	Employees £'000	Employers £'000	Total £'000
Havering	** 4,439	13,975	18,414
Special Contributions		* 1,442	1,442
Scheduled Bodies	385	958	1,343
Admitted Bodies	108	473	581
	4,932	16,848	21,780
2004/05			
Havering	4,114	12,509	16,623
Special Contributions	-	1,170	1,170
Scheduled Bodies	326	810	1,136
Admitted Bodies	73	229	302
	4,513	14,718	19,231

* The Special Contribution of £1.442m is in respect of early retirements and in anticipation of increases in the employer's rate.

** This includes £115,000 of additional contributions by employees to purchase added years.

Note: Some employees made additional voluntary contributions (AVCs) of £83,000 excluded from the statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential, Nationwide and Standard Life. The amounts forwarded during 2005/06 were £71,000 to the Prudential and £6,000 to each of the Nationwide and Standard Life.

4 Transfers In

	2005/06 £'000	2004/05 £'000
Individual Transfers From Other Schemes	3,504	3,495

5 Benefits payable

2005/06	Pensions £'000	Lump Sums £'000	Total £'000
Havering	16,522	2,291	18,813
Scheduled Bodies	203	37	240
Admitted Bodies	3	179	182
	16,728	2,507	19,235
2004/05	Pensions £'000	Lump Sums £'000	Total £'000
Havering	15,956	1,586	17,542
Scheduled Bodies	191	115	306
Admitted Bodies	46	-	46
	16,193	1,701	17,894

6 Payments To and on Account of Leavers

	2005/06 £'000	2004/5 £'000
Refunds To Members	29	85
Transfers Out To Other Schemes	4,467	5,475
	4,496	5,560

7 Administration

	2005/06 £'000	2004/05 £'000
Staff Costs	401	553
Fees	29	41
Computer and Other	33	46
	463	640

8 Investments

	Value At 01/04/05 £'000	Purchases At Cost £'000	Sales Proceeds £'000	Change In Market Value £'000	Cash Movement £'000	Value At 31/03/06 £'000
Equities	135,514	77,032	(73,450)	43,419		182,515
Fixed Interest Securities	54,002	68,323	(65,000)	3,730		61,055
Index-linked Securities	25,342	14,899	(14,532)	1,672		27,381
Mortgaged Backed Securities	799	198	(8)	45		1,034
Unit Trusts	55,884	28	(66)	6,470		62,316
Cash Instruments	541	39,674	(39,450)			765
Cash Deposits	3,379				2,501	5,880
	275,461	200,154	(192,506)	55,336	2,501	340,946

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and due to the transfer of assets during the year.

9 Investment income

	2005/06 £'000	2004/5 £'000
Interest		
UK fixed income	2,624	1,882
Overseas Fixed Income	1,238	596
Cash and Deposits	97	234
Other	61	
Dividends		
UK Equities	4,074	3,881
Overseas Equities	929	1009
Pooled Vehicles	721	2
Other Income		
Foreign Exchange Gains/(Losses)	(170)	(86)
Other	50	
	9,624	7,518

10 Investment management expenses

	2005/06 £'000	2004/5 £'000
Management and Custody	910	963
Advisory Fees	145	195
Other	126	1
	1,181	1,159

Table 9 has been modified in 2005/06 to ensure compliance with the SORP. The 2004/05 comparators have been adjusted accordingly.

11 Investments

	2005/06 £'000	2004/5 £'000
Equities		
UK Quoted	112,690	85,800
Overseas	69,638	49,714
Futures	187	
	182,515	135,514
Fixed Interest Securities		
UK	61,055	54,002
	61,055	54,002
Index-Linked Securities		
UK	27,381	25,342
	27,381	25,342
Mortgage Backed Securities		
UK	1,034	799
	1,034	799
Unit Trusts		
UK Quoted	2,364	1,725
UK Unquoted	478	1,093
UK Property	28,975	25,906
Overseas	30,499	27,160
	62,316	55,884
Cash Instruments		
UK	765	541
	765	541
Cash Deposits		
Manager	2,817	2,586
Havering	3,052	793
Futures	11	
	5,880	3,379
Total Investments	340,946	275,461

The Investment Classification has been restated in more detail requiring the following adjustments to the 2004/05 comparators:

	2004/05 Original	Adjust- ment	2004/05 Revised
Equities	131,855	3,659	135,514
Fixed Interest Securities	52,917	1,085	54,002
Index Linked Securities	27,226	(1,884)	25,342
Unit Trusts	59,543	(3,659)	55,884
Mortgage Backed Securities		799	799
Total	271,541	0	271,541

12 Net Current Assets

	2005/06 £'000	2004/5 £'000
Current Assets		
Investment Income	1,994	1,826
Sold Assets	2,030	518
Pensions	20	22
Contributions	141	138
VAT	186	80
	4,371	2,584
Current Liabilities		
Purchased Assets	4,027	1737
Pensions	160	185
Contributions	-	39
Other Expenses	294	117
	4,481	2078
Net Current Assets	(110)	506

13 Related party transactions

There were no transactions with related parties other than those disclosed elsewhere within the accounts. In 2005/06, £0.401m was paid to the Council for administration (£0.553m in 2004/05) and £15.417m (£13.679m) was paid by the Council to the Pension Fund in respect of employers contributions. During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

14 Actuarial Valuation

The Fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' rates of contributions to the Fund to ensure that present and future commitments can be met.

The rate of employer's contributions paid by the Council in 2005/06 was 19.1% of pensionable pay as determined by the actuarial valuation of the Fund as at the 31st March 2004.

The most recent valuation of the Fund was carried out at the 31st March 2004. The actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. Those assumptions, which have the most significant effect on the results of the valuation, are:

Assumption	Rate
The Rate of Increase In Pensionable Earnings	2.9%
The Rate of Return on Bond Type Investments	5.2%
The Rate of Return on Equity And Property Assets	6.95%
The Level of Increase In Earnings Growth	4.4%

The result of the 2004 valuation was that the value of the Fund's assets was actuarially assessed as £264.7m which was sufficient to meet 65% of its accrued liabilities of £405.6m. In order to meet 100% of future benefit liabilities, as required by Pension Fund regulations, it has been necessary to increase the employers' contribution rates over the three years of the actuarial valuation. The actuary's recommended employer's contribution rates for the Council were as follows:

	Rate
April 2005 to March 2006	19.1
April 2006 to March 2007	20.3
April 2007 to March 2008	21.5

Capital Transactions

Capital expenditure relates to the acquisition and enhancement of assets of long term value to the Authority, for example the purchase of land or major building works. The table below shows the Authority's capital expenditure in 2004/05 and how this was financed.

	General Fund £'000	2005/06 Housing Revenue Account £'000	Total £'000	2005/06 Total £'000
Expenditure on Fixed Assets				
Council Dwellings		9,926	9,926	8,789
Other Land and Buildings				
Schools and Other Education	8,034		8,034	9,950
Public Offices and Depots	803	811	1,614	1,549
Libraries, Leisure and Sport	2,025		2,025	5,494
Social Services	284		284	237
Other	29		29	194
Equipment				
Schools and Other Education	3,388		3,388	3,294
Public Offices and Depots	2,797	65	2,862	1,547
Libraries, Leisure and Sport	224		224	709
Social Services	46		46	30
Other	95		95	36
Infrastructure				
Roads and Lighting	6,917		6,917	5,885
Environmental Improvements	1,163	834	1,997	1,583
Libraries, Leisure and Sport	977		977	917
Schools	134		134	96
Other	185		185	147
Total Expenditure on Fixed Assets	27,101	11,636	38,737	40,457
Intangible Fixed Asset and Deferred Charge Expenditure				
Renovation, Disabled Facility, Mobility and Other Grants	4,831	28	4,859	1,928
Computer Software and Other	2,616	88	2,704	2,569
Total Intangibles and Deferred Charges	7,447	116	7,563	4,497
Total Capital Expenditure	34,548	11,752	46,300	44,954
Add: Capital Creditors B/fwd				2,043
Total Capital To Be Funded	34,548	11,752	46,300	46,997
Financed By				
Borrowing	-	(2,114)	(2,114)	2,034
Capital Grants	(19,046)	(260)	(19,306)	17,793
Capital Receipts	(13,193)	(71)	(13,264)	15,191
Contributions From Revenue	(2,309)	(31)	(2,340)	2,798
Major Repairs Reserve	-	(9,276)	(9,276)	9,181
Total Funding	(34,548)	(11,752)	(46,300)	46,997

Treasury Management & Prudential Code Report - 2005/2006

Background

The Council has adopted the CIPFA Treasury Management Code of Practice and a Treasury Policy Statement has been approved. The statement requires that the Group Director Finance and Commercial should report to this Committee on the preceding year's treasury management activities.

Key Points

- External loan debt up £5.9m to £41.1m
- Average maturity period of debt up from 28.7 to 36.0 years
- Average interest rate paid down from 5.25% to 5.19%
- External investments down £16.1m to £73.5m
- Average return on investments up from 4.68% to 4.71%
- Prudential Code – limits adhered to - see Performance against the Council's Prudential Indicators for 2005/06 below
- Investment performance against 4.56% benchmark
 - External Managers: 4.58% (market value basis)
 - In-house Manager: 4.77%
- Comparative debt management performance 04/05 (latest available figures)
 - Havering's debt third lowest among London Boroughs with long-term debt
 - Havering's rate the third lowest among London Boroughs with long-term debt: 5.25% against 7.02% average
 - equates to £0.67m interest saved against London average

Overall Position

Interest Rates - National Background

Shorter-term interest rates – Base rate started 2005/06 at 4.75%, having been unchanged at this level since August 2004. It fell to 4.5% in August 2005 and remained at that level for the rest of the year. The growth of consumer expenditure and house prices, strong in 2004, became much weaker during 2005 though the housing market did pick up to recover a bit later in the year and in quarter 1 2006. High oil prices and major increases in utility prices reduced spending power and had a negative impact on sentiment. Claimant count unemployment increased each month during the year while manufacturing output was actually in recession for the first two quarters of 2005 before staging a recovery. GDP growth picked up from a low point of 1.7% year on year in Q2 to 2.3% in Q1 2006 i.e. still slightly below the long term average growth rate of about 2.5% p.a.

Longer-term interest rates – The PWLB 25-30 year rate started the year at 4.750% and fell to a low of 3.85% before rising back to a new peak of 4.25% at the end of the year. Fifty year gilts were launched in 2005 and on 7 December, the PWLB introduced new PWLB borrowing maturity periods longer than 25 – 30 years and up to a maximum of 45 – 50 years. This longest band started at a rate of 4.20% (compared to 4.30% for 25-30 year borrowing) and the rate bottomed at 3.70% in late January before ending the year at 4.15%.

Havering's External Debt and Investments

Havering's external debt rose by £5.9 million over the year. The average maturity period of long-term debt rose from 28.7 years to 36 years over 2005-06 as advantage was taken of the low rates available on the newly reintroduced 50-year PWLB loan facility.

External investments fell by £16.1 million and cash balances by £3.2 million. Net indebtedness therefore rose by some £25.2 million reflecting the net outflow of £18.2 million on Havering's capital activities and outflow of £7 million on revenue activities.

Interest on Havering's Debt

The average rate paid on total debt fell from 5.25% in 2004/05 to 5.19% in 2005/06.

Comparison With Other Authorities

Comparative figures for 2005/06 are not available. In 2004/05, among London Boroughs which still had long-term debt, Havering's external debt of £35.1 million at 31 March 2005 was the third lowest and the average rate of interest paid in 2004/05 at 5.25% was also the third lowest. The outer London average was 6.21% and the overall London average 7.02%. Had Havering incurred the London average rate of 7.02% instead of 5.25%, the additional interest cost in 2004/05 would have been £669,000.

Borrowing and finance lease transactions in 2005/06

The following table summarises Havering's borrowing and long-term finance position in 2005/06:

	Debt 31 March 2005 £'000	Finance Raised £'000	Finance Repaid £'000	Debt 31 March 2006 £'000
Public Works Loan Board	33,797	13,891	14,891	32,797
Market Loan		7,000		7,000
Total Long-Term Debt	33,797	20,891	14,891	39,797
Short-Term Borrowing	1,350	4,417	4,500	1,267
Total Loan Debt	35,147	25,308	19,391	41,064
Finance Leases	-	-	-	-
Total Borrowing/Finance	35,147	25,308	19,391	41,064

Debt Maturity Structure

The following table shows the maturity structure of Havering's long-term debt at the beginning and end of 2005/06 and the average interest rates prevailing at those particular dates:

Long-Term Debt Analysis by Maturity Period							
Years to Maturity	Total £'000	1st April 2005 Proportion %	Rate %	Total £'000	31st March 2006 Proportion %	Rate %	
2 - 5	7,000	20.7	4.41	7,000	17.6	3.60	
15 - 25	14,897	44.1	4.65	7,006	17.6	4.96	
25 - 60	11,900	35.2	6.79	25,791	64.8	5.28	
Total	33,797	100.0	5.27	39,797	100.0	4.93	

The average maturity period of long-term debt rose from 28.7 years to 36 years in the course of 2005/06 because of new and replacement borrowing in the 50 year period. The average interest rate payable on long-term debt fell from 5.35% at the beginning of the year to 4.93% at the end, averaging 5.21% over the whole year. The fall in the rate was again due to the lower rates on new and replacement loans.

Debt Restructuring, Premature Redemption and New Borrowing

Havering consults Sector Treasury Services Ltd for advice on potential savings to be gained from restructuring long-term debt. Restructuring normally involves prematurely replacing existing debt (at a premium or discount) with new loans in order to secure net savings in interest payable or a smoother maturity profile. Restructuring can also involve the conversion of fixed interest rate loans to variable rate loans and vice versa.

At the regular October meeting with officers, the Council's treasury consultants, Sector, highlighted the opportunities for making savings by replacing PWLB loans at a discount with market LOBO (Lender Option Borrower Option) loans at lower rates. Under a LOBO, the lender has the right to request an interest rate increase at specified intervals and the borrower can either accept or opt to repay without penalty. In pursuit of this, Sector made a specific restructuring proposal on 15th November which was agreed by the Group Director Finance and Commercial. Two PWLB loans, the first for £5m at 4.375% maturing 25/7/2008 and the second for £2m at 4.5% maturing 4/4/2009, were repaid on 17th November at a total discount of £24,971. A replacement £7m LOBO was taken on 18th November at 3.6%. The interest rate on the LOBO is fixed until 18/11/08 – the latter date equates closely to the original maturity dates of the PWLB loans replaced. This gives an immediate saving in interest.

The following table summarises the net saving to 2008/09.

	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000	Total £'000
Interest Saved on Loans Repaid	114	309	309	195	927
Interest on New Loan	(93)	(252)	(252)	(159)	(756)
Discount over 3 years	3	8	8	5	24
Brokerage	(13)				(13)
Net Saving	11	65	65	41	182

If the lender asks for a rate increase on 18th November 2008 or at any six-monthly interval thereafter, Havering can opt to repay or to accept the new rate (if it is thought to be in line with current rates for the residual period). If the lender never asks for a rate increase the loan will last until 18/11/65 but at 3.6% this would be the cheapest loan in Havering's current portfolio.

In January, February & March further savings were made: the longest-term PWLB rates were driven below 4% as pension funds bought longer-dated gilts to match their longer-term liabilities. Fresh 50-year borrowing of £4m was also taken in late January at 3.7%, the lowest PWLB rate in recent times. This was well below the rate assumed in the budget and will save some £27,000 in 2006/07. The lower 50 year rate also allowed some restructuring of PWLB debt: £2m at 4.25% that would have matured in less than 20 years was repaid on 2nd February and replaced by £2m for 50 years at 3.9%, saving £7,000 per annum. A further £5.9m of PWLB debt that would have matured between 2022 and 2026 was repaid and replaced by a new 50 year loan at 4.1% saving just under £18,000 per annum.

Temporary Lending – Investment Strategy – Appointment of External Cash Managers

The Council's surplus cash arises primarily from any unspent capital receipts and grants, from increases in revenue reserves, from reductions in debtors' arrears and from any receipts in advance of payments. These surpluses can be used to avoid new borrowing, to repay existing debt or else are available for investment in approved institutions. The Council's cash receipts never match its payments on a daily basis and these temporary surpluses or deficits must also be lent, borrowed or used for repayment.

The Council approved the strategy, credit limits and criteria governing any investment of surplus funds in the Treasury Policy Statement & Annual Investment Strategy and in the Treasury Management Practices.

2005/06 saw investment returns similar to those in 2004/05: although rising during 2004/05 and falling during 2005/06 base rate averaged 4.59% in both years. The benchmark 3-month rate averaged 4.7% in 2004/05 and 4.56% in 2005/06. The external manager had a less successful year because of ill-timed exposure to the gilt market. The following table shows the returns on a book cost basis achieved by the internal and external managers against the 3-month benchmark supplied by Sector.

Manager	Book Cost At 31 March 2005 £'000	Book Cost At 31 March 2006 £'000	Rates of Return 2004/05 %	Rates of Return 2005/06 %
External Manager	18,995	19,925	4.68	4.46
In-house Manager	70,607	53,533	4.68	4.77
Total Investments	89,602	73,458	4.68	4.71
Sector Benchmark for Investment Return			4.70	4.56
Average Rate on Havering's Temporary Borrowing For Comparison			4.51	4.48

Havering subscribes to a Sector service for cash management performance measurement covering over 230 funds with an aggregate value of over £3.8 billion. The performance data for this return take account of unrealised capital gains and losses unlike the returns shown above (although the 2005/06 return in the table above does reflect provision made for the loss realised on gilts in April). Against the Sector 3-month LIBID benchmark of 4.56%, the best return achieved by participants in the survey was 4.90% and the minimum 4.34%. Havering's external manager's return at 4.58% (2004/2005 4.72%) fell in the 72nd percentile (2004/2005 41st percentile). Over the three years ending 31 March 2006, Havering's external manager achieved an average return of 4.01% in the 70th percentile.

The external manager's performance continues to be monitored by monthly reports and the option to recall all or part of these funds is always available. The internally managed funds consisted mainly of short-term deposits (not exceeding 364 days) with approved institutions but, following the relaxation government controls in the 2003 Act and Prudential Code, some investments were for more than a year. The external managers also bought and sold certificates of deposit and gilts.

External Interest: Performance against Budget

The table below shows details of the actual and budgeted loan interest payable and investment interest receivable by the Council in 2005/06 and comparative actual figures for 2004/05. The major reason for the substantial additional interest earned in the year over the original budget estimate was the slippage in capital spending.

Interest Paid & Premiums Written Off	2005/06 Budget £'000	2005/06 Revised £'000	2005/06 Outturn £'000	2004/05 Outturn £'000
Long Term				
PWLB	1,809	1,764	1,789	1,809
Market Loan		93	93	–
Premiums Written Off	408	408	408	415
Discounts Written Off	(63)	(66)	(66)	(63)
Finance Lease (Notional Interest)	–	–	–	33
	2,154	2,199	2,224	2,194
Short Term				
Market & Local	388	55	59	170
Bank Overdraft		–	1	2
	388	55	60	172
Total Interest Payable	2,542	2,254	2,284	2,366
Less Investment Interest				
Externally Managed	(922)	(942)	(868)	(905)
Internally Managed	(1,900)	(3,223)	(3,684)	(3,826)
Total Interest Receivable	(2,822)	(4,165)	(4,552)	(4,731)
Net External Interest Receivable	(280)	(1,911)	(2,268)	(2,365)

The income from externally managed investments is net of fees and includes realised profits and losses from the sale of marketable securities.

The Cost of Treasury Management

Treasury management costs arise both internally for staff time and externally for various charges payable for arranging loans, for maintaining computer systems and for consultancy. In accordance with recommended accounting practice, these costs are recharged to the corporate democratic core for General Fund Services and the Housing Revenue Account in proportion to those services' relative use of fixed assets. The following table shows the outturn of treasury management costs against the original budget and the previous year's actual figures:

Treasury Management Costs	2005/06 Budget £'000	2005/06 Outturn £'000	2004/05 Outturn £'000
Financial Services Costs	60	60	59
Brokerage & Loan Fees	9	18	3
Sector Subscription	17	17	16
Bank Charges on Loans	5	3	4
Computer Charges	4	3	3
Total Treasury Management	95	101	85

Treasury management costs were higher than in the budget and in 2004/05 because of the higher than expected level of long-term borrowing & restructuring in the year – the interest savings achieved amply cover these increased costs.

Performance against the Council's Prudential Indicators for 2005/06

Under Part 1 of the Local Government Act 2003 and in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council established the following prudential indicators in February 2004 as part of Havering's integrated medium-term financial, treasury management & investment strategies. All the Council's prudential indicators that constitute limits have been adhered to without risk of breach. The other indicators are just estimates, but progress against these is also reported here, with explanations for large variances.

Adoption of Treasury Management Code

The Council had already adopted the CIPFA Code of Practice for Treasury Management in the Public Services in February 2002.

Ratio of Capital Financing Costs To Net Revenue Stream

These ratios are intended to indicate the relative affordability of financing the authority's capital commitments against its overall revenue costs chargeable to rent and taxpayers. The actual ratios of financing costs to net revenue stream for 2002/03 and the ratios estimated in February 2005 for 2004/05 to 2007/08 were as follows:

	2003/04 Actual	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate	2007/08 Estimate
HRA	27.00%	26.33%	25.23%	25.16%	24.79%
Non-HRA	0.43%	-0.17%	0.44%	0.85%	0.95%
Total	3.47%	2.71%	3.05%	3.38%	3.40%

Against this indicator, the outturns for 2004/05 and 2005/06 were:

	2004/05 Actual	2005/06 Actual
HRA	26.65%	24.20%
Non-HRA	-0.24%	-0.47%
Total	2.65%	2.24%

The variance in the HRA ratio between budget and actual in 2005/06 reflects lower than budgeted depreciation. The variance in the GF ratio between estimate & actual is due to the higher than budgeted level of investments.

Estimate of Incremental Impact of New Capital Investment Decisions on Council Tax And Average Weekly Housing Rents

A fundamental indicator of affordability is the impact of capital investment decisions on Council Tax and HRA housing rents. The indicator includes all the incremental revenue costs of capital schemes not just financing costs but also allows for self-financing or grant support. If any incremental changes affect years beyond 2006/07, these must also be shown.

Having calculated, on the basis of the best information available and on reasonable assumptions, the total HRA and non-HRA budgetary requirements for Havering for the next three years with and without the changes proposed to the capital programme in the Medium-term Financial Strategy, the Executive Director of Finance & Planning estimated the following incremental changes to Council Tax and housing rents arising from the capital investment decisions:

	2005/06	2006/07	2007/08	2008/09
Increase In Band D Council Tax Arising From New Capital Investment Decisions	£0.76	£2.13	£3.35	£3.96
Increase In Average Weekly Housing Rent Arising From New Capital Investment	£0.00	£0.00	£0.00	£0.00

There is currently no reason to alter these broad projections.

Capital Expenditure Estimates and Actuals

The actual capital expenditure that was incurred in 2003/04 and the estimates for 2004/05 to 2007/08 recommended for approval were:

	2003/04 £'000 Actual	2004/05 £'000 Estimate	2005/06 £'000 Estimate	2006/07 £'000 Estimate	2007/08 £'000 Estimate
HRA	14,485	11,262	11,512	10,293	10,293
Non-HRA	26,105	49,811	42,551	20,711	4,712
Total	40,590	61,073	54,063	31,004	15,005

Against this indicator, the following table shows the actual performance to date:

	2003/04 Actual £'000	2004/05 Actual £'000	2005/06 Actual £'000
HRA	14,484	10,885	11,752
Non-HRA	26,106	34,069	34,548
Total	40,590	44,954	46,300

There was continuing slippage in delivering the capital programme in 2005/06. This should unwind over the coming two or three years.

Capital Financing Requirement

The capital financing requirement (CFR) measures the authority's underlying need to borrow for capital purposes but does not reflect any need to fund day to day movements in revenue cash flows. It is calculated as the aggregate of:

Fixed Assets + Intangible Assets / Deferred Charges - Fixed Asset Restatement Account - Capital Financing Account - Grants Deferred.

The government prescribes the definition of the HRA capital financing requirement in regulations issued under the 2003 Act. These are a continuation of the ring-fenced item 8 determinations under the 1989 Act.

The actual CFR at 31st March 2004 and the estimated requirements at the end of each year from 2004/05 to 2007/08 projected in February 2005 were as follows:

	31/03/04 £'000 Actual	31/03/05 £'000 Estimate	31/03/06 £'000 Estimate	31/03/07 £'000 Estimate	31/03/08 £'000 Estimate
HRA	(7,905)	(5,871)	(3,757)	(1,643)	471
Non-HRA	50,260	42,845	48,398	50,221	48,459
Total	42,355	36,974	44,641	48,578	48,930

Against this indicator, the following table shows the actual outturns to date:

	31/03/03 £'000 Actual	31/03/04 £'000 Actual	31/03/05 £'000 Actual	31/03/06 £'000 Actual
HRA	2,005	(7,905)	(5,871)	(3,757)
Non-HRA	45,957	50,260	36,165	35,266
Total	47,962	42,355	30,294	31,509

The overall variation between the estimated and actual CFR at 31st March 2005 arises from:

- (i) the decision to set aside a further £4.6 million of capital receipts at the end of 2004/05 as an agreed part of the property management strategy and
- (ii) the effect of funding £2 million capital expenditure accrued at 31st March 2004 from sources other than borrowing in 2004/05.

The variation between the estimated and actual CFR at 31st March 2006 arises from the two factors above and the decision not to use supported borrowing for the General Fund capital programme in 2005/06 while capital receipt resources remain adequate.

Net External Borrowing and The Capital Financing Requirement

In accordance with best professional practice, Havering does not associate borrowing with particular items or types of expenditure. External borrowing arises as a consequence of all the authority's financial transactions whether capital or revenue. The Prudential Code sets as a key indicator that net borrowing over the medium term should only be for capital. The Code provides that net external borrowing (borrowing net of investments) should not exceed the total capital financing requirement (CFR) in the preceding year plus any estimates of additional capital financing requirement for the current and next two years.

The Group Director reports that the authority has had no difficulty in meeting this requirement in 2004-05 (Havering is currently a net lender) and that existing commitments and plans in the Budget can be accommodated within this limit.

The figures adopted for Havering's indicator in February 2005 were as follows:

	31/03/04 £'000 Actual	31/03/05 £'000 Estimate	31/03/06 £'000 Estimate	31/03/07 £'000 Estimate	31/03/08 £'000 Estimate
Net External Borrowing	(39,246)	(27,886)	1,002	15,414	12,627
Capital Financing Requirement	42,355	36,974	44,641	48,578	48,930

The actual figures to 31st March 2006 are as follows:

	31/03/04 £'000 Actual	31/03/05 £'000 Actual	31/03/06 £'000 Actual
Net External Borrowing / (Lending)	(47,167)	(67,046)	(41,837)
Capital Financing Requirement	42,359	30,294	31,509

The actual figures for net borrowing at 31st March 2004 have been amended in accordance with the definitions in the Prudential Code to include cash in hand and overdrawn in the consolidated balance sheet at that date. The substantial difference between estimated and actual net borrowing at 31st March 2005 is accounted for mainly by the capital slippage in 2004/05, the inclusion of consolidated balance sheet cash in the actual figures and better than expected revenue balances at the year end.

The difference between estimated and actual net borrowing at 31st March 2006 is again because of capital slippage and better revenue balances.

Authorised Limits and Operational Boundary For External Borrowing and Other Long-term Liabilities

Authorised Limits

The Council approved the following authorised limits for its total external debt & finance leases for the three years from 2005/06 to 2007/08, confirmed the existing limit for borrowing in 2004/05 and approved the limit for other long-term liabilities for 2004/05.

The Council approved these limits and delegated authority to the Group Director, within the total limit for any individual year, to make transfers between the separately agreed limits for Borrowing and for Other Long-term Liabilities in accordance with option appraisal and best value for the authority, any such changes being reported to the Council at its next meeting. No such changes have been necessary.

These limits are consistent with Havering's current capital commitments, plans and budget proposals and with the Treasury Policy Statement and Treasury Management Practices. The Group Director Finance & Commercial confirmed that these limits were based on the estimate of the likely, prudent but not worst case scenario with sufficient additional headroom to allow for operational management of unusual cash flows.

Authorised Limits	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000
Borrowing	65,000	65,000	65,000	65,000
Other Long-Term Liabilities	2,000	2,000	2,000	2,000
Total	67,000	67,000	67,000	67,000

Operational Boundary

The Council was also asked to approve the following operational boundary for external debt for 2003/04 to 2006/07. The proposed boundary was based on the same estimate as for the authorised limit but reflects directly the Executive Director's estimate without the additional headroom for unusual cash movements. It equates to the maximum external debt projected in the estimate.

The operational boundary represents the key management tool for the monitoring of external debt by the Group Director of Finance & Commercial.

The Council approved these limits and delegated authority to the Group Director, within the total limit for any individual year, to make transfers between the separately agreed limits for Borrowing and for Other Long-term Liabilities in accordance with option appraisal and best value for the authority, any such changes being reported to the Council at its next meeting. No such changes have been necessary.

Operational Boundary	2003/04 £'000	2004/05 £'000	2005/06 £'000	2006/07 £'000
Borrowing	50,000	50,000	52,500	55,000
Other Long-Term Liabilities	140	70	0	0
Total	50,140	50,070	52,500	55,000

The Council's levels of borrowing throughout 2004/05 and 2005/06 have been managed within these limits. The following table shows the performance to date:

	2004/05 £'000	2005/06 Q1 £'000	2005/06 Q2 £'000	2005/06 Q3 £'000	2005/06 Q4 £'000
Maximum Actual Borrowing	42,738	36,904	37,154	37,154	45,113
Maximum Actual Other Long-term Liabilities	68	0	0	0	0
Total	42,806	36,904	37,154	37,154	45,113

Actual External Debt

Actual external debt at the end of 2002/03, 2003/04, 2004/05 and 2005/06 was as follows:

	31-03-03 £'000	31-03-04 £'000	31-03-05 £'000	31-03-06 £'000
Borrowing	48,990	37,546	35,146	41,064
Other Long-term Liabilities	138	68	–	–
Total	49,128	37,614	35,146	41,064

The prudential indicator for actual external debt is not directly comparable to the authorised limit and operational boundary since the actual external debt is the position at a particular date whereas the limits relate to a whole financial year. The increase in overall borrowing in 2005/06 arose from a decision to take advantage of much lower long-term interest rates in early 2006 in anticipation of future need for the capital programme.

Interest Rate Exposures

The Council set the following upper limits for its net borrowing (borrowing less investments) at fixed and variable rates for the years 2004/05 to 2007/08.

These limits were set to permit the maximum operational flexibility in managing Havering's debt and investment portfolios. For as long as investments exceed borrowing it will be prudent for risk management purposes to permit up to 100% of gross external borrowing to be at variable rates to match the rates on variable-rate or short-term investments. Investments will continue to be either at fixed or variable rates in accordance with current practice and the need to maintain flexibility to achieve best value in the short term.

Net Borrowing	Upper Limit 2004/05 £'000	Upper Limit 2005/06 £'000	Upper Limit 2006/07 £'000	Upper Limit 2007/08 £'000
At Fixed Rates	65,000	65,000	65,000	65,000
At Variable Rates	65,000	65,000	65,000	65,000

The actual maximum levels for fixed and variable rate borrowing (or, for Havering, minimum levels for net lending) were as follows:

Net Borrowing	Maximum 2004/05 £'000	Maximum 2005/06 Q1 £'000	Maximum 2005/06 Q2 £'000	Maximum 2005/06 Q3 £'000	Maximum 2005/06 Q4 £'000
At Fixed Rates	(27,614)	(27,965)	(14,859)	(14,859)	(10,498)
At Variable Rates	(8,635)	(21,450)	(29,964)	(24,278)	(19,813)

Maturity Structure Of Borrowing

Having set for 2005/06 upper & lower limits with respect to the maturity structure of its projected fixed rate borrowing. These limits are calculated as the amounts of projected fixed rate borrowing maturing in each period as percentages of the total projected fixed rate borrowing.

These limits are set with the purpose of ensuring that no excessive burden of debt repayment will mature in any one period. This is a control on the level of exposure to future changes in interest rates.

The upper limit for fixed rate debt maturing within 12 months has to reflect the impact of day-to-day cash flow movements as well as any conscious decision to fund part of the capital financing requirement from temporary debt. It is not possible to predict or desirable to predetermine what proportion of temporary borrowing will be variable or fixed. The upper limit is set at 40% to permit a reasonable overall level of temporary borrowing at any one time in the coming financial year as well as normal long-term debt maturity.

	Upper Limit	Lower Limit
Under 12 Months	40%	0%
12 Months and Within 24 Months	20%	0%
24 Months and Within 5 Years	60%	0%
5 Years and Within 10 Years	75%	0%
10 Years and Above	100%	25%

Against these limits, the actual maximum proportions reached were as shown below:

	Maximum Actual 2005-06	Minimum Actual 2005-06
Under 12 Months	9%	0%
12 Months and Within 24 Months	0%	0%
24 Months and Within 5 Years	21%	0%
5 Years and Within 10 Years	0%	0%
10 Years and Above	100%	75%

Maturity Structure Of Long-term Investments

The following table shows the upper limits adopted for the maturing of any investments beyond 364 days together with the current actual totals at 31st March 2006:

Principal Sum Invested For More Than 364 Days Maturing:	Upper Limit £'000	Current Actual £'000
2005/06	15,000	0
2006/07	15,000	0
2007/08	15,000	5,000
2008/09	15,000	0
2009/10	15,000	5,000
2010/11	15,000	2,500

Glossary of Terms

Accounting policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effect of transactions and other events are to be reflected in its financial statements through:

- (i) recognising
- (ii) selecting measurement bases for, and
- (iii) presenting assets, liabilities, gains, losses and charges to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transaction and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Accruals

The amounts by which receipts or payments are increased in order to record the full income and expenditure incurred in an accounting period.

Actuary

An independent consultant who advises on the financial position of the Pension Fund.

Actuarial Valuation

Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the Fund's financial position and recommended employers' contribution rates.

Amortisation

The writing off of a deferred charge or loan balance over a period of time.

Appropriation

The transfer of ownership of an asset, from one service to another at an agreed (usually market) value.

Approved Investments

These are investments which Local Authorities are permitted to make using their unapplied capital and revenue funds. These investments must be in sterling and normally consist of gilts or short-term deposits with banks, building societies and other financial institutions. Such investments are treated as neither revenue nor capital expenditure.

Budget

A forecast of future expenditure plans for the authority. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the council tax is set. Budgets are revised towards the year-end to take account of inflation, changes in patterns of services, and other factors.

Capital Charge

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of the service.

Capital Expenditure

Expenditure on the acquisition of fixed assets or expenditure which adds to the value of an existing fixed asset.

Capital Financing Requirement

The measure from 2004/05 onwards of an authority's capital borrowing need under the Prudential Code and the Local Government Act 2003: it is made up of the total value of the authority's fixed assets and deferred charges less the sums accumulated in the restatement, deferred grant and capital financing accounts. It replaces the Credit Ceiling under the 1989 Act - see below.

Capital Receipt

Income received from the sale of a capital asset such as land or buildings.

Collection Fund

A Statutory Account which receives council tax, community charges, non-domestic rates and Government Grants to cover the costs of services provided by Havering and its precepting authorities.

Community Assets

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Consolidated Balance Sheet

A statement of all the assets, liabilities and other balances of the authority at the end of an accounting period.

Consolidated Revenue Account

A statement showing the net cost for the year of all the functions for which the authority is responsible and demonstrates how that cost has been financed from general Government grants and income from local taxpayers.

Contingent Liability

A possible liability to future expenditure at the balance sheet date dependant upon the outcome of uncertain events.

Credit Approvals

Authorisation from the Government under the 1989 Act to use credit to finance capital expenditure either by borrowing or by entering into finance lease agreements - replaced in 2004/05 by Supported Borrowing under the 2003 Act - see below

Credit Ceiling

The Authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities - replaced in 2004/05 by the Capital Financing Requirement.

Deferred Charges

Expenditure which may properly be deferred, but which does not result in, or remain matched with tangible assets. Examples of deferred charges are expenditure on items such as improvement grants and software.

Defined Benefit Scheme

A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Fixed Assets

Assets that yield benefit to the Local Authority and the services it provides for a period of more than one year. Fixed Assets are sub-divided into Tangible and Intangible: the former are physical assets such as land, buildings and equipment; the latter are assets such as computer software or marketable research & development.

General Fund (GF)

Havering's main revenue account from which is met the cost of providing most of the authority's services.

General Fund Working Balance

Revenue funds which are uncommitted and available to support general funding pressures not otherwise specifically covered by planned budget or earmarked reserves.

Historical Cost

The actual cost of an asset in terms of past consideration as opposed to its current value.

Housing Revenue Account (HRA)

A Statutory Account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

Impairment

The reduction in value of a tangible or intangible fixed asset reflecting either (i) the consumption of economic benefits such as obsolescence or physical damage or (ii) a general fall in prices. In the former case, the impairment is a charge to the revenue account; in the latter, the impairment is a charge to the restatement account.

Infrastructure Assets

Assets which have an indeterminate life and although valuable do not have a realisable value e.g. roads.

Minimum Revenue Provision (MRP)

The amount that has to be charged to general fund revenue to provide for the redemption of debt. Under the 2003 Act this is 4% of the adjusted Capital Financing Requirement.

National Non-Domestic Rates Pool (NNDR Pool)

Non-domestic rates are paid into a central pool controlled by central Government. This money is then redistributed to local authorities on the basis of adult population.

Net Book Value

The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

Net Current Replacement Cost

The current cost of replacing or recreating an asset in its existing use adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

Net Realisable Value

The open market value of the asset less the expenses to be incurred in realising the asset.

Non-Operational Assets

Fixed assets held by the authority but not directly occupied, used or consumed in the delivery of its services. Examples are investment and surplus properties.

Operating Lease

A lease other than a finance lease, ie a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

Operational Assets

Fixed assets held, occupied, used or consumed by the authority in the direct delivery of its services.

Outturn

The actual level of expenditure and income for the year.

Post Balance Sheet Events

These events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the Executive Director Finance and Planning.

Precept

The charge made by one authority (e.g. Greater London Authority) on another authority (e.g. Havering) to finance its net expenditure.

Projected Unit Method

Actuarial valuation method whose key feature is to assess future service cost; the actuary calculates the employer's contribution rate which will meet the cost of benefits accruing in the year after the valuation date. This method is considered appropriate for a Pension Fund open to new members.

Provisions

Amounts set aside to fund known liabilities chargeable to the current year's accounts where the exact amount or timing of the payment are not yet certain.

Public Works Loans Board (PWLB)

Central Government agency which funds much of local Government borrowing.

Reserves

Amounts set aside to fund known items of anticipated expenditure for which the liability is not chargeable to the current year's Accounts.

Revenue Expenditure

The day to day expenditure of the Council, e.g. pay, goods and services and capital financing charges.

Revenue Support Grant

The main grant paid by the Government to local authorities.

Supported Borrowing

Borrowing supported by central government grant towards the financing costs, mainly through HRA subsidy or Revenue Support Grant