



# Haverling

LONDON BOROUGH

## AUDIT COMMITTEE AGENDA

**7.30 pm**

**Wednesday  
29 February 2012**

**Town Hall, Main Road,  
Romford**

Members 6: Quorum 3

**COUNCILLORS:**

**Conservative Group  
( 4)**

**Residents' Group  
( 1)**

**Labour Group  
( 1)**

**Independent  
Residents' Group  
( 0)**

Georgina Galpin  
(Chairman)  
Osman Dervish  
(Vice-Chair)  
Roger Ramsey  
Frederick Thompson

Clarence Barrett

Denis Breading

**For information about the meeting please contact:**

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## **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) – received.

### **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 any item at any time prior to the consideration of the matter.

### **4 MINUTES OF THE MEETING (Pages 1 - 8)**

To approve as correct the minutes of the meeting held on 21 June 2011 and authorise the Chairman to sign them.

### **5 UPDATE ON OBJECTION TO ACCOUNTS ACTION PLAN**

An oral update will be given by the Head of Service for Housing & Public Protection.

### **6 NDR (NON DOMESTIC RATES)**

An oral update will be given by the Head of Customer Services.

### **7 COMPLAINTS**

An oral update will be given by the Head of Customer Services.

### **8 EXTERNAL AUDIT 2010/11 AUDIT PLAN (Pages 9 - 34)**

Report attached.

### **9 2010/2011 AUDIT REPORT OF GRANT CLAIMS AND RETURNS (Pages 35 - 56)**

Report attached.

**10 ANNUAL REVIEW OF RISK MANAGEMENT ARRANGEMENTS** (Pages 57 - 60)

Report attached.

**11 INTERNAL AUDIT CHARTER AND TERMS OF REFERENCE** (Pages 61 - 78)

Report attached.

**12 AUDIT PLAN AND STRATEGY** (Pages 79 - 94)

Report attached.

**13 INTERNAL AUDIT PROGRESS REPORT** (Pages 95 - 122)

Report attached.

**14 FRAUD PROGRESS REPORT** (Pages 123 - 134)

Report attached.

**15 ANNUAL REVIEW OF AUDIT COMMITTEE EFFECTIVENESS** (Pages 135 - 140)

Report attached.

**16 DEMISE OF AUDIT COMMISSION**

An oral report will be given by the Head of Finance & Procurement.

**17 CLOSURE OF ACCOUNTS TIMETABLE 2011/12** (Pages 141 - 144)

Report attached.

**18 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 specific in the minutes that the item should be considered at the meeting as a matter of urgency.

**19 EXCLUSION OF THE PUBLIC**

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

**20 TREASURY UPDATE (Pages 145 - 150)**

Report attached.

**Ian Buckmaster  
Committee Administration &  
Member Support Manager**

**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Town Hall, Main Road, Romford  
21 December 2011 (7.30 - 9.05 pm)**

**Present:**

**COUNCILLORS:**

**Conservative Group** Georgina Galpin (in the Chair) Roger Ramsey and Frederick Thompson

**Residents' Group** Clarence Barrett

**Labour Group** Pat Murray

The Committee were advised that Councillor Pat Murray had been appointed as a replacement for Councillor Paul McGeary to serve on this Committee.

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

There were no declarations of interest.

**21 MINUTES OF THE MEETING**

The minutes of the meeting held on 22 September 2011 were agreed as a correct item and signed by the Chairman, subject to the addition of Councillor Lesley Kelly to the list of members in attendance, for part of the meeting, and the correction to the title of minute 19 to read 'Update on the future of the Audit Commission.'

**22 MATTERS ARISING**

Further to minute 12 'Update on objection to Accounts Action Plan' officers informed the Committee that the appeal against the Leasehold Valuation Tribunal decision was scheduled to be heard on 4<sup>th</sup> May and therefore they would report back to the June meeting.

**23 HOUSING BENEFIT FRAUD OVERPAYMENT REPORT**

As requested at the last meeting (Minute 18) officers submitted a report detailing fraudulent housing benefit overpayments outstanding for the period 1 April 2010 to 31 March 2011. Officers advised that the total value of fraudulent overpayments raised in 2010/11 was £480,763.75. As at 31

March 2011 £288,836.58 was outstanding. A breakdown of this sum was provided.

The Committee thanked officers for the report and asked for additional information, in 6 months time:

- What was the total of outstanding Housing Benefit Fraudulent Overpayments;
- When was the last write off of overpayments, and how much was this for;
- How does Havering compare with similar Councils; and
- Did the level of fraudulent overpayments increase when Housing rents were increased?

## 24 **ANNUAL AUDIT LETTER**

The Committee received a report that updated Members on the external auditor's PricewaterhouseCoopers (PwC) annual letter for 2010/11.

The annual audit letter was a key summary of audit and inspection results by the Council's external auditor during the course of the year.

The Committee were informed that PwC had completed their work on an objection from a specified member of the public and a final response would be sent to him. He had not lodged an objection to the 2010/11 accounts.

The Committee **NOTED** the report.

## 25 **CLOSURE OF ACCOUNTS TIMETABLE 2011/12**

Officers reported on progress to date in preparing for the closure of accounts for 2011/12. The Council had successfully closed its accounts and prepared its Financial Statements on an IFRS (International Financial Reporting Standards) basis for the first time in 2010/11.

There were a number of technical changes required under The Code of Practice in 2011/12. However, the Council had undergone major re-organisational changes during the year including the replacement of its core financial systems. The priority for the closure programme was to ensure that all key activities had been captured in the timetable and roles and responsibilities identified and understood.

A number of key issues needed to be addressed during the 2011/12 closedown, these were:

- Infrastructure Assets – These include roads, highways, bridges and street furniture. Currently they were recorded on the balance sheet

on a Depreciated Historic Cost (DHC) basis. New guidance requires them to be recorded on a Depreciated Replacement Cost (DRC) basis in 2011/12. It was necessary to identify all such assets, with appropriate measurements and then establish a cost of replacing them at current prices. This needs to be done over a three year period with the Council able to make a minimum disclosure in 2011/12 and 2012/13 with full disclosure in 2013/14.

- Accounting for Academies – The net assets of Academy Schools would need to be removed from the Council’s balance sheet.
- Foundation and Voluntary-Aided Schools – for 2010/11 all Foundation and Voluntary-Aided Schools were manually removed from the Council’s accounts. In 2011/12 it would be necessary to ensure that these changes were embedded within the accounting and closedown arrangements.
- Internal Shared Services – The creation of the Internal Shared Services structure had brought with it a fundamental review of both the organisational structure and the financial systems. 2011/12 would be the first year closedown would be carried out using these new arrangements.

Progress against the matters raised by the external auditors in the Report to Management (ISA260) was explained by officers.

An assurance was sought from the auditors PwC that their work would not be affected by the Olympics. PwC advised that whilst they were involved in the Olympics none of the staff assigned to work with the Council were involved. Their concerns lay with ensuring that staff would be able to get from South London to Havering and contingency arrangements had been made.

The Committee **noted** the report.

## 26 **GOVERNANCE UPDATE**

The Committee were provided with a report which provided an update on arrangements to embed arrangements for Corporate Governance and on the production of the Annual Governance Statement. The report additionally provided an update on progress in addressing the issues raised in the 2010/11 Annual Governance Statement and the work of the officer Governance Group. An assurance was given that the framework and process to produce the Annual Governance Statement was fully embedded within the governance group’s annual timetable and agenda.

Membership of the Governance had been reviewed and invitations extended across the organisation to ensure all Directorates were appropriately engaged with the Corporate Governance Agenda. Over the next few months the Governance Group were planning to review:

- Organisational Performance against the six principles of good governance;
- Assurances from external bodies;

- Issues coming out of audit work; and
- Mini Assurance Statement templates.

The Committee **noted** the report.

## 27 **INTERNAL AUDIT PROGRESS REPORT**

The Internal Audit and Corporate Risk Manager submitted a report detailing progress in delivering the approved audit plan in quarter 2 of 2011/12. During the quarter ending 30 September 2011 40% of the Audit Plan had been completed against a target of 35%. Six assignments had been completed with ten still in progress awaiting final report stage.

Details of the six completed system audits were provided, with five receiving a substantial opinion and one, in respect of Complaints receiving a limited assurance. Having considered the written reports and the presentation by officers the Committee raised questions concerning the following reports:

- **NDR (Non Domestic Rates)** – In April 2008 the Council entered into a three year agreement for the London Borough of Barking and Dagenham (LBBDD) to discharge the Council's NDR function, with the option to extend the agreement annually. Whilst the day to day administration of the NDR function had been transferred to LBBDD, responsibility for a number of NDR processes remained with the Council. Any accounts which were in arrears at the time of the agreement, and where a liability order had been obtained, remained the responsibility of the Council to recover. At that time the value of the debt was approximately £3m across 572 accounts. By July 2011 £1.1m had been written off and £400,000 received in payment. This left the Council with a debt of £1.5m. The recovery of these accounts had not been undertaken in line with Council requirements.

Delays in debt recovery could result in the debts being written off on the basis that the Council was statute barred from recovering them. No recommendation had been made because management had already implemented a team to review and resolve arrears on both Council Tax and NDR accounts. Historically write off figures were not reported to the Debt Management Board or the Governance Board. This was now a corporate requirement.

Officers informed the Committee that at the time of the audit a list of Business Improvement District (BID) properties was not available. This prevented any reconciliation to ensure that charges had been properly applied to all accounts.

The Committee **requested** a further report to the next meeting so they could have an assurance that the matters identified were now being undertaken correctly.



- **BACS Application** – The audit had found that invoices which should be paid within 30 from the date that they were received had not been paid on time and were two weeks in arrears, The Committee considered this to be a serious issue and **asked** for a report back to the next meeting so they could have an assurance that a process was now in place to ensure invoices were paid in a timely manner.
- **Complaints** – The Committee were advised that all six recommendations raised as a result of the 2009/10 Complaints audit had either been fully or partly implemented. All of those recommendations would, however, need to be revisited given the implementation of the new CRM system and the staffing changes resulting from the introduction of ISS and recent restructures.

Although the current audit had resulted in only three recommendations one was of high priority and the system had received a limited assurance. The Committee expressed their concern as complaints handling was a fertile area for the Ombudsman. The current system did not meet the objectives of a Corporate Complaints system, i.e. it did not help the Council target resources. The system was very process driven and officers needed it to focus on quality and to ensure that staff and management were suitably and appropriately trained.

The Committee **requested** a report back to the next meeting so an assurance could be given that the weaknesses identified had been addressed by management.

In addition to the system audits the Team had undertaken audits of two schools. One school had received a substantial audit, the other a limited opinion. In the latter case a member asked to be informed whether that school employed a bursar. The Committee were of the opinion that there was a serious problem with the school which had received a limited opinion. They were advised by officers that Social Care and Learning were monitoring the situation and they expected all the recommendations to be implemented by the end of the financial year. If the school had not taken up the option of a Health Check by Social Care and Learning the audit team would be carrying out a follow up inspection next year.

The report was **noted**.

## 28 **FRAUD PROGRESS REPORT**

The Committee received a report on the work on the Benefit Investigation Section and the Internal Audit Fraud Team from 1<sup>st</sup> July to 30<sup>th</sup> September 2011. It was advised that the Council was still awaiting further clarity regarding the planned creation of a single Fraud Investigation Service, particularly with regards to funding arrangements.

During quarter two 243 referrals had been received, just under half coming from the Data Matching exercise. The current workload was 361 cases, with 48 cases being concluded during the quarter.

Eighty-five living together cases had been referred to the benefits investigation team during the quarter but only 6 had been concluded. The Committee were concerned that more cases were not being resolved. Officers advised that these types of case were extremely difficult to prove and required a great deal of officer time to reach a conclusion.

The Committee were of the opinion that the various tables presented did not provide sufficient information. The Committee asked that the information be provided in a different format providing details of cases resolved, cases being investigated and cases closed for a rolling year.

Details of several successful cases were provided for the Committee's information.

Officers reported on the work of the Housing Tenancy Fraud Team who were working with both Homes in Havering and other significant Registered Social Landlords in the borough. Seventy-five cases had been referred to the Team in the period Aug-Nov 2011 and 6 outcomes achieved.

The report was **noted**.

## 29 **DEMISE OF THE AUDIT COMMISSION**

Officers informed the Committee that a conference had been held in October to consider the findings of the Department of Communities and Local Government Select Committee into the demise of the Audit Commission. The Select Committee had expressed concern about the lack of competition given the dominance of the 'big 4' companies,

The Government had indicated they would be issuing a response to the report and subsequent consultation early in the New Year.

The Council's own external auditors would not be immediately affected by the proposed change so it would be some years before the Council would need to go out to tender. This was a concern because the Council have never before been out to tender for the External Auditors.

The Committee **noted** the oral report.

## 30 **TREASURY MANAGEMENT UPDATE - QUARTER 2 2011/12**

***The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to***

***them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.***

The Financial Services Manager presented the report that set out the context that was part of the Chartered Institute of Public Finance and Accountancy (CIPFA) revised Code of Practice for Treasury Management. The revised Code suggested that Members would be informed of Treasury Management activities at least twice a year or preferably quarterly. The report ensured the Council was embracing Best Practice in accordance with CIPFA's revised Code of Practice.

The details of the report were outlined to the Committee, including that the Council had remained within its prudential indicators limits.

The Committee were informed that in its current format the information provided in this report was out of date. The report was intended for the information of the Cabinet Member for Value and when he received it, it was current. The Cabinet Member indicated that if there were areas of concern he would ensure that these were brought to the Committee's attention.

The Committee **agreed** that in future the report should be an audit report of Treasury activity and should be specific and up to date.

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**Chairman**

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# AUDIT COMMITTEE

29 February 2012

**Subject Heading:**

**EXTERNAL AUDIT PLAN 2011/12**

**Report Author and contact details:**

Ciaran McLaughlin  
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PricewaterhouseCoopers

Mike Board  
Corporate Finance & Strategy Manager  
Tel: 01708 - 432217  
E-mail : [mike.board@havering.gov.uk](mailto:mike.board@havering.gov.uk)

**Policy context:**

To consider the External Audit plan.

**Financial summary:**

N/A

## REPORT OF THE CHIEF EXECUTIVE

### SUMMARY

The attached report, Appendix 1, advises the Audit Committee of the proposed External Audit Plan for 2011/12.

The Council's External Auditors, PricewaterhouseCoopers (PwC), will be at the meeting to present the report.

### RECOMMENDATIONS

1. To note the contents of the plan.
2. To raise any issues of concern and ask specific questions of officers or external auditors where required.

**REPORT DETAIL**

PricewaterhouseCoopers (PwC) are the current External Auditor for the London Borough of Havering, as appointed by the Audit Commission.

This plan has been developed with the assistance of Council officers and has been approved by the Chief Financial Officer.

The attached plan contains the following sections to outline the External Auditors planned approach:

- Introduction;
- Scope of audit;
- Audit approach;
- Key Risks
- Recent developments;
- Audit engagement team and independence;
- Communications plan;
- Timetable;
- Audit fees;
- Risk of fraud;
- Other engagement information.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

. The attached plan confirms the details of the proposed fee as follows:

The total audit fee from the 2010/11 plan was £378,010. The fee now proposed for the 2011/12 audit is £368,099. This represents a reduction of 2.6% compared to last years plan. In addition, a further charge of £76,875 will be made for the certification of claims and returns, which is 1.4% lower than that included in the 2010/11 plan. It is estimated that an additional £10,000 will be payable in connection with Oracle 12 testing. The total audit fee included the sum of £35,500 in connection with the pension fund audit.

A comparison of the proposed fee against the sums actually charged in 2010/11 is shown in the table below:

Element	2011/12 Fee £	2010/11 final Fee £
Audit of accounts	342,599	346,333
Certification of claims and returns	76,875	80,933
Pension Fund	35,500	35,500

The fee does not include any additional time required to audit grants, any additional work requested by the Council, and any additional work generated outside any assumptions on which the fee is based. As the letter indicates, the quoted fee is an estimate and may change to reflect the actual content of the audit plan.

There are no other 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 implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

London Borough of Havering 11/12 Audit Plan – PricewaterhouseCoopers

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# *London Borough of Havering*

## Draft External Audit Plan 2011/12

Government and  
Public Sector

6 February 2012



Audit Committee  
London Borough of Havering  
Town Hall  
Main Road  
RM1 3BB

6 February 2012

Ladies and Gentlemen

We are delighted to present to you our external Audit Plan 2011/12, which includes an analysis of our assessment of the key audit risks, our proposed audit strategy, audit and reporting timetable and other matters.

Discussion of our strategy with you enables our engagement team members to understand your concerns and agree on mutual needs and expectations to provide the highest level of service quality. Our approach is responsive to the many changes affecting the London Borough of Havering.

We would like to thank the Members and officers of the Council for their help in putting together this plan.

If you have any questions regarding matters in this document please do not hesitate to contact either Ciaran McLaughlin or Chris Hughes.

Yours faithfully

PricewaterhouseCoopers LLP

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# *Introduction*

## *Purpose*

This Audit Plan has been prepared to provide the officers and Members of London Borough of Havering with information about our responsibilities as external auditors and how we plan to discharge them.

We issued our audit fee letter setting out our indicative fees for 2011/12, on 19 April 2011, in accordance with the Audit Commission requirements. This plan sets out in more detail our proposed audit approach for the year.

Every Council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Council. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice.

Based upon our discussion with management and our understanding of the Council and the local government sector, we have noted in the plan recent developments and relevant significant risks. Our plan has been drawn up to consider the impact of these developments and risks.

## *Period covered by this plan*

This plan outlines our audit approach for the period 1 April 2011 to 31 March 2012, including the 2011/12 final accounts audit which we will undertake in July to September 2012.

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# *Scope of the audit*

We will conduct our audit in accordance with the relevant requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (“the Audit Code”) published by the Audit Commission.

## *Statement of Accounts*

We will conduct our audit of the Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) as published by the Auditing Practices Board. We will issue an opinion stating whether in our view:

- the Statement of Accounts provides a true and fair view and has been prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice;
- the information given in the Explanatory Foreword is consistent with the Statement of Accounts.

In our audit report on the Statement of Accounts, we are also required to report by exception where, in our view, the Annual Governance Statement does not comply with the requirements of “Delivering Good Governance in Local Government: Framework” published by CIPFA/SOLACE in June 2007 or is misleading or inconsistent with information we are aware of from our audit.

As part of our work on the Statement of Accounts statements we will examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating whether in our view they are consistent with the Statement of Accounts.

## *Value for Money conclusion*

Under the Audit Code we are also required to report on the London Borough of Havering’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

As in 2010/11, we will perform the work we consider necessary to allow us to give our statutory value for money conclusion based on the following two criteria specified by the Audit Commission:

- that the Council has proper arrangements in place for securing financial resilience; and
- that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

## *Pension Fund Accounts*

We prepare a separate Audit Plan for the work on the pension fund. This and other matters relating to the pension fund audit will be presented to those charged with governance for the pension fund, as well as to the officers and Members of the Council.

## *Other reporting requirements*

In addition, we are also required to consider:

- Whether we need to issue a report in the public interest under s8 of the Audit Commission Act 1998;
- Whether we need to make written recommendations for the consideration of the Council under s11(3) of the 1998 Act;
- Whether we believe that the Council or one of its officers:
  - is about to make or has made a decision which involves or would involve the authority incurring expenditure which is unlawful,

- is about to take or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful and we need to issue an advisory notice under s19A of the 1998 Act;
- Whether there is any item of account for which we need to make an application to the court under s17 of the 1998 Act for a declaration that the item is contrary to law; and
- Whether we need to apply under s24 of the 1998 Act for judicial review of any decision or failure to act by the Council which it is reasonable to believe would have an effect on the accounts.

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# *Audit approach*

## *Planning of our audit*

We have considered the Authority's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate these risks.

## *Materiality*

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes the consideration of the amount and nature of transactions.

For planning purposes, our overall materiality for the Council is set at 2% of gross expenditure in 2010/11. This will be updated on receipt of the 2011/12 draft accounts. Overall materiality represents the level at which we would consider qualifying our audit opinion.

However, ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We propose to treat misstatements less than £500k as being clearly trivial.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Authority. Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

# Key risks

## Significant and elevated audit risks

Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. Risks are categorised as follows:

- **Significant** Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
- **Elevated** Although not considered significant, the nature of the balance/area requires specific consideration.

## Financial Statements risks

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
Fraud -management override of controls	●	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the organisations policies, aims and objectives and to manage the risks facing it; this includes the risk of fraud.</p> <p>Our audit is designed to provide reasonable assurance that the 2011/12 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.</p> <p>We consider the manipulation of financial results through the use of journals and management estimates, such accruals as significant fraud risks.</p>	<p>We will understand and evaluate controls relating to income and expenditure recognition and:</p> <ul style="list-style-type: none"> <li>● seek to place reliance on internal audit work on key controls; and</li> <li>● reperform a sample of tests carried out by internal audit around key controls to confirm they are operating effectively.</li> </ul> <p>We will consider the accounting policies adopted by the Council and subject income and expenditure to the appropriate level of testing to identify any material misstatement.</p> <p>We will carry out cut off testing on expenditure at year end to ensure that expenditure has been recorded in the correct financial year.</p> <p>We will test expenditure invoices to ensure they have been correctly classified in the financial statements as either revenue or capital expenditure.</p> <p>We will also carry out the required certification work in respect of the Housing and Council Tax Benefit Subsidy for the year.</p> <p>We also use our work on income and expenditure recognition set out below to help address the risk of material misstatement caused by management override of controls.</p> <p>We will perform 'unpredictable' audit procedures in addition to those set out above.</p>



Risk	Significant / elevated risk	Reason for risk identification	Audit approach
Fraud - Recognition of income and expenditure	●	<p>We consider the risk of material misstatement in relation to revenue recognition and because of the nature of local authorities we consider the risk of material misstatement in relation to expenditure recognition as well.</p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported income and expenditure position.</p> <p>Due to their nature, we do not consider the receipt of council tax, national non domestic rates, housing rent, financing income or revenue support grant to be a significant risk and these income streams are therefore excluded from this category.</p> <p>The Council is likely to be experiencing increased pressures on many of its budgets as a result of the recent economic conditions. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.</p>	<p>We will obtain an understanding of the controls over the key revenue and expenditure streams.</p> <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk, including carrying out cut-off testing on expenditure at year end to ensure that expenditure has been recorded in the correct financial year.</p> <p>We will carry out certification of government grants in accordance with the Audit Commission's requirements, including the Housing and Council Tax Benefits return.</p>
New financial system – Oracle E-suite	●	<p>The Council implemented a new financial system – Oracle 12 – in April 2011.</p> <p>As well as the risk that that data is mapped inaccurately or incompletely from the old system to the new system, there is a risk that internal control processes may not operate effectively in the period immediately after the transition.</p>	<p>We will undertake the following work to address this risk:</p> <ol style="list-style-type: none"> <li>1 Understand &amp; evaluate the controls in place around the migration, eg. was there a project plan in place, were the appropriate migration validation tests carried out.</li> <li>2 Understand the changes to and update our understanding of business process controls via walkthroughs.</li> <li>3 Understand the changes to the IT environment.</li> <li>4 Test the migration of data to ensure completeness and accuracy of transferred data. We will enquire of management and document the controls in place to ensure the complete and accurate transfer of data.</li> <li>5 Test the opening Trial Balance (TB) on the upgraded system to ensure that it agrees to the closing TB on the old system.</li> <li>6 Review Internal Audit's work in relation to the controls in the new system and consider the impact on our audit approach of any issues arising.</li> </ol>

<b>Risk</b>	<b>Significant / elevated risk</b>	<b>Reason for risk identification</b>	<b>Audit approach</b>
Depreciation expense may not be corrected treated in the accounts	●	In the 2010/11 ISA260 report to Those Charged With Governance, we reported the Council had not applied component depreciation to assets that had been revalued or subject to capital expenditure during the year. This is an area of focus for our audit in the 2011/12 year.	We will audit the Council's approach to the application of component depreciation in the 2011/12 accounts.

### *Other Audit Code responsibilities risks*

<b>Risk</b>	<b>Significant / elevated risk</b>	<b>Reason for risk identification</b>	<b>Audit approach</b>
Savings Plans	●	<p>The July 2011 Cabinet report detailed a budget gap of £20.3m up to and including the 2014/15 financial year, with a savings plan of £16m.</p> <p>Given the current economic climate and the uncertainties regarding the impact of planned changes to the Business Rates and Benefits regimes, there is a risk that saving plans may not be robust.</p>	<p>We will consider the systems and processes the Council has put in place to manage effectively its financial risks and opportunities, and to secure a stable financial position.</p> <p>We will update our understanding of the Council's budget monitoring process.</p> <p>We will update our understanding of how the Council monitors the achievement of its savings plans.</p>

# Recent developments

## Accounting developments

### *New Requirements in the Code of Accounting Practice*

The Code of Practice on Local Authority Accounting in the United Kingdom for 2011/12 was published in spring 2011 setting out the following substantial changes in accounting requirements for local authorities:

- For the first time in the 2011/12 Statement of Accounts, the Code requires authorities to present information about the **heritage assets** that they hold. Heritage assets are those that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Typical examples include historic buildings, civic regalia, museum and gallery collections and recordings of historic events. Where it is practicable to obtain a valuation (at a cost commensurate with the benefits to users of the Statement of Accounts), the Code now requires material amounts of heritage assets to be carried in the Balance Sheet at that valuation.

Where it is not practicable to obtain a valuation and there is no record of their historical cost, assets are to be omitted from the Balance Sheet. However, in these circumstances notes will be required explaining the significance and nature of those assets that are not reported in the Balance Sheet.

The Council will therefore need to assess whether it has any substantial portfolio of heritage assets. If so, it will determine whether an appropriate and relevant valuation can be made for the items in the portfolio and then obtain any valuations required. New notes to the accounts will also need to be prepared setting out the Council's policy for the acquisition, preservation, management and disposal of heritage assets.

- There is a new requirement for a disclosure note setting out the number of **exit packages** agreed, analysed between compulsory redundancies and other departures and presented in £20,000 bands up to £100,000 and £50,000 bands above £100,000. The total cost of packages in each band must also be disclosed. (There will be scope to combine bands if this is necessary to ensure that individual packages cannot be identified.)
- The **related parties** disclosures have been simplified where the Council has transactions with government departments and agencies, NHS bodies and other local authorities, limiting disclosure to individually or collectively significant transactions.

### *Carbon Reduction Commitment*

2011/12 is the first year that the Council is required under the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme to purchase and surrender CRC allowances in proportion to the emissions it makes during the year. Although the surrender in relation to 2011/12 will take place in 2012/13, the Council will need to account at 31 March 2012 for the consequences of the emissions it has made in 2011/12.

When this report was issued there was no specific guidance available to local authorities as to how CRC obligations should be reflected in the Statement of Accounts. However, it is probable that provisions will need to be made at 31 March 2012 in relation to any costs likely to be incurred in meeting obligations relating to 2011/12 emissions.

### *Housing Revenue Account Self-Financing*

The Housing Revenue Account Subsidy system is to be replaced by a devolved system of council housing finance in 2013/14. The devolved system will involve each housing authority taking on a level of HRA debt determined by the Government which will generate revenue charges that, taken together with other revenue expenditure, should be supportable from rental income without need for government support.

HRA debt levels are due to be adjusted on 28 March 2012 by authorities either making a payment to the Government (to increase their existing level) or having Public Works Loan Board loans settled by the Government (to reduce their existing level). The Council is expecting to make a payment to the Secretary of State on or before 28 March 2012, to the value of £165,248,000.

The Council will need to recognise the implications of the payment in the HRA financial statements for 2011/12 and the 31 March 2012 Balance Sheet and provide relevant explanatory notes about the preparations for self-financing represented by the payment.

## *Developments in auditing*

### *Highways Infrastructure*

Arrangements will not be confirmed by the Audit Commission until after the end of the financial year, but it is possible that the scope of our opinion on the Whole of Government Accounts return may be extended to include aspects of the information that the Council might be required to provide on the depreciated replacement cost of highways infrastructure assets. We will advise the Council promptly of any new responsibilities that might be confirmed once Commission arrangements are finalised.

# Audit engagement team and independence

Audit engagement team	Responsibilities
Engagement Relationship Partner Julian Rickett 020 7804 0436 Julian.c.rickett@uk.pwc.com	Appointed Auditor is responsible for ensuring the audit is delivered in line with the Code of Audit Practice and ISAs. Also responsible for approving the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions.
Engagement Director Ciaran McLaughlin 020 7213 5253 Ciaran.t.mclaughlin@uk.pwc.com	Responsible for independently delivering the audit in line with the Code of Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report, Annual Audit Letter and the quality of outputs. Also responsible for liaison with the Chief Executive and Members.
Senior Audit Manager: Accounts and Use of Resources Chris Hughes 020 7804 3392 Chris.hughes@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, including the accounts work and use of resources work, ensuring delivery to timetable, and overall review of audit outputs.
Manager: Accounts Ian Kidd Mobile: 07983 703 371 Ian.m.kidd@uk.pwc.com	Manager on the assignment responsible for the control of the audit engagement, including the accounts work and use of resources work, ensuring delivery to timetable, and overall review of audit outputs.
Senior Associate: Accounts Amit Patel Mobile: 0771521 1544 Amit.m.patel@uk.pwc.com	Senior Associate on the assignment responsible for managing our accounts and work, including the audit of the statement of accounts and first point of contact during the final audit.

## Our team members

It is our intention that wherever possible, our staff who work on the London Borough of Havering audit each year, develop effective relationships and gain an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

## Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. We are undertaking a piece of work for management to review the controls for the key processes supported by Oracle to identify where controls are not enabled and hence those processes relying on mitigating manual activities. There are no matters in relation to this work which we perceive may impact our independence and objectivity of the audit team.

## Relationships and investments

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

*Independence conclusion*

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

# Communications plan

ISA (UK&I) 260 (revised) 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance (the Audit Committee) the form and timing of communications with them. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Audit Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit Planning	Audit Fee letter	April 2011
	Audit Plan	February 2012
Audit findings	<p><b>ISA (UK&amp;I) 260 report incorporating specific reporting requirements, including:</b></p> <ul style="list-style-type: none"> <li>• Expected modifications to the auditors' report</li> <li>• Uncorrected misstatements i.e. those misstatements identified as part of the audit that management have chosen not to adjust</li> <li>• Significant deficiencies in internal control identified during the audit</li> <li>• Views about the qualitative aspects of the entity's accounting practices and financial reporting</li> <li>• Any significant difficulties encountered by us during the audit</li> <li>• Summary of findings from our use of resources work to support our VFM conclusion.</li> <li>• Matters specifically required by other ISAs (UK&amp;I) to be communicated to those charged with governance</li> <li>• Final draft of representation letter</li> <li>• Any other audit matters of governance interest</li> </ul>	September 2012
Audit reports	Financial statements including Use of Resources	September 2012
	Pension Fund Annual Report	September 2012
Other public reports	Annual audit letter A brief summary report of our work, produced for Members and to be available to the public.	November/ December 2012
	Annual certification report to those charged with governance Report detailing the value of each certified claim, details of any amendments and qualifications, certification fees charged and a discussion of issues arising, including recommendations for improvement where necessary.	February 2013

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# Timetable

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<b>Month/Deadline</b>	<b>Audit activity</b>
29 February 2012	Review of Draft External Audit Plan by the Audit Committee
March 2012	Interim audit
July to August 2012	Statement of Accounts audit
September 2012 (date to be determined)	Final version of ISA (UK&I) 260 Report to those Charged with Governance
30 September 2012	Deadline for issue of: <ul style="list-style-type: none"><li>• Audit Opinion on the Statement of Accounts;</li><li>• Value for Money Conclusion; and</li><li>• Opinion on the Whole of Government Accounts return</li></ul>
30 November 2012 (to be confirmed)	Deadline for issue of Annual Audit Letter

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# *Audit fees*

The Audit Commission has provided audit fee levels for local government bodies for the 2011/12 financial year, based on the fee for 2010/11 adjusted for the reductions set out in the final work programmes and scales of fees documents available on the Commission's website. The fee scale for the audit of the Council, including the Pension Fund, is £368,099.

The scale fee takes into account assessments we made in 2010/11 about audit risk and complexity, and the Commission expects variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2010/11 fee.

Our assessments about audit risk and complexity have been based on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the work of internal audit in respect of our value for money conclusion:
- No significant changes being made by the Audit Commission to the value for money criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2012;
- Our value for money conclusion and accounts opinion being unqualified.

The additional risk not taken into account in the setting of the 2011/12 fee was the new financial system and the work we would need to undertake in relation to it.

As noted above on Page 8, we are undertaking a piece of work for management to review the controls for the key processes supported by Oracle to identify where controls are not enabled and hence those processes relying on mitigating manual activities. This piece of work is outside the scope of our audit fee but where possible we will seek to utilise the outcomes of the work to mitigate the quantum of any additional fees.

Our current estimate of the additional fees we will need to charge in relation to the new Oracle system is £10,000, giving a total estimated audit fee of £378,099.

The fee for grants claims in 2011/12 is estimated at £76,875. This was the fee charged in 2010/11.

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# *Risk of fraud*

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## *Auditors' responsibility*

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## *Management's responsibility*

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## *Responsibility of the Audit Committee*

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to ensure any alleged or suspected instances of fraud brought to your attention is investigated appropriately.

## Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

*Incentive / pressure*

Why  
commit  
fraud?

### **Opportunity**

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

### **Rationalisation/attitude**

Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

## *Your views on fraud*

We enquire of the Audit Committee:

- Whether you have knowledge of fraud; actual, suspected or alleged, including those involving management?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud; actual, suspected or alleged?

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# *Other engagement information*

The Audit Commission appoint us as auditors to the London Borough of Havering and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are four further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

## *Electronic communication*

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, Members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

## *Access to audit working papers*

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

## *Quality arrangements*

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look

into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

*Events arising between signature of accounts and their publication*

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.



This document has been prepared only for [xxxx] and solely for the purpose and on the terms agreed with [xxxx]. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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# AUDIT COMMITTEE

DATE: 29 February 2012

**Subject Heading:**

**2010/2011 AUDIT REPORT OF GRANT  
CLAIMS AND RETURNS**

**Report Author and contact details:**

Lilian Thomas, Senior Accountant

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**Policy context:**

The Audit Committee are required to review the outcome of the Authority's grant claims process for audited grant claims relating to the financial year 2010/2011

**Financial summary:**

No direct financial implications to report.

**The subject matter of this report deals with the following Council Objectives**

Clean, safe and green borough	□
Excellence in education and learning	□
Opportunities for all through economic, social and cultural activity	X
Value and enhance the life of every individual	X
High customer satisfaction and a stable council tax	X

## SUMMARY

The 2010/11 audit process was completed by the Audit Commission's representative, PricewaterhouseCoopers.

This report updates the Committee of the position regarding the final version of the 2010/2011 audit report of grant claims and returns and subsequent Action Plan for the 2011/12 process.

The 2011/2012 Action Plan can be found at Appendix 1. The 2010/2011 Action Plan and Progress made can be found at Appendix 2 and the certification report from PricewaterhouseCoopers can be found at Appendix 3.

## RECOMMENDATIONS

The Committee is recommended to:

1. review the outcomes of the 2010/2011 grant claims process
2. raise any issues of concern with officers on specific grant claims
3. note the year-on-year grant claims performance
4. otherwise note the report.

## REPORT DETAIL

### **Overall summary of the 2010/2011 audited grant claims compared to 2009/2010.**

#### **1. Performance**

Grant Funding Body conditions and guidelines determine whether a grant requires external audit. The Audit Commission publishes an index of grants over £125k that require audit annually. Most Specific Grants are subject to Chief Finance Officer Certification only.

There were 10 grants over £125k that required audit certification, in 2010/11, as there were in 2009/2010.

1.2 All 10 claims due for 2010/2011 have now been certified.

1.3 There was 1 (10%) amended claim for 2010/11, compared to 4 (40%) amended in 2009/2010



- 1.4 1 (10%) claim was qualified for 2010/2011, as there was in 2009/2010.

The grant claim qualified was BEN 01 - Housing Benefits and Council Tax. This was also qualified in previous years; however this is a very complex grant to administer and is also qualified in other London boroughs.

The agreed recommendation regarding the above can be found in the 2011/2012 Action Plan (see Appendix 1).

- 1.5 All 10 (100%) claims for 2010/2011 achieved their Audit Commission certification as did all 10 for 2009/2010.

	2010/2011		2009/2010	
	No.	%	No.	%
Submitted by due date	10	100	10	100
<b>Total claims</b>	<b>10</b>	<b>100</b>	<b>10</b>	<b>100</b>

Amended claims	1	10	4	40
Claims not amended	9	90	6	60
<b>Total claims</b>	<b>10</b>	<b>100</b>	<b>10</b>	<b>100</b>

Qualified claims	1	10	1	10
Unqualified claims	9	90	9	90
<b>Total claims</b>	<b>10</b>	<b>100</b>	<b>10</b>	<b>100</b>

Certified by deadline	10	100	10	100
Uncertified by deadline	0	0	0	0
<b>Total claims</b>	<b>10</b>	<b>100</b>	<b>10</b>	<b>100</b>

## 2. Recommendations

- 2.1 PricewaterhouseCoopers identified 5 recommendations to address in the 2010/2011 Action Plan. All 5 recommendations were implemented during 2010/2011. (see Appendix 2)

- 2.2 The 2011/2012 Recommendations/Action Plan is attached as appendix 1 and contains 2 issues identified during the 2010/2011 audit process for implementation during 2011/2012.

### 3. Audit Fees

3.1 The following table records audit fees paid each year:

Paid in 2008/2009 re 2007/2008 audits	Paid in 2009/2010 re 2008/2009 audits	Paid in 2010/2011 re 2009/2010 audits	Paid in 2011/2012 re 2010/2011 audits
£98,000	£89,000	£81,000	£77,000
No of Grant Claims Audited 8	No of Grant Claims Audited 10	No of Claims Audited 10	No of Claims Audited 10

3.2 PwC have been the Council's appointed auditor for grant claims since 2008/2009. Audit fees have decreased year on year. The good standard of working papers continues to contribute to the consistent decrease in audit fees, which for 2010/11, have decreased by 5% when compared to the 2009/2010 audit fees.

3.3 The annual Audit Commission index for 2011/2012 has not yet been received although it is anticipated that 9 grants shall require Audit Commission certification for the period.

#### 4.4. In Year Achievements

- During 2011/2012 both service and finance staff are been supported by one to one grants training upon request.
- The Grant Management Protocol can be found on the Intranet.

#### 4.5. Future Planned Developments

- Further training, where required shall be delivered before the 2011/2012 audit process starts.

## **IMPLICATIONS AND RISKS**

### **Financial Implications and risks:**

For 2010/2011 specific grant claims provided £201.9 m in funding for the Council and poor performance in submitting claims puts income at risk and can effect the Council's reputation with funding bodies.

Qualified claims may lead to the Council having to repay grant income and delays leading to late certification of claims can result in the suspension of grant income.

These outcomes are mitigated by having in place, a robust system of training, support and review. This ensures that all grant claims are robustly examined before submission and that any queries are taken back through a consistent route.

### **Legal implications and risks**

### **Human Resources implications and risks**

There are no apparent human resource implications arising from the noting of this report.

### **Equalities and Social Inclusion implications**

None arising directly from this report.

## **BACKGROUND PAPERS**

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Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
Housing and council tax benefits subsidy (BEN 01)	Some minor issues were noted in testing of the BEN 01 claim: <ul style="list-style-type: none"> <li>• Incorrect tax credit rates applied to two cases out of twenty tested in our initial sample</li> <li>• Incorrect classification of one claimant as a “modified scheme”</li> <li>• Minor issues with the production of the draft claim form</li> </ul>	MEDIUM While the issues noted were minor in the context of the complex arrangements for the BEN01 claim, we recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.	Agreed Issues arising from the audit of the BEN01 claim will continue to be incorporated into the Benefit Officer training programme.	<b>Responsible Officer</b> Benefits Manager/Head of Customer Services <b>Timescale</b> On-going
HRA Subsidy Base Data Return (HOU02)	During testing we found six instances where Council dwellings had been wrongly classified by type. For example, being classified as medium rise rather than low rise. Identified errors were amended by the Authority.	MEDIUM The Council should review the specific issues noted during the certification and consider whether further work should be carried out to ensure that dwellings are correctly classified.	Partially Agreed From 1 April 2012 there will no longer be the need for auditors to certify the stock for subsidy purposes. The last return was in August 2011. However it will be good practice in the future to maintain the classification. HiH will continue to sample check the stock analysis as and when the properties are surveyed for decent homes works. However it is not deemed value for money to undertake a whole stock check.	<b>Responsible Officer</b> HIH – Director of Finance and Corporate Services <b>Timescale:</b> On-going

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Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Status
Housing and council tax benefits subsidy (BEN 01)	<p>Errors were identified in the calculation of claimant’s weekly income for nine cases sampled.</p> <p>This resulted in the Authority overpaying benefits totalling £179.49.</p>	<p><b>HIGH</b></p> <p>We recommend that refresher training is provided to benefits staff to ensure that they are fully aware of the process for calculating claimant’s weekly income.</p> <p>This should be reviewed as part of the spot checks by management.</p>	<p><b>Agreed</b></p> <p>Refresher took place for all Benefit staff in December 2010.</p> <p>Reviews are undertaken as part of the random claim processing check undertaken by management.</p>	<p><b>Responsible Officer</b> Benefits Manager/Head of Exchequer Services</p> <p><b>Timescale</b> 15/12/2010</p>	Implemented
National Non Domestic Rates Return (LA01)	<p>The CI requires that the NNDR3 must include all information received up to the date that the contribution is calculated, if it is reasonably practical to do so.</p> <p>This year the Authority included all information received up to 31 January (i.e. as at 27 January 2010) but did not include information received after that date which would impact the detail at 31 January 2010.</p>	<p><b>MEDIUM</b></p> <p>We understand that new data is received on a weekly basis. The Authority should consider whether it is feasible to ensure that all information is included up to the reporting date.</p>	<p><b>Agreed</b></p> <p>Where possible we try to complete as many schedules as possible before year end but the major priority through February/March will always be annual billing.</p> <p>This year there were 3 major changes to implement – 2010 Revaluation, Cross Rail and Deferred Payments – which required additional systems testing and also</p>	<p><b>Responsible Officer</b> Revenues Manager/Head of Exchequer Services</p> <p><b>Timescale</b> 31/01/2011</p>	Implemented

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Status
			generated a significant increase in queries from ratepayers and managing agents. Obviously, this reduced the amount of time available to work on the schedules.		
HRA Subsidy Base Data Return (HOU02)	During testing we found nine instances where Council dwellings had been wrongly classified by type, for example they were classified as low rise rather than high rise. Identified errors were amended by the Authority.	<b>MEDIUM</b> The Council should review the data held on dwellings to ensure classifications are correctly recorded.	<b>Agreed</b> All the errors were related to acquired properties. These were all flats above shops and a process has been put in place where Homes in Havering will check all acquired properties, prior to inclusion in the relevant base data return.  Identified errors were checked and rectified on the Anite system. Moving forward, there will be an ongoing process as described.	<b>Responsible Officer</b> HIH – Director of Finance and Corporate Services <b>Timescale</b> February 2011 onwards	Partially implemented (no issues were noted in 2010/11 in respect of acquired properties) – Refer to 2010/11 Management Action Plan
Sure Start, Early Years and Childcare Grant (EYC02)	The monthly budget monitoring of expenditure to ensure appropriate allocation of the grant to capital and revenue headings is not formally documented.	<b>LOW</b> We recommend that the Council adequately document the monitoring process for Sure Start expenditure, to enable us to validate the operation of this control and gain assurance from it.	<b>Agreed</b> Minutes of Budget Monitoring meetings with spending managers are currently prepared with Action Points. These Minutes will be expanded to provide further detail of discussions and to include projected over/under spending as	<b>Responsible Officer</b> Early Years Finance Manager/Head of Learning and Achievement/Head of Children and Young People <b>Timescale</b> 17 Feb 2011	Implemented



Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Status
		This would reduce the level of testing we would need to perform.	well as action to be taken on these.		
Teachers Pensions Return PENo5	Testing identified two instances where there was insufficient evidence to show that a teacher had 'opted in' (pre-2007) or been given the option to 'opt out' (post 2007) of the pension scheme.	<b>LOW</b> Sufficient documentation should be held by the Authority and made readily available to auditors as evidence that the teacher is correctly included/excluded from the Teachers' Pension scheme.	<b>Agreed</b> The HR procedure information is issued to teachers at the commencement of their employment advising them of the conditions of the Teacher's Pension scheme. The possibility that they had not kept a copy of this on a few cases presents a minimal risk. All are automatically put into the scheme they do not have to opt in.  The opt out is very minimal risk. The HR procedure is to notify starters of the terms of the scheme. All new starters will be aware from their payslip, that contributions are being taken, if they did not want to be in the scheme they can advise HR of that fact. They would then be advised of the appropriate procedure to follow.  I will remind HR of the requirement to advise teachers of the terms of the scheme.	<b>Responsible Officer</b>  Payroll Manager/Head of Exchequer Services  <b>Timescale:</b> Reminder will be issued February 2011.	Implemented

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# *Grants Certification Report (2010/11)*

## Report to those charged with governance

Certification Report to  
those charged with  
governance 2010/11

February 2012

# Introduction

## *Scope of work*

Grant-paying bodies pay billions of pounds in grants and subsidies each year to local authorities and often require certification, by an appropriately qualified auditor, of the claims and returns submitted to them. Certification work is not an audit but a different kind of assurance engagement. This involves applying prescribed tests, as set out within Certification Instructions (“CIs”) issued to us by the Audit Commission, which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

The Audit Commission is required by law to make certification arrangements for grant-paying bodies when requested to do so and sets thresholds for claim and return certification, as well as the prescribed tests which we as local government appointed auditors must undertake. We certify claims and returns as they arise throughout the year to meet the certified claim/return submission deadlines set by grant-paying bodies.

We consider the results of certification work when performing other Code of Audit Practice work at the Authority, including for our conclusions on the financial statements and on value for money.

## *Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies*

In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body and on the Audit Commission’s website. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

## *Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns*

In November 2010 the Audit Commission updated the ‘Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns’. This is available from the Audit Commission’s website.

The purpose of this statement is to summarise the Audit Commission’s framework for making certification arrangements and to assist grant-paying bodies, authorities, and the Audit Commission’s appointed auditors by summarising their respective responsibilities and explaining where their different responsibilities begin and end.

## *Executive Summary*

During the period June to December 2011 we certified 10 claims and returns worth a total of £201.9m. Of these, one claim (Housing and Council Tax Benefits claim) was amended following certification work and was the only claim requiring a qualification letter.

None of the adjustments had a material impact on the Council’s financial position, and were minor in the overall context of the claim. We set out further details in the attached report.

We ask the Audit Committee to consider:

- the adequacy of the proposed management action plan for 2010/11 set out in Appendix B, and;
- the adequacy of progress made in implementing the prior year action plan set out in Appendix C.

# Results of certification work

## Claims and returns certified

A summary of the claims and returns certified during the year is set out below. All deadlines for submission of certified claims/returns were met.

### Claims and returns certified in 2010/11

CI Reference	Title	Form	Original Value (£)	Final Value (£)	Amendment (£)	Qualification
BEN01	Housing and Council Tax Benefits	MPF720A	96,711,801	96,710,859	942	Yes
CFB06	Pooling of Capital Receipts	Audit 2010-11	2,677,359	2,677,359	-	No
EYC02	Sure Start, Early Years and Childcare	AFS 2010/11	8,392,812	8,392,812	-	No
HOU01	HRA Subsidy	1004	10,601,568	10,601,568	-	No
HOU02	HRA Subsidy Base Data	12B2	-	-	-	No
HOU21	Disabled Facilities Grant	DFG 2010D3	574,000	574,000	-	No
LA01	National Non Domestic Rates Return	NNDR3	63,972,947.46	63,972,947.46	-	No
PEN05	Teachers Pensions Return	TR17	16,732,264	16,732,264	-	No
RG31	Wildpsace: Rainham to the River	N/A	1,742,207	1,742,207	-	No
RG31	2010/11 Public Realm	N/A	499,997	499,997	-	No

## Issues arising

The Housing and Council Tax Benefits claim required amendment during the audit process, and was also subject to qualification letter. The amendments were not material in respect of the Council's accounts, and indeed were very minor in the context of a £96.7m claim.

The issues we noted during our certification work, and management responses to those issues, is set out in Appendix B.

**Weaknesses in internal control**

We did not identify any significant weaknesses in internal controls as a result of our certification work.

***Prior year recommendations***

We have reviewed progress made in implementing the certification action plan for 2009/10. Details can be found in Appendix C. Overall the Authority has made good progress and all recommendations have been addressed.

# Appendix A

## Certification Fees

The fees for certification of each claim/return are set out below:

CI Ref	Claim/Return Title	2010/11 (£)	2009/10 (£)	Comment
BEN01	Housing and Council Tax Benefits	38,000	41,921	The decrease in costs due to Officers at Havering assisting us during the certification process so that we were able to carry out the certification more efficiently in previous years.
CFB06	Pooling of Capital Receipts	3,995	3,995	
EYC02	Sure Start, Early Years and Childcare	5,700	5,733	
HOU01	HRA Subsidy	6,280	6,280	
HOU02	HRA Subsidy Base Data	6,460	6,460	
HOU21	Disabled Facilities Grant	1,820	1,827	
LA01	National Non Domestic Rates Return	6,025	6,025	
PEN05	Teachers Pensions Return	2,545	2,545	
RG31	Wildspace:Rainham to the River	3,760	4,033	
RG31	2010/11 Rainham Public Realm	2,290	n/a	
RG31	Childcare Affordability Programme	n/a	2,114	
<b>Total</b>		<b>76,875</b>	<b>80,933</b>	

# Appendix B

## 2011/12 Management Action Plan

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
Housing and council tax benefits subsidy (BEN 01)	<p>Some minor issues were noted in testing of the BEN 01 claim:</p> <p>Incorrect tax credit rates applied to two cases out of twenty tested in our initial sample</p> <p>Incorrect classification of one claimant as a “modified scheme”</p> <p>Minor issues with the production of the draft claim form</p>	<p><b>MEDIUM</b></p> <p>While the issues noted were minor in the context of the complex arrangements for the BEN01 claim, we recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future</p>	<p><b>Agreed</b></p> <p>Issues arising from the audit of the BEN01 claim will continue to be incorporated into the Benefit Officer training programme.</p>	<p><b>Responsible Officer</b></p> <p>Benefits Manager/Head of Customer Services</p> <p><b>Timescale</b></p> <p>On-going</p>
HRA Subsidy Base Data Return (HOU02)	<p>During testing we found six instances where Council dwellings had been wrongly classified by type, for example they were classified as medium rise rather than low rise.</p> <p>Identified errors were amended by the Authority.</p>	<p><b>LOW</b></p> <p>The Council should review the specific issues noted during the certification and consider whether further work should be carried out to ensure that dwellings are correctly classified.</p>	<p><b>Partially Agreed</b></p> <p>From 1 April 2012 there may no longer be the need for auditors to certify the stock for subsidy purposes. The last return was in August 2011.</p> <p>It will be good practice in the future to maintain the classification.</p> <p>HiH will continue to sample check the stock analysis as and when the properties are surveyed for decent homes works. However it is not deemed value for money to undertake a whole stock check.</p>	<p><b>Responsible Officer</b></p> <p>HiH – Director of Finance and Corporate Services</p> <p><b>Timescale</b></p> <p>On-going</p>



# Appendix C

## 2010/11 Management Action Plan – Progress made

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Status
Housing and council tax benefits subsidy (BEN 01)	<p>Errors were identified in the calculation of claimant's weekly income for nine cases sampled.</p> <p>This resulted in the Authority overpaying benefits totalling £179.49.</p>	<p><b>HIGH</b></p> <p>We recommend that refresher training is provided to benefits staff to ensure that they are fully aware of the process for calculating claimant's weekly income.</p> <p>This should be reviewed as part of the spot checks by management.</p>	<p><b>Agreed</b></p> <p>Refresher took place for all Benefit staff in December 2010.</p> <p>Reviews are undertaken as part of the random claim processing check undertaken by management.</p>	<p><b>Responsible Officer</b></p> <p>Benefits Manager/Head of Exchequer Services</p> <p><b>Timescale</b></p> <p>15/12/2010</p>	Implemented
National Non Domestic Rates Return (LA01)	<p>The CI requires that the NNDR3 must include all information received up to the date that the contribution is calculated, if it is reasonably practical to do so.</p> <p>This year the Authority included all information received up to 31 January (i.e. as at 27 January 2010) but did not include information received after that date which would impact the detail at 31 January 2010.</p>	<p><b>MEDIUM</b></p> <p>We understand that new data is received on a weekly basis. The Authority should consider whether it is feasible to ensure that all information is included up to the reporting date.</p>	<p><b>Agreed</b></p> <p>Where possible we try to complete as many schedules as possible before year end but the major priority through February/March will always be annual billing.</p> <p>This year there were 3 major changes to implement – 2010 Revaluation, Cross Rail and Deferred Payments – which required additional systems testing and also generated a significant increase in queries from ratepayers and managing agents. Obviously, this reduced the amount of time available to work on the schedules.</p>	<p><b>Responsible Officer</b></p> <p>Revenues Manager/Head of Exchequer Services</p> <p><b>Timescale</b></p> <p>31/01/2011</p>	Implemented
HRA Subsidy Base Data Return (HOU02)	<p>During testing we found nine instances where Council dwellings had been wrongly classified by type, for example they were classified as low rise rather than high rise.</p> <p>Identified errors</p>	<p><b>MEDIUM</b></p> <p>The Council should review the data held on dwellings to ensure classifications are correctly recorded.</p>	<p><b>Agreed</b></p> <p>All the errors were related to acquired properties. These were all flats above shops and a process has been put in place where Homes in Havering will check all acquired properties, prior to inclusion in the relevant</p>	<p><b>Responsible Officer</b></p> <p>HIH – Director of Finance and Corporate Services</p> <p><b>Timescale</b></p> <p>February 2011 onwards</p>	<p>Partially implemented (no issues were noted in 2010/11 in respect of acquired properties)</p> <p>– Refer to 2010/11 Management</p>

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)	Status
	were amended by the Authority.		base data return.  Identified errors were checked and rectified on the Anite system. Moving forward, there will be an ongoing process as described.		Action Plan
Sure Start, Early Years and Childcare Grant (EYCo2)	The monthly budget monitoring of expenditure to ensure appropriate allocation of the grant to capital and revenue headings is not formally documented.	<b>LOW</b>  We recommend that the Council adequately document the monitoring process for Sure Start expenditure, to enable us to validate the operation of this control and gain assurance from it. This would reduce the level of testing we would need to perform.	<b>Agreed</b>  Minutes of Budget Monitoring meetings with spending managers are currently prepared with Action Points. These Minutes will be expanded to provide further detail of discussions and to include projected over/under spending as well as action to be taken on these.	<b>Responsible Officer</b>  Early Years Finance Manager/Head of Learning and Achievement/Head of Children and Young People  <b>Timescale</b>  17 Feb 2011	Implemented
Teachers' Pensions Return (PENo5)	Our testing identified two instances where there was insufficient evidence to show that a teacher had opted in(pre-2007) or been given the option to opt out (post-2007) of the pension scheme.	<b>LOW</b>  Sufficient documentation should be held by the Authority and made readily available to auditors as evidence that the teacher is correctly included / excluded from the Teachers' Pension scheme.	<b>Agreed</b>  The HR procedure information is issued to teachers at the commencement of their employment advising them of the conditions of the Teachers' Pension scheme. The possibility that they had not kept a copy of this on a few cases presents a minimal risk. All are automatically put into the scheme they do not have to opt in.  The opt out is very minimal risk. The HR procedure is to notify starters of the terms of the scheme. All new starters will be aware from their payslip, that contributions are being taken, if they did not want to be in the scheme they can advise HR of that fact. They would then be advised of the appropriate procedure to follow.  I will remind HR of the requirement to advise teachers of the terms of the scheme.	<b>Responsible Officer</b>  Payroll Manager/ Head of Exchequer Services  <b>Timescale</b>  Feb 2011	Implemented



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# AUDIT COMMITTEE

29 February 2012

**Subject Heading:**

Annual Review of Risk Management Arrangements

**Report Author and contact details:**

Vanessa Bateman – Internal Audit & Corporate Risk Manager  
ext: 3733 email:  
[vanessa.bateman@havering.gov.uk](mailto:vanessa.bateman@havering.gov.uk)

**Policy context:**

To inform the Committee of the progress with the Annual Review of Risk Management Arrangements

**Financial summary:**

There is no specific financial impact to be considered from this report.

The subject matter of this report deals with the following Council Objectives

- Clean, safe and green borough [X]
- Excellence in education and learning [X]
- Opportunities for all through economic, social and cultural activity [X]
- Value and enhance the life of every individual [X]
- High customer satisfaction and a stable council tax [X]

**SUMMARY**

Annually there is a review of the Risk Management Arrangements the outcome of which is reported to Audit Committee along with the revised Strategy and a copy of the Corporate Risk Register (CRR). This year a Corporate Leadership Team (CLT) working group has been established to review the Risk Management Arrangements and this report contains an update to the Committee on progress to date and the next planned steps.

**RECOMMENDATIONS**

To note the contents of the report.

**REPORT DETAIL**

In June 2011, in response to a paper on the future of risk management arrangements, CMT requested that a CLT working group be established to review the current arrangements for Risk Management and consider where improvements could be made.

Ian Burns, Assistant Chief Executive, was identified as the Corporate Management Team (CMT) Risk Champion and asked to oversee the group.

The membership of the group included Heads of Service and Third Tier officers from across all directorates.

The objective of the group was to consider where we felt the Council needed to be heading, in terms of Risk Management, and how we could get there.

Although it is acknowledged that the Council has robust Risk Management arrangements within Services it is the communication link between the Service and Corporate level where more efficiency, through stronger links, could be exploited. This is particularly important going forward as resources available to the organisation are reduced.

The CLT group have:

1. Agreed a Terms of Reference.
2. Considered strengths and weaknesses of current approach including:
  - Documentation;
  - Roles / responsibilities and communication channels for risk;
  - Risk awareness / tolerance / appetite;
  - Guidance and training needs; and
  - The future role of the Risk Management Group.
3. Reviewed the content of the CRR against:
  - The new Corporate Plan;
  - Emerging risk areas across London; and
  - An analysis of reported Service Risks.
4. Reviewed the format of the CRR.

The key conclusions are:

- CLT should own the CRR and have a role in identifying emerging risk areas;
- Each Corporate Risk should have a CMT and CLT lead identified;
- Current format for Risk Registers at Corporate and Service level need to change;
- Organisation may benefit from an 'Issues Log' to sit along side the CRR;
- Centrally held templates and guidance would be important;
- Training may be required for some third tier officers;
- Services will be expected to consider Corporate Risks and where applicable included them in their local risk plans. The mitigation should not duplicate those at corporate level but they should identify service-specific impacts

Audit Committee, 29 February 2012

- that need to be managed locally;
- The preferred framework for communication of risks is through one to ones; management team meetings and directorate team meetings as these are already diarised and would not require additional meetings to be set up;
  - The organisation should better utilise the resources available to it such as advice from Insurers etc; and
  - The organisation needs to be less risk averse and increase our appetite and tolerance for risk.

In February an interim report and session on new documentation was part of the CLT meeting agenda. A full report will go to CLT in March with recommendations for agreement. It is planned that changes to arrangements will be implemented between April and June 2012.

A further report will be presented to Audit Committee in April 2012.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

There are no financial implications or risks arising directly from this report. An annual review of Risk Management and the Risk Management Strategy are essential to ensure that the Council's approach to Risk Management is concurrent and is subject to examination by the Audit Committee. Robust Risk Management arrangements assists the organisation in ensuring objectives are achieved by reducing the likelihood of risks, which may be costly to service delivery, materialising.

### **Legal implications and risks:**

There are no legal implications from noting the contents of this Report.

### **Human Resources implications and risks:**

There are no HR implications from noting the contents of this Report.

### **Equalities implications and risks:**

There are no Equalities implications from noting the contents of this Report.

## BACKGROUND PAPERS

None.

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# AUDIT COMMITTEE

29 February 2012

<b>Subject Heading:</b>	Internal Audit Charter and Terms of Reference
<b>Report Author and contact details:</b>	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext 3733
<b>Policy context:</b>	For the Committee to approve the revised Internal Audit Charter and Terms of reference.
<b>Financial summary:</b>	N/a

**The subject matter of this report deals with the following Council Objectives**

- Clean, safe and green borough □
- Excellence in education and learning □
- Opportunities for all through economic, social and cultural activity □
- Value and enhance the life of every individual □
- High customer satisfaction and a stable council tax X

**SUMMARY**

This report details the outcome of the annual review of the Internal Audit Charter and Terms of Reference.

**RECOMMENDATIONS**

1. To approve the updated Internal Audit Charter and Terms of Reference, appendix B.

**REPORT DETAIL**

**Internal Audit Charter and Terms of Reference**

1. The aim of the Internal Audit Charter and Terms of Reference is to formally communicate the role of the Internal Audit Service and how this role should be fulfilled.
2. The review has resulted in only minor changes. The document has been track changed (Appendix A) to demonstrate what changes were required and a final version has also been provided for approval (Appendix B).

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

None directly arising from this report, however by maintaining an adequate audit service, management are supported in the effective identification and efficient management of risks which may prevent financial losses.

**Legal implications and risks:**

None arising directly from this report.

**Human Resources implications and risks:**

None arising directly from this report.

**Equalities implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

CIPFA – The Excellent Internal Auditor – A good practice guide to skills and competencies 2011.



# INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

Version: Feb 2012

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## INTERNAL AUDIT CHARTER

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### 1.0 Why do we have Internal Audit?

1.1 The requirement for a local authority to have an internal audit function is implied by s151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'. Regulation 6 of The Accounts and Audit Regulations 2011 makes provision for relevant bodies to maintain an adequate and effective internal audit of their accounting records and system of internal control.

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### 2.0 Definition

2.1 The London Borough of Havering has adopted the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and its definition of Internal Audit:

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2.2 *Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, 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.*

### 3.0 Internal Audit Service's Role

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

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

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3.3 Internal Audit will consider the adequacy of the control environment necessary to secure: propriety, strategic management, data quality, compliance with laws and regulations and effectiveness of operations in all areas.

3.4 The role and responsibilities of Internal Audit are specified in more detail in the enclosed Terms of Reference below.

### 4.0 Management's Role

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

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

## 5.0 Key Performance Indicators (KPIs)

5.1 KPIs have been devised to measure the performance of the Internal Audit Service.

5.2 KPI 01 – The percentage of the approved audit plan completed, for the period, against target.

5.3 KPI 02 - The total number of audit briefs issued, for the period, against target.

5.4 KPI 03 - The number of audit reviews completed to draft stage, for the period, against target.

5.5 KPI 04 - The number of audit reviews completed to final stage, for the period, against target.

5.6 KPI 05 - Management Satisfaction Survey results above average (%).

## 6.0 Skills and Expertise

6.1 The Excellent Internal Auditor (2011 edition) document produced by CIPFA is used in conjunction with the Councils performance appraisal process to review the skills and expertise of the team.

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<#>KPI 04 - Performance against target time: 50 days max to complete an audit from start to release of a consultation draft (%). ¶

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<#>KPI 05 - System Audits Survey Forms Assessed (%). ¶

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<#>KPI 06 - Fraud Audits Survey Forms Assessed (%).¶

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The Terms of Reference below provides more detail regarding how the effectiveness of the Audit Service is monitored.

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## TERMS OF REFERENCE

### 6.0 RESPONSIBILITIES of INTERNAL AUDIT

- 6.1 To provide assurance to elected members and to management that there are arrangements in place for the proper administration of the financial affairs and that generally the system of internal control is adequate and effective in the management of all risks, financial or otherwise, to the organisation.
- 6.2 To alert the Group Director Finance and Commerce (GDF&C) to any significant areas of internal control weaknesses relevant to his s151 role.
- 6.3 To report to Audit Committee regarding results of audit work.
- 6.4 To produce an Annual Report and Head of Internal Audit Opinion.
- 6.5 To deliver a risk based audit plan that ensures the resources available are used to the maximum benefit of the authority.
- 6.6 To work with External Audit, in accordance with the Internal and External Audit Protocol in order to maximise the value obtained from the total audit resource and minimise the overall cost of audit to the authority.

### 7.0 SCOPE

- 7.1 All London Borough of Havering's activities fall within the remit of the Internal Audit Service.
- 7.2 Internal Audit will not restrict itself to the audit of financial systems and controls but will cover all operational and management controls.
- 7.3 Not all systems will be subject to review each year but they will be included within the overall remit of audit and be subject to the audit needs risk assessment and considered for review as described in the Annual Audit Strategy and Strategic Plan.
- 7.4 As Audit can give an opinion on the whole of the system of control it may include areas as diverse as equality and diversity, sustainability, staff turnover or performance management etc. The role of internal audit is to confirm the effectiveness of systems and controls in meeting objectives. It will not make academic or other judgements.
- 7.5 It is not within Internal Audit's remit to question the appropriateness of policy decisions. However, Internal Audit is required to examine the arrangements by which such decisions are made, monitored and reviewed.
- 7.6 The Internal Audit Service may also conduct special reviews and investigations, (i.e. unplanned work) requested by Members, Chief Executive, Assistant Chief Executive, and Group Directors and in particular the Group Director for Finance and Commerce (GDF&C); provided such reviews do not compromise its objectivity or independence. The impact on

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the audit plan must be assessed by the Internal Audit & Corporate Risk Manager (IA&CRM) and, if necessary, the plan must be reprioritised. Any significant changes must be reported back to the GDF&C and Members in the next Audit Committee reporting cycle.

## 8.0 ACCESS

8.1 Internal Audit has a right of access to all premises, personnel, documents and information they consider necessary for the purpose of their audits as specified in Financial Procedure Rules Section 1 and to obtain such information and explanations from any employee or member as necessary concerning any matter under review/investigation.

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

## 9.0 OBJECTIVES of the AUDIT SERVICE

9.1 To understand the whole organisation, its needs and objectives.

9.2 To add value and assist the organisation in achieving its objectives.

9.3 To be forward looking, innovative and challenging.

9.4 To help to shape the ethics and standards of the organisation.

9.5 To support management in maximising Value for Money in the use of public funds.

9.6 To ensure the right resources are available to deliver the audit plan, recognising changes in capacity, experience, qualifications and specialisms.

9.7 To share opportunities for joint working and seek to share best practice with auditors and examiners from other authorities and organisations, in particular the Council's External Auditor.

9.8 To maintain strong and effective relationships with management.

9.9 To report significant issues to the Audit Committee, in a timely fashion, to enable and support the effective completion of their responsibilities.

## 10.0 INDEPENDENCE

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

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

- 10.2 Responsibility for internal control rests fully with management who must ensure that appropriate and adequate arrangements exist without reliance on Internal Audit. To preserve the objectivity and impartiality of the auditor's professional judgement, responsibility for implementing audit recommendations rests with management.
- 10.3 Internal Audit will be free from interference in setting objectives, scope and priorities for the Audit Plan (although they must have due regard for the Authority's strategic objectives and corporate and service risk registers and consult with Members and Officers charged with governance) and in reporting and carrying out their duties. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
- 10.4 Internal Audit is supported by the organisation and its independence is seen as key to providing the London Borough of Havering with an effective service.
- 10.5 Internal Audit has direct access to the Chief Executive, the Assistant Chief Executive, all Group Directors, Heads of Services, the Leader of the Council and the Chair of the Audit Committee and report in their own name.
- 10.6 The IA&CRM should have sufficient status within the authority to facilitate the effective discussion of audit strategies, plan, results and improvement plans with senior management.
- 10.7 In order to maintain organisational independence, Internal Audit has its own budget and is responsible for providing the Internal Audit service within budget.

## 11.0 REPORTING LINES

- 11.1 The IA&CRM reports to the Head of Finance & Procurement and GDF&C on the progress with the audit plan and the performance against KPIs. The IA&CRM has direct access to the Audit Committee to ensure the role of Internal Audit is not unduly influenced by the management structure.

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- 11.2 The IA&CRM reports quarterly to the Corporate Management Team, in the month prior to each Audit Committee.

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<#>Other service performance data i.e. achievement of service plan objectives is reported quarterly via the Head of Service Packs.¶

- 11.3 A progress report is submitted to each of the five Audit Committee meetings held annually. Reports will also be submitted annually for approval regarding the Audit Strategy and Plan, Charter and Terms of Reference, Risk Management and Fraud Strategies. On an annual basis the IA&CRM will present their Annual Report and Head of Internal Audit Opinion to the Audit Committee.

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## INTERNAL AUDIT'S ROLE IN FRAUD AND CONSULTANCY WORK

### 12.0 Fraud

12.1 As stated in the CIPFA Code, managing the risk of fraud and corruption is the responsibility of management (for example through maintaining internal controls to prevent and detect fraud). Internal audit does not have responsibility for the prevention or detection of fraud. However, fraud issues are an area where Internal Audit is well placed to offer a lead as a service to the organisation. To enable this an anti-fraud and corruption team exists, which has responsibility for:

- Raising fraud awareness across the Council;
- Carrying out a programme of proactive fraud identification work;
- Dealing with the National Fraud Initiative and other external anti-fraud contacts;
- Acting as a source of expert advice to other internal auditors and officers generally; and
- Leading on any fraud investigations where Internal Audit are conducting the work.

12.2 Financial Procedure Rules require that all detected instances of fraud and corruption be reported to the GDF&C and Internal Audit so that lessons arising from the irregularity can be identified.

12.3 Responsibility for the investigation of fraud rests with management, but internal audit has expertise in such investigations and can assist management with this. In addition, suspicions of fraud or corruption may be reported directly to Internal Audit under the Council's Confidential Reporting (Whistle blowing) policy. In these cases investigations by internal audit will usually be in conjunction with line management but exactly who is informed will depend on the nature of the allegations.

12.4 The pro active audits target specific areas of concern to management, where a short focused review, of controls, is sufficient to provide assurance to management. Where issues are highlighted this may result in a full systems review being undertaken or lessons learned being circulated to management.

### 13.0 Consultancy

13.1 Internal Audit can also provide, to the extent that resources permit, an independent and objective consultancy service designed to help line management improve the Council's internal control environment. This can include reviews of specific problem areas, advice and support on new developments and assistance in the preparation of financial training and documentation and strategic policy documents.

### 14.0 Review

This Terms of Reference will be reviewed annually and presented for approval by the Audit Committee.

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The next review will be completed in February 2013.

Deleted: 2011

## 15.0 Key Contacts

Internal Audit & Corporate Risk Manager – Vanessa Bateman ext 3733

Deleted: Interim

Deleted: Paula Sisson

Head of Finance & Procurement – Mike Stringer ext 2101

Deleted: Financial Services

Group Director Finance & Commerce – s151 Officer – Andrew Blake  
Herbert ext 2218



# **INTERNAL AUDIT CHARTER & TERMS OF REFERENCE**

Version: Feb 2012

## **INTERNAL AUDIT CHARTER**

### **1.0 Why do we have Internal Audit?**

1.1 The requirement for a local authority to have an internal audit function is implied by s151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'. Regulation 6 of The Accounts and Audit Regulations 2011 makes provision for relevant bodies to maintain an adequate and effective internal audit of their accounting records and system of internal control.

### **2.0 Definition**

2.1 The London Borough of Havering has adopted the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and its definition of Internal Audit:

2.2 *Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, 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.*

### **3.0 Internal Audit Service's Role**

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

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

3.3 Internal Audit will consider the adequacy of the control environment necessary to secure: propriety, strategic management, data quality, compliance with laws and regulations and effectiveness of operations in all areas.

3.4 The role and responsibilities of Internal Audit are specified in more detail in the enclosed Terms of Reference below.

### **4.0 Management's Role**

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

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

#### 5.0 **Key Performance Indicators (KPIs)**

5.1 KPIs have been devised to measure the performance of the Internal Audit Service.

5.2 KPI 01 – The percentage of the approved audit plan completed, for the period, against target.

5.3 KPI 02 - The total number of audit briefs issued, for the period, against target.

5.4 KPI 03 - The number of audit reviews completed to draft stage, for the period, against target.

5.5 KPI 04 - The number of audit reviews completed to final stage, for the period, against target..

5.6 KPI 05 - Management Satisfaction Survey results above average (%).

#### 6.0 **Skills and Expertise**

6.1 The Excellent Internal Auditor (2011 edition) document produced by CIPFA is used in conjunction with the Councils performance appraisal process to review the skills and expertise of the team.

## **TERMS OF REFERENCE**

### **6.0 RESPONSIBILITIES of INTERNAL AUDIT**

- 6.1 To provide assurance to elected members and to management that there are arrangements in place for the proper administration of the financial affairs and that generally the system of internal control is adequate and effective in the management of all risks, financial or otherwise, to the organisation.
- 6.2 To alert the Group Director Finance and Commerce (GDF&C) to any significant areas of internal control weaknesses relevant to his s151 role.
- 6.3 To report to Audit Committee regarding results of audit work.
- 6.4 To produce an Annual Report and Head of Internal Audit Opinion.
- 6.5 To deliver a risk based audit plan that ensures the resources available are used to the maximum benefit of the authority.
- 6.6 To work with External Audit, in accordance with the Internal and External Audit Protocol in order to maximise the value obtained from the total audit resource and minimise the overall cost of audit to the authority.

### **7.0 SCOPE**

- 7.1 All London Borough of Havering's activities fall within the remit of the Internal Audit Service.
- 7.2 Internal Audit will not restrict itself to the audit of financial systems and controls but will cover all operational and management controls.
- 7.3 Not all systems will be subject to review each year but they will be included within the overall remit of audit and be subject to the audit needs risk assessment and considered for review as described in the Annual Audit Strategy and Strategic Plan.
- 7.4 As Audit can give an opinion on the whole of the system of control it may include areas as diverse as equality and diversity, sustainability, staff turnover or performance management etc. The role of internal audit is to confirm the effectiveness of systems and controls in meeting objectives. It will not make academic or other judgements.
- 7.5 It is not within Internal Audit's remit to question the appropriateness of policy decisions. However, Internal Audit is required to examine the arrangements by which such decisions are made, monitored and reviewed.
- 7.6 The Internal Audit Service may also conduct special reviews and investigations, (i.e. unplanned work) requested by Members, Chief Executive, Assistant Chief Executive and Group Directors and in particular the Group Director for Finance and Commerce (GDF&C); provided such reviews do not compromise its objectivity or independence. The impact on

the audit plan must be assessed by the Internal Audit & Corporate Risk Manager (IA&CRM) and, if necessary, the plan must be reprioritised. Any significant changes must be reported back to the GDF&C and Members in the next Audit Committee reporting cycle.

## **8.0 ACCESS**

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This Terms of Reference will be reviewed annually and presented for approval by the Audit Committee.

The next review will be completed in February 2013.

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Internal Audit & Corporate Risk Manager – Vanessa Bateman ext 3733

Head of Finance & Procurement – Mike Stringer ext 2101

Group Director Finance & Commerce – s151 Officer – Andrew Blake  
Herbert ext 2218



## AUDIT COMMITTEE

29 February 2012

**Subject Heading:**

**INTERNAL AUDIT DRAFT STRATEGY  
AND PLAN FOR 2012/13**

**Report Author and contact details:**

Vanessa Bateman  
Internal Audit & Corporate Risk Manager  
Tel: 01708 - 433733  
E-mail: [vanessa.bateman@havering.gov.uk](mailto:vanessa.bateman@havering.gov.uk)

**Policy context:**

To propose the 2012/13 Internal Audit  
Strategy and Plan

**Financial summary:**

N/A

### REPORT OF THE CHIEF EXECUTIVE

#### SUMMARY

In accordance with the Internal Audit Charter and Terms of Reference the Audit Service reports annually to the Audit Committee on its proposed Strategy and Audit Plan.

The Strategy outlines the means by which Internal Audit will achieve its objectives and is attached as Appendix A of this report.

Appendix B details the draft risk based audit plan for the next financial year, which shows what audit work will be undertaken for the period together with the estimated number of audit days required.

The individual audits shown in the plan and the assurance gained by completing them will feed into the Head of Internal Audit Opinion which is a key assurance for the Annual Governance Statement. Although a draft plan is in place, more work is needed to consult with management before this is finalised. A large contingency has been maintained as it is envisaged that the implementation of a new approach to risk management will identify a

number of additional areas where management require assurance. This plan will therefore be re-presented at the April Audit Committee and changes beyond this date will be reported at quarterly meetings.

## RECOMMENDATIONS

- 1 To review the draft strategy and provide comments in order that these may be considered as part of the compilation of the final strategy.
- 2 To approve the strategy on the basis of any agreed amendments arising during the meeting.
- 3 To review the draft plan and provide comments in order that these may be considered as part of the compilation of the final draft plan.
- 4 To approve the plan on the basis of any agreed amendments arising during the meeting.
- 5 To note that the plan will be re-presented at the next meeting.

## REPORT DETAIL

### **1. Internal Audit Strategy 2012/13**

- 1.1 Appendix A contains the proposed Audit Strategy for 2012/13. It has been drafted following reference to best practice guidance provided by Cipfa. There are minimal changes to the strategy required for 2012/13.
- 1.2 The Strategy sets out how Internal Audit intends to meet its objectives for the coming year.

### **2. Audit Plan 2012/13**

- 2.1 The audit plan has been derived by considering:
  - Audit issues identified during 2011/12;
  - Request from Management; and
  - Risk Registers.
- 2.2 The draft plan will be circulated to Senior Management for comment. Any issues arising from this consultation will be reflected in the final version of the plan to be presented in April.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

The costs of both directly employed and outsourced services to carry out the agreed plan will be met from within the 2012/13 budget for the Audit Service. The 1576 days of resource available are sufficient to review all the high risk areas identified in the planning process as well as allowing the team to undertake a small percentage of probity type audits.

The plan includes provision for work in schools and for Homes in Havering. Income is generated from this work and the recent restructure of the Audit Team has created a structure which is capable of delivering the level and type of work required. It is envisaged that a permanent structure will be in place by the start of the 2012/13 financial year any vacancies within the team will be filled by agency workers within budgetary constraints.

The risks relating to the audit plan are set out below.

Risk	Mitigation factors
That the plan will not address the key risk areas within the council	<p>The plan has been prepared taking into account the council's risk registers. The auditable areas have been identified and subjected to a risk evaluation to determine if and when they should be reviewed.</p> <p>The plan has been formulated and assessed by the Internal Audit &amp; Corporate Risk Manager using prescribed methodologies, including discussion with Heads of Service.</p> <p>The plan has been circulated to Senior Management for comment and will be reviewed periodically throughout the year with any required changes being reported to Audit Committee. Any changes necessitated by new legislation or changing financial circumstances will be reflected in the plan and advised to the Committee.</p>
That the plan does not provide assurance for the external auditor	<p>The plan ensures that key areas of the financial procedures which feed the financial statements are reviewed annually.</p> <p>There is regular liaison between the internal and external auditors during the year to ensure adequate assurance is provided.</p>
That the plan is not flexible enough to meet the needs of the council during the year	<p>There is a contingency within the year to allow for unforeseen systems based audit work and if necessary decisions may need to be made to replace one audit with another.</p> <p>As the level of fraud investigation work cannot be</p>

	<p>determined with any certainty the same practice will operate as in previous years in that should there be more fraud investigation work than was planned then the pro-active audits would be reduced and if there is not as much as anticipated than further pro-active audits would be undertaken.</p> <p>Should additional work be required above these two factors then resources may be seconded from the systems team or additional funding may need to be identified before work could commence.</p> <p>As indicated, there is a higher risk than normal of changing circumstances for the coming year, and this will therefore need to be managed accordingly.</p>
<p>That there are not sufficient staffing resources both in number and to the required skill level to carry out the work identified</p>	<p>The structure of the team is appropriate to deliver the draft audit plan. There is a shortfall in resource due to maternity leave and so, as stated above, temporary agency worker will need to be employed.</p> <p>Training needs are assessed at 6 monthly intervals via the PDPA process.</p> <p>Continuous training is provided to ensure that staff have sufficient skills to carry out their duties and deliver the audit plan and strategy.</p>
<p>That there is insufficient understanding and coverage of other risks (not purely operational and strategic)</p>	<p>Involvement with projects systems development and change.</p> <p>Reliability and integrity of management databases and information.</p> <p>Stewardship of financial and non financial assets.</p> <p>Reviews to ensure that the authority complies with new legislation.</p>
<p>Not addressing risks in areas where there control deficiencies and weaknesses have been identified</p>	<p>The audit planning process will review the significant issues on the Annual Governance Statement and ensure that relevant audits are included within the plan. Recommendations to address significant control weaknesses are reviewed in the following financial year to ensure that they have been fully implemented by agreed dates.</p>

**Legal implications and risks:**

None arising directly from this report

**Human Resources implications and risks:**

None arising directly from this report

**Equalities implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

None

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# AUDIT STRATEGY

Version: February 2012

## 1. Internal Audit Strategy

- 1.1 An Internal Audit Strategy outlines the means by which Internal Audit seeks to achieve its stated aims and objectives. These objectives are linked to the goals and vision of the organisation.
- 1.2 The perceived outcome of this strategy is the provision of an effective audit service, that achieves its own objectives, and in particular a service that meets the needs of management and other stakeholders.

## 2. Strategy Statement

- 2.1 The overall Strategy of Internal Audit is:

***“To deliver a risk-based audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it.”***

## 3. Definition

- 3.1 The Internal Audit Charter and Terms of Reference defines Internal Audit as

***“An assurance function that provides an independent and objective opinion to the organisation on the control environment, 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.”***

## 4. Objectives of Internal Audit

- 4.1 The objectives for the Audit Service are:

- To understand the whole organisation, its needs and objectives.
- To add value and assist the organisation in achieving its objectives.
- To be forward looking, innovative and challenging.
- To help to shape the ethics and standards of the organisation.
- To ensure value for money is achieved in the use of public funds.
- To ensure the right resources are available to deliver the audit plan, recognising changes in capacity, experience, qualifications and specialisms.
- To share opportunities for joint working and seek to share best practice with auditors and examiners from other authorities and organisations, in particular the Council’s External Auditor.
- To maintain strong and effective relationships with management.
- To report significant issues to the Audit Committee, in a timely fashion, to enable and support the effective completion of their responsibilities.

## **5. Status of Internal Audit**

- 5.1 Internal Audit is responsible to the Head of Finance & Procurement for line management purposes, and helps to deliver the statutory financial responsibilities of the Council's Chief Financial Officer the Group Director of Finance & Commerce. However Internal Audit is independent in its planning and operation, and has no responsibility for delivering or managing non-audit services.
- 5.2 The Internal Audit & Corporate Risk Manager shall have direct access to the Chief Executive, all levels of management and elected members.

## **6. Audit Resources and the Annual Plan**

- 6.1 The Internal Audit & Corporate Risk Manager is responsible for delivering the audit service in accordance with its Terms of Reference. To ensure that this can be achieved, there are appropriate arrangements for:
- Determining and planning the work to be carried out (i.e. an audit plan based on an assessment of the risk).
  - Providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes).
- 6.2 Due to the specialist skills required to carry out computer audits and the fact that the resources required would not equate to a full time member of staff this service is currently procured from the private sector. This method of service provision will be reviewed during 2012/13 against other potential shared service opportunities. All other resources required to deliver the 2012/13 audit plan are currently in place within the Audit Team.
- 6.3 The Internal Audit service will be delivered on the basis of a detailed Plan for 2012/13. The plan sets out the number of person-days required for Internal Audit to adequately review the areas involved.
- 6.4 Where resources available are not considered, by the Internal Audit & Corporate Risk Manager, to be adequate for the Head of Internal Audit opinion to be provided, this will be reported to the Audit Committee.
- 6.5 The annual risk assessment process takes account of a range of strategic, corporate, service and operational risks (including those identified through the Risk Management process and by the external auditor) and the views of senior management on these issues.
- 6.6 The 2012/13 Plan balances the following requirements:

- The need to ensure the Audit Plan is completed in a timely fashion
- The need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which External Audit will place reliance);
- The need to appropriately review other strategic and operational arrangements;
- The need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations.
- To enable positive timely input to assist corporate and service developments.

6.7 In order to ensure the Internal Audit Service continues to meet the needs of the organisation the skills and experience available are annually reviewed and there are a number of initiatives working with other Boroughs to identify how collaboration can benefit the service, this work will continue in 2012/13. In addition the Council's PDPA process identifies training needs for staff.

## **7. Relationships**

- 7.1 A joint working arrangement with External Audit will be operated such that Internal Audit resources are used as effectively as possible.
- 7.2 Periodic reports relating to audit issues will be provided to Corporate Management Team and where necessary direction regarding specific policy or risk issues will be sought. Corporate Management Team therefore has a part to play in the successful achievement of strategy outcomes in particular the achievement of the Internal Audit objectives.
- 7.3 Internal Audit manage an annual programme of presentations and training designed to raise the profile of the audit team and raise awareness of audit issues.

## **8. Quality**

- 8.1 Internal Audit will comply with the CIPFA *Code of Practice for Internal Audit in Local Government in the UK*, and auditors are expected to comply with any other relevant professional standards.
- 8.2 The Internal Audit & Corporate Risk Manager will ensure that there is an Audit Manual in place setting out expected standards for the service, and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments. Relevant training will be provided to ensure auditors have the level of skills necessary to undertake their roles.
- 8.3 Where necessary to ensure an adequate, effective and professional audit service is provided, the Internal Audit & Corporate Risk Manager

will buy in resources from external providers to supplement internal resources.

## **9. Performance Management**

- 9.1 Progress against the audit plan, and the content of the plan itself, will be kept under review by the Internal Audit & Corporate Risk Manager in liaison with the Head of Finance & Procurement and the Group Director Finance & Commerce, and through monitoring corporate and service developments.
- 9.2 Audit Committee are advised of changes to the audit plan.
- 9.3 Audit Committee will also be advised of performance against the audit plan, and on other relevant key performance indicators, on a quarterly basis.

## **10. Strategy Review**

- 10.1 This strategy will be reviewed annually and presented for approval by the Audit Committee.
- 10.2 The next review will be completed in February 2013.

## **11. Key Contacts**

- 11.1 Internal Audit & Corporate Risk Manager – Vanessa Bateman ext 3733
- 11.2 Head of Finance & Procurement– Mike Stringer ext 2101

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Service Area - CORPORATE	Audit Area	Budget	Group Director
ALL	Data Quality / Performance Management	15	Culture & Community
ALL	Contracts and Procurement	50	Finance & Commerce
ALL	Partnership/Shared Working Governance	25	Finance & Commerce
ALL	Agency Worker Contract	15	Finance & Commerce
ALL	PDR Assurance	15	Finance & Commerce
ALL	Debt Management	25	Finance & Commerce
ALL	Information Governance	25	ACE Legal & Democratic
ALL	Change Management	20	Finance & Commerce
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Service Area - CULTURE & COMMUNITY	Audit Area	Budget	Group Director
Culture & Leisure	Mayrise	15	Culture & Community
Regeneration, Policy and Planning	Climate Change - Certification of Government Return	10	Culture & Community
Customer Services	Council Tax	10	Culture & Community
Customer Services	Housing Benefits	15	Culture & Community
Customer Services	Housing & Council Tax Benefits	20	Culture & Community
Customer Services	Business Rates	20	Culture & Community
Street Care	Joint Tender - Highways and St Lighting	20	Culture & Community
<b>110</b>			

Service Area - SOCIAL CARE & LEARNING	Audit Area	Budget	Group Director
Children's	Child Protection	15	Children's
Children's	Children's Centres - probity programme	15	Children's
Adult's	Personalisation	50	Adult's

Learning	Traded Services	15	Children's
		<b>95</b>	

<b>Service Area - FINANCE &amp; COMMERCE</b>	<b>Audit Area</b>	<b>Budget</b>	<b>Group Director</b>
Finance & Proc	Budgetary Control	15	Finance & Commerce
Finance & Proc	Fixed Assets	10	Finance & Commerce
Finance & Proc	Main Accounting	10	Finance & Commerce
ISS	ISS Stage 3	25	Finance & Commerce
ISS	ISS Performance Management	15	Finance & Commerce
ISS	Oracle Recruitment	15	Finance & Commerce
ISS	I Procurement	15	Finance & Commerce
ISS	Creditors	15	Finance & Commerce
ISS	Debtors	15	Finance & Commerce
ISS	Payroll	15	Finance & Commerce
ISS	Pensions	10	Finance & Commerce
		<b>160</b>	

All	Reactive Fraud & Special Investigations	300	Finance & Commerce
All	Pro-active Fraud	130	Finance & Commerce
		<b>430</b>	

Learning and Achievement	Schools	115	Children's
		<b>115</b>	

Homes in Havering	Audit Plan	80	N/a
		<b>80</b>	

Business Systems	Computer Audit Plan	120	Finance & Commerce
		<b>120</b>	

	Governance	25	
	Risk Management	100	



	Advice to Directorates	15	
	Sign off of Grant Claims	15	
	Contingency	96	
	Follow Ups	25	
<b>276</b>			
		<b>1576</b>	

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## AUDIT COMMITTEE

29 February 2012

<b>Subject Heading:</b>	Internal Audit Progress Report
<b>Report Author and contact details:</b>	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext 3733
<b>Policy context:</b>	To inform the Committee of progress to deliver the approved audit plan in quarter three of 2011/12.
<b>Financial summary:</b>	N/a

### The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	X
Excellence in education and learning	X
Opportunities for all through economic, social and cultural activity	X
Value and enhance the life of every individual	X
High customer satisfaction and a stable council tax	X

### SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 3<sup>rd</sup> October 2011 to 30<sup>th</sup> December 2011.

### RECOMMENDATIONS

1. To note the contents of the report.

2. To raise any issues of concern and ask specific questions of officers where required.

<b>REPORT DETAIL</b>
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This progress report contains an update to the Committee regarding Internal Audit activity presented in seven sections.

**Section 1 Background and Resources**

Some information about the resources is included for information.

**Section 2 Audit Work 3<sup>rd</sup> October to 30<sup>th</sup> December 2011**

A summary of the work undertaken in quarter three is included in this section of the report.

**Section 3 Management Summaries**

Summaries of all final reports issued in the period.

**Section 4 Schools Audit Work**

A summary of schools final reports issued in the period.

**Section 5 Key Performance Indicators**

The actual performance against target for key indicators is included.

**Section 6 Changes to the Approved Audit Plan**

The changes made to the audit plan since the last meeting are detailed and explained in this section of the report.

**Section 7 Outstanding Recommendations Summary Tables**

The details regarding status, as at the end of December, of all outstanding recommendations are included within tables for information.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. With regards Money Laundering criminal charges may result should employees not fulfil their personal responsibilities. Sanctions could also be imposed on the Council if it is considered not to be complying with legislation. 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 implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

*None.*

**Section 1 Background and Resources**

- 1.1 The resources within the Audit team remains unchanged since the last meeting, however the new structure has now been implemented and all internal appointments into new roles are complete. There is one vacancy within the systems audit team and it is expected that this role will be filled in March. The Agency workers contract has been extended to the end of March to support the transition to the new structure and assist in the completion of the audit plan.
- 1.2 The forecast outturn for 2011/12 is currently within the allocated budget.

**Section 2 Audit Work 3<sup>rd</sup> October 2011 to 30<sup>th</sup> December 2011.**

- 2.1 At the end of December 63% of the audit plan had been delivered. This was against a target for the period of 63%.
- 2.2 At the end of December eight assignments had been completed and eighteen were in progress but had not reached the final report stage.
- 2.3 Schedule 1 details the work completed in quarter three. Details are listed in the table below and management summaries under Section 3 starting on the next page.

**SCHEDULE 1: 2011/2012 – Systems Audits Completed**

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
Commercial Property	Substantial	0	2	0	2	2 (1)
Registrars	Substantial	0	1	0	1	2 (2)
Supply Chain Resilience	Substantial	0	2	0	2	2 (3)
Public Protection	Substantial	0	0	2	2	2 (4)
Jacobs Contract Follow Up	Limited	3	0	0	3	2 (5)
Disabled Facilities Grant	Substantial	0	2	0	2	2 (6)
Remote Access & Off Site Working	Substantial	0	6	1	7	2 (7)
Oracle Financials	Limited	0	24	0	24	2 (8)

2.4 Work in progress includes:

- Risk Based Systems Audits – Contracts & Procurement, i-expenses and Purchase Cards, Housing Benefits, Council Tax, Education Computer Centre, Contract Monitoring, Emergency Planning & Business Continuity, Creditors, Debtors, Payroll, Pensions, Key Worker Recruitment and Retention and Appointeeships and Receiverships.
- School Audit – Ardleigh Green Junior, Elm Park Primary, La Salette RC Primary, Parklands Junior, The R.J. Mitchell Primary, Whybridge Infant and Corbets Tey Special School.
- Substantive/Proactive Testing – Internal Shared Service Controls Stage 2, Agency Expenses, Crematorium (Grave Allocations & Record Keeping).

2.5 Internal Audit are also participating in Control Working Groups, alongside officer from Internal Shared Services and the Oracle Competency Centre, looking at the Payroll, Accounts Payable and Accounts Receivable to identify and report to management on the efficiency and effectiveness of the control environment.

## Section 3 Management Summaries

Commercial Property	ref 3 (1)
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### 3.1 Background

3.1.1 Commercial properties are maintained by Local Authorities as investments. These properties are leased out, generating an income stream into the Council.

3.1.2 As at March 2011 Havering maintained a total of 211 commercial properties with a potential annual income of £2.5m if all properties were let.

#### 3.1.3 Summary of Audit Findings

3.1.4 Completion reports produced by Legal Services to notify Internal Shared Service of new or amended accounts are inconsistent in the level and clarity of the information being provided.

3.1.5 There is a risk that errors go undetected given the absence of any controls to ensure that accounts and amendments are progressed in line with expectations.

3.1.6 Performance monitoring is undertaken on the number of vacant properties. Whilst the target 95% has not quite been met, no recommendations have been raised as the current economic climate will further impact on this.

#### 3.1.7 Audit Opinion

3.1.8 As a result of this audit we have raised two medium priority recommendations relating to the need for:

- The way Internal Shared Services are instructed to set up / amend accounts should be reviewed to ensure instructions are clear and unmistakable (Medium); and
- Suitable checks should be made by Strategic Property Services to ensure leases / accounts have been correctly set up / amended and in a timely manner (Medium).

3.1.9 A **Substantial Assurance** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.



<b>Registrars</b>	<b>ref 3 (2)</b>
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### **3.2 Background**

3.2.1 The registrars are based at Langtons House to provide services for the registration of Births, Deaths and Marriages; with a member of staff also located at Queen's Hospital to provide services primarily for the registration of Deaths. All registrars have been Local Authority employees since 31<sup>st</sup> March 2008.

3.2.2 The registrars have recently undergone a restructure. Currently there is a Registrations Manager, two Deputy Registration Managers (one Superintendant Registrar, one Registrar for Births, Deaths and Marriages). There are eight Registration and Ceremony Officers ( 6.34fte), one Admin Assistant, one Ceremonies and Citizenship Officer (0.8fte). There is also a Development and Promotions Manager. Income received by the service for 2010/11 totalled £543,438, with £49,962 received from the letting of Langtons Hall and rooms.

### **3.2.3 Summary of Audit Findings**

3.2.4 Quarterly cash reconciliations performed by the Registration Manager were one month overdue at the time of the audit.

### **3.2.5 Audit Opinion**

3.2.6 As a result of this audit one medium priority recommendations have been raised.

3.2.7 Recommendations relate to the need for quarterly cash reconciliations to be brought up to date (Medium).

3.2.8 **Substantial Assurance** has been given as while there is a basically sound system, there are limitations that may put some of the systems objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

<b>Supply Chain Resilience</b>	<b>ref 3 (3)</b>
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### **3.3 Background**

- 3.3.1 The Procurement Framework was created to inform services embarking on entering into a contract. The framework sets out the correct legislative paths to follow when completing a tendering process.
- 3.3.2 As at May 2011 a total of 232 contracts were listed on the contracts register with an approximate value of £790m. The register contains all contracts whose total contract value exceeds £60k, although this used to be those exceeding £50k.
- 3.3.3 This audit focussed solely on the controls in place regarding supply chain resilience. The 2011/12 approved audit plan contains other work regarding contracts and procurement that aim to provide detailed assurance on other risk areas.
- 3.3.4 Previous audit work has highlighted that the system of internal control with regard contract procurement is heavily reliant on preventive measures i.e. procurement rules and procedures, guidance and training and support being available from a specialist team where requested. The lack of detective controls which would provide assurance regarding compliance within the organisation has been addressed by previous audit recommendations which have been accepted by management.
- 3.3.5 The Contract Procedure Rules stipulate that responsibility for ensuring compliance with the rules and procedures is the responsibility of the Corporate Management Team.
- 3.3.6 Although in the main risks regarding procurement of services do sit within the service area itself and risk rightly should be the responsibility of management; there are risks with corporate significance that could cause reputational damage to the organisation as a whole. (Also potential financial risk as aggrieved tenderers could challenge award of a contract or current suppliers could challenge as breach of contract if we are using a non approved supplier for goods or services that they have a contract for).
- 3.3.7 The corporate resources to support procurement have been moved into the Internal Shared Service. Operational Resources sit within the Shared Service Centre itself and the Strategic resource a Procurement Business Partner reports to the Head of Finance and Procurement. Prior to April 2011 these resources were located in the Business Development Unit that reported to the Assistant Director Transformation – Efficiency.

### **3.3.8 Summary of Audit Findings**

- 3.3.9 Our testing for this audit was completed based on contracts that appear on the contract register, the sample therefore is recognised as being limited by the

fact as it is more likely to contain contracts where the procurement rules and procedures have been adhered to.

- 3.3.10 Previous audit work has highlighted the need for detective controls providing assurance on compliance, or information about levels of non compliance to be produced and reported. For example contracts where the procedures have not been fully adhered to or expenditure where there is no contract in place. Assurance will be provided regarding this risk area in a separate audit planned in 2011/12.
- 3.3.11 The introduction of a service level agreement between Internal Shared Services (ISS) and the rest of the Council to ensure all contracts in excess of £60k are procured by the OPT, will mitigate some levels of risk in terms of non compliance with procedures. This is still a preventive rather than detective control.
- 3.3.12 Establishing supplier resilience can most effectively be achieved through the completion of the relevant checks set out within procurement procedures because risk management has been built into the procedures themselves. Through discussions with a sample of contract monitoring officers we were able to gain assurance that risks around supply chain resilience and being locally mitigated.
- 3.3.13 It was noted as part of the audit that there is an absence of specific mention of risk management within contract monitoring guidance; it is felt that although procedures have been designed to manage risk there is limited input to equipping contract managers to truly understand the risks they face and need to manage. Without a sufficient understanding of risk, officers will be unable to incorporate risk into their contract monitoring processes.
- 3.3.14 It was further noted that the organisation relies on all contract monitoring officers to have a sufficient understanding of external factors such as the economic downturn to be able to appropriately adapt their risk management activity. As there are both strategic and operational procurement resources in the organisation it is felt these officers could assist contract monitoring officers by generally raising awareness or providing specific bulletins.
- 3.3.15 With increased understanding of risk management comes reduced bureaucratic and preventive controls within procedures which will also save the organisation time and money in the future. This issue is not unique to procurement and a CLT working group has been formed to look at how Risk Management can be more effectively used within the organisation.

### **3.3.16 Audit Opinion**

3.3.17 As a result of this audit we have raised two medium priority recommendations.

3.3.18 Recommendations related to the need for:

- To promote risk management in relation to contract monitoring (Medium); and
- For specialist resources to communicate emerging risk areas out to contract monitoring officers (Medium).

3.3.19 **Substantial Assurance** has been given as while there is a basically sound system, there are limitations that may put some of the systems objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

<b>Public Protection</b>	<b>ref 3 (4)</b>
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## **Management Summary**

### **3.4 Background**

3.4.1 The Council is required to issue and regulate licenses in accordance with the Licensing Act 2003 which came into force on the 24<sup>th</sup> November 2005. The act promotes four licensing objectives:

- Prevent crime and disorder;
- Ensure public safety;
- Prevention of public nuisance; and
- Protect children from harm.

3.4.2 Income for 2010/11, relating to the Licensing Act 2003, totalled £158,140.

#### **3.4.3 Summary of Audit Findings**

3.4.4 Transaction listings from Oracle 12 do not contain the required details, such as a license reference number, to facilitate an effective reconciliation.

3.4.5 Licensing Officers are allocated areas of the borough for which they are responsible. There is a reliance that Officers will notice any new premises opening which require a license but have yet to apply.

3.4.6 Information is not being obtained from Business Rates identifying change of ownership.

3.4.7 Management Information which is supplied to the Licensing Committee could contain additional information, including the total income or value of accounts in arrears.

#### **3.4.8 Audit Opinion**

3.4.9 As a result of this audit two low priority recommendations have been raised.

3.4.10 Recommendations relate to the need for:

- Information regarding change in ownership of licensed premises to be requested from Business Rates in order to aid Licensing Officers (Low); and
- Confirmation from Licensing Committee regarding information required (Low).

3.4.11 **Substantial Assurance** has been given as while there is a basically sound system, there are limitations that may put some of the systems objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

<b>Jacobs Contract Follow Up</b>	<b>ref 3 (5)</b>
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### **3.5 Background**

3.5.1 LBH awarded two contracts to Jacobs UK Ltd in January 2008. The Architectural and Surveying Services (Property) contract is for ten years with an option to extend for a further five years. The Civil Engineering (Highways) contract is for five years with an option to extend for a further five years.

3.5.2 The value of the Architectural and Surveying (Property) contract could be in the region of £0.5 million depending on the scale of the Capital Programme. This is of course uncertain given the current economic conditions and funding availability.

#### **3.5.3 Summary of Audit Findings**

3.5.4 The current position is virtually unchanged from that audited in 2009.

#### **3.5.5 Audit Opinion**

3.5.6 As a result of this audit three high priority recommendations have been made.

3.5.7 Recommendations relate to the need for:

- An audit of the new working arrangements and control environment to be requested when the staffing restructure has been implemented and the monitoring unit is in place (High);
- Signed copies of the approved contracts and financial submissions for Architectural and Surveying (Property) and Civil Engineering (Highways) contracts to be supplied to the Head of Asset Management and the Head of Street Care respectively (High).
- The new system set up by CAMG to report monies charged to Capital Budgets which identify any works commissioned outside the Official system to be extended to include Revenue spend and to have both reports produced on a quarterly basis (High).

3.5.8 A **Limited Assurance** has been given as the audit has found that limitations in the systems of control are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

<b>Disabled Facilities Grants</b>	<b>ref 3 (6)</b>
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### **3.6 Background**

- 3.6.1 Disabled Facilities Grants (DFG) are available from the Council for those residents who require physical adaptations to their home.
- 3.6.2 In 2009 / 10 the Council approved 100 DFG applications totalling just over £614k. A total of £778k was actually paid out in relation to grant funded work completing in that year from approvals in both 2009/10 and previously.
- 3.6.3 The number of DFG applications approved rose in 2010 / 11 to 147 with a total cost of £1m. Total grant expenditure was £960k in relation to approvals made either in 2009/10 or in earlier years.

#### **3.6.4 Summary of Audit Findings**

- 3.6.5 A review of twenty four cases found eight instances where the Adult Social Care (ASC) assessment documentation was missing the staff / client signature and or date of completion.
- 3.6.6 A list of LBH preferred contractors is available for service users to use. Whilst there is no requirement for service users to use these contractors, no checks are undertaken to verify the status of those contractors selected by grant recipients that do not appear on this list. As this risk is mitigated by the need for surveyor approval prior to any payments being made, no recommendation has been raised.
- 3.6.7 Client contributions were not reviewed as part of this audit as this area proves no risk to the Authority given that client contributions are a separate arrangement between the service user and the chosen contractor.
- 3.6.8 Limited controls have historically been in place to ensure that there are sufficient funds available throughout the year. A process for apportioning funds by month has been introduced for 2011/12.
- 3.6.9 Limited management information has been available in the absence of a sophisticated IT system for recording case information. A new APP system will allow more effective information to be extracted once a sufficient level of data has been entered.
- 3.6.10 Local performance indicators to monitor the effectiveness of administering this process have not been established between the two departments.
- 3.6.11 No benchmarking exercises had been undertaken at the time of the audit however that work has now commenced.

3.6.12 The audit had aimed to consider the timeliness of this process. The absence of dates on key Adult Social Care documentation, the ability for service users to take up to 18 months to complete their side of the process and the lack of localised performance indicators mean that the ability to assess timeliness is limited.

### **3.6.13 Audit Opinion**

3.6.14 As a result of this audit two medium priority recommendations have been raised.

3.6.15 Recommendations raised relate to the need for:

- full and consistent completion of key Adult Social Care documentation to be monitored through the management approval process (Medium); and
- the development of local performance standards between departments to be monitored through regular joint meetings (Medium).

3.6.16 **Substantial Assurance** has been given as while there is a basically sound system, there are limitations that may put some of the systems objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.



<b>Remote Access &amp; Off Site Working</b>	<b>ref 3 (7)</b>
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### **3.7 Background**

- 3.7.1 The 2011/2012 Internal Audit Plan includes an audit of Remote Access to enable Council users to remotely access Council systems and data and to support increased flexible working.
- 3.7.2 Having use a Citrix Secure Gateway together with an RSA authentication token to allow users to securely log into their Citrix account from any Internet connected PC. Staff can use LBH provided laptops or their own IT equipment, although LBH does not provide support for PC hardware and software that is not owned by the Council.
- 3.7.3 The current IT infrastructure at the Council is currently being subject to a refresh, through the Transformation Programme. Specific programme objectives relating to remote access provision include the replacement of the Novell and Citrix environments with Microsoft technologies and the replacement of RSA tokens by the Universal Access gateway to provide the mechanism for authentication of remote access to Council network resources.

#### **3.7.4 Summary of Audit Findings**

- 3.7.5 When users collect a laptop or portable device, they are not required to confirm that they have read, understood and agreed to the terms and conditions of use when using the device away from the office.
- 3.7.6 While a Business Systems Risk Register is in place, an IT risk assessment for home and offsite working that would link into this has not been performed.
- 3.7.7 Monitoring of remote access connections is not being carried out and the Council does not currently have an Intrusion Detection Systems (IDS) in place over the corporate network to identify any suspicious activities.

A penetration test was carried out by Global Secure Systems in February 2011 but not all the recommendations (some of which were considered high risk) have been implemented and there is currently no implementation plan to implement the recommendations.

- 3.7.8 There is currently no process in place for implementing system patches on all the Council's operating system software. Audit testing of a laptop identified that the last patch applied was over two years old. Patches are now being applied to all new PCs that are being issued to staff.

3.7.9 An IT Asset Register is in place for Laptops and Blackberry devices, but it does not give any detail of what the asset is (Make, model number, warranty, and date of purchase).

3.7.10 The ICT access e-form used to allow remote access capability does not include a tick box for the current Citrix Secure Gateway.

### **3.7.11 Audit Opinion**

3.7.12 As a result of this audit we have raised 6 medium priority and 1 low priority recommendations.

3.7.13 Recommendations related to the need for:

- Users to confirm they have read understood and agreed to the Terms and Conditions of use when receiving a laptop. (Medium Priority)
- That a remote working risk assessment is carried out and linked to the ICT and Corporate Risk Registers. (Medium Priority)
- The remote access logs should be monitored and Intrusion Detection Software implemented to detect all suspicious activity on the network. (Medium Priority)
- Recommendations from the recent Penetration Test should be implemented and monitored. (Medium Priority)
- An effective patch management process should be in place for all laptops. (Medium Priority)
- A detailed Asset Register should be developed for all portable and remote items used within the Council. (Medium Priority)
- Amendment of the ICT access e-form to include the facility to approve access to the Citrix Secure Gateway. (Low Priority)

3.7.14 A **Substantial** audit opinion has been given as the audit has found that whilst there is basically a sound system of control weaknesses in the system of internal control may put some of the Council's objectives at risk.

<b>Oracle Financials</b>	<b>Ref 3 (8)</b>
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### **3.8 Background**

3.8.1 The upgrade to Oracle 12 from Oracle 11i was a complete re-implementation of the Council's existing Oracle Financials application, as additional functionality was added in terms of the HR and Payroll functionality and the expansion of the finance modules to include the following modules for financial management within the Council:

- General Ledger
- Cash Management / Fixed Assets
- iSupplier
- iExpenses
- Human Resources
- Accounts Receivable
- Accounts Payable
- Payments
- Payroll
- Business Intelligence
- Procurement/iProcurement
- HR Self Service

3.8.2 This Oracle upgrade was delivered as part of the Internal Shared Service project with technical support for the implementation provided by CapGemini. Phase 1 of the project went live in April 2011. Phase 2 of the project was due for implementation in September/October 2011, but it was noted that there have been some unresolved issues following Phase 1 that are of particular significance to the finance modules. As such, Phase 2 for the finance modules has currently been put on hold and an action plan established for the resolution of the various elements of the project.

3.8.3 The implementation of Oracle 12 included a large overhaul of the approach taken to HR/Payroll, Finance and Procurement and included a restructure, review of processes and the establishment of a Shared Service Centre within the organisation designed to achieve substantial savings. As part of the implementation, the Council adopted a largely unmodified version of Oracle without large scale changes to Council processes.

3.8.4 Whilst a number of issues have been identified, it is recognised that this implementation required substantial change. A resource is being directed to resolving issues and to the implementation of Phase 2 of the project.

### **2.8.5 Summary of Audit Findings**

2.8.6 A summary of the main Audit Findings are as follows:

#### **2.8.7 Application Governance**

- There is a lack of detail within the Project Initiation Document (PID) in relation to key individuals who would need to be engaged in the programme, and there is no evidence of the PID having been approved following the commencement of the project.

### **2.8.8 System Security**

- Review of the user listing identified a number of accounts with Administrator access, which appeared to be non-user specific (generic). These accounts have not been subject to review since the implementation.
- The Oracle application has adequate password controls in line with the Business Systems Policy, including a password change interval of sixty-days. However, it was identified that this had not been consistently applied in all cases, with some users not required to change passwords.
- Users are logged out of the application following five unsuccessful access attempts, although no monitoring is currently undertaken of failed login attempts to the system.
- There are no documented procedures for the creation, amendment or removal of users on the application or process flows detailing the authorisation process.
- A spreadsheet is maintained of roles, responsibilities and descriptions for access to the Oracle application, but this was found to be incomplete with a number of roles and responsibilities not yet having been clearly defined.
- Testing identified access amendments which had not been supported by proof of authorisation for access permissions on the Oracle system.
- Audit testing could not obtain evidence of the process for granting user access having been reviewed following the implementation of Oracle R12, and the current eforms do not always provide sufficient detail to set a user up on the Oracle system.
- The report of users and their roles requires substantial formatting to convert the information into to a usable report to provide useful management information detailing users and their access levels.
- The majority of users were created during the migration process and therefore original authorisation for the access has not been retained.
- It is not always clear whether access was appropriate based on the users' job role, which could mean that users' access is not in line with their job role and these could be excessive. Other individuals were identified with high-level access privileges, including a Transactional Team Lead, who is currently on long-term sick leave, who has processes associated which prevent the account from being suspended.
- The Oracle system provides a number of auditing features to help ensure that actions are the system can be traced back to users. However, these features which include auditing at a user activity and database row level have not yet been fully investigated or applied.

### **2.8.9 Interfaces and Data Flow**

- There is a reliance on a member of the Oracle Competency Centre who has specialist technical knowledge of the interfaces, however, this knowledge is not shared amongst the team and could cause problems for system support in the event of the unavailability of the member of staff.

- There is an absence of documentation from a business perspective in relation to interfaces and expected operation and reconciliation processes for these interfaces.
- The Accounts Payable Galaxy Library Payments to Accounts Payable interface involves a manual process of copying and pasting text from an email from the library, which is then saved in to a .txt file.
- All Accounts Payable Interfaces were identified as being reconciled; however, an inconsistent approach is being taken to recording this, with no recording of the reconciliation process from the Swift system.
- There are known problems reconciling the Transport Hire and Transport Fuel interfaces, however, this problem has not been reported to the Oracle Competency Centre.
- There are delays in the processing of Accounts Receivable interfaces for the Swift interface.

#### **2.8.10 Data Input Controls**

- Accounts Payable and Payroll do not have detailed procedures covering core business processes along with systems input requirements on the Oracle system.
- We identified a number of screens and fields in use on the system which are not required for day to day business processes.
- There are no secondary checks of bank details, which have been input, and it was advised that on occasions, this has led to errors in the entry of bank account details. There is also no post code look up functionality to ensure the address is valid.

#### **2.8.11 Output Reporting**

- There is an absence of knowledge of the reports that should be produced from the payroll operation as well as to whom these reports should be distributed.
- Oracle Business Intelligence Reporting (BI) has not yet been implemented.

#### **2.8.12 Change Control**

- Whilst change control processes follow a structured process, the process for testing changes and communications with the service and business acceptance operate in an informal way.
- There is a well-controlled list of individuals with access to approve RFC's, however, there are a large number of CapGemini employees with access to the portal and the last review date of the list could not be confirmed.

#### **2.8.14 Disaster Recovery**

- Disaster recovery test dates have not yet been agreed and scheduled with Oracle, to confirm the ability to recover the system in line with service expectations set out in Departmental Business Continuity Plans.

#### **2.8.14 Audit Opinion**

2.8.15 As a result of this audit we have raised 24 medium priority recommendations.

2.8.16 Recommendations raised relate to the need for:

- Project documentation to be formalised and approved prior to progression of the project into the subsequent stages of development (All recommendations are Medium Priority);
- The review of non-user accounts to remove generic accounts on the system;
- Review of user accounts to ensure that password expiry settings have been consistently applied across all users;
- The monitoring of failed and unsuccessful login attempts on a periodic basis;
- Development of documented procedures for the user management processes including user creation, amendment and removal;
- Review of the user population to ensure that roles and privileges have been correctly assigned and are in line with job roles;
- The need to review the audit and monitoring capabilities within the system;
- The need for sharing of knowledge in relation to interfaces to ensure that there is not over reliance on an individual member of staff;
- The development of documented procedures and reconciliation processes for reconciling interfaces on the system;
- The need to review the interface with the Galaxy Libraries application to identify if this can be automated to reduce the time taken to reconcile the interface;
- Consistency in reconciliation processes to ensure that Social Services interfaces are monitored and reconciled;
- Investigate reasons for the inability to reconcile the Transfuel and Translive interfaces and ensure that this is reported to the Oracle Competency Centre, where issues are identified;
- Review of the Accounts Receivable Swift interfaces to establish reasons for delays in the processing of files;
- The development of Payroll and Accounts Payable procedures;
- Review of data input screen to establish whether superfluous fields can be removed and fields made mandatory where required;
- Secondary checks of Accounts Payable 'Batch Direct payments' to verify the integrity of the data input;
- The need for an address validation solution including post code look up functionality;

- Investigation of the payroll manual formatting spreadsheet import process;
- Secondary checks of the Accounts Payable bank details input to verify the integrity of the data input to the system;
- Investigate the reports which should be produced from the payroll that has been processed and document the system;
- Resolve the current issues with Oracle Business Intelligence (BI) Reporting;
- Formalising change control processes for testing changes and gaining user engagement for the testing and implementation of the system;
- Review users with access to the 'My Oracle Support' portal; and
- Develop a schedule for disaster recovery and backup test restore exercises.

2.8.17 **A Limited Assurance** opinion has been given as there are weaknesses in the system of control as such to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

**Section 4 Schools Audit Work**

Three Schools audits were finalised by the end of December. Results of the audits are included in Schedule 2 below.

Management summaries will only be included in the quarterly progress reports when we have given limited or no assurance.

**Schedule 2: 2011/12 – School Audits Completed**

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
St Patrick's Catholic Primary School	Substantial	1	4	5	10	N/A
Suttons Primary School	Substantial	1	5	2	8	N/A
Rainham Village Primary School	Substantial	1	6	2	9	N/A



**Section 5 – Key Performance Indicators**

The tables below detail the profiled targets for the year and the performance to date at the end of December and the targets for the rest of the financial year.

<b>Audit Plan Delivered (%)</b>										
	<b>Q1</b>	<b>Jul</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>
Actual	17	23	31	40	50	57	63			
Cumulative Target	13	20	27	35	45	55	63	74	85	95

At the end of December 2011 the team is on target.

<b>KPI 01 - Briefs issued</b>										
	<b>Q1</b>	<b>Jul</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>
Actual	12	12	19	20	31	38	47			
Cumulative Target	12	17	22	29	36	43	48	52	56	56

Due to changes in the audit plan throughout the year it is now estimated that the team will undertake 56 audit assignments. At the end of December the team were one brief behind target. Targets for the rest of the year have been adjusted accordingly.

<b>KPI 02 – Draft Reports</b>											
	<b>Q1</b>	<b>Jul</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>
Actual	4	9	9	11	15	23	23				
Cumulative Target	5	8	10	14	19	26	35	37	45	52	56

At the end of December the team were 12 draft reports behind target. This is due to the on-going significant allocation of audit resources to Internal Shared Services which is not a traditional audit work, and has fewer deliverables, but is required to provide the assurances required by management.

<b>KPI 03 – Final Reports</b>											
	<b>Q1</b>	<b>Jul</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>
Actual	2	0	4	8	9	28	22				
Cumulative Target	3	5	7	10	16	23	30	34	42	47	56

At the end of December the team were eight final reports behind target.

**Section 6 – Changes to the Approved 2011/12 Audit Plan**

In March 2011 the Audit Committee approved an Annual Audit Plan for the 2011/12 financial year totalling 1466 days.

The table below provides a summary of the audits removed from, and added to, the 2011/12 approved audit plan and the reason for the change. It also reflects where there has been a change in budget.

The impact on the total days in the plan has been managed by adjusting the contingency budget and other budgets for the year. The totalled planned days remain at 1466. Although there has been an unfilled vacancy in the team for part of the financial year it is hoped that this will not impact on delivery of the whole audit plan as efficiencies in how resources are utilised have been achieved.

<b>Audit Title</b>	<b>Days</b>	<b>Revised Days</b>	<b>Directorate</b>	<b>Reason</b>
Outcomes of Transformation Programme	20	0	Corporate	Transformation Programme still ongoing, other assurances available to management.
i-expenses Expenses	10	20	Corporate	Sample of testing increased
Agency expenses	0	5	Corporate	Added to 2011/12 plan

## Section 7 – Outstanding Recommendations Summary Tables

### 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

### Outstanding Internal Audit Recommendations – 2008/09

Review in 2008/09	HoS Responsible	Outstanding			Position as at end December 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
E Payments	Business Systems		1		1		
Commissioning of Works (Jacobs)	Asset Management	3			3		
IT Security & Data Management	Business Systems	2			2		
Telecommunications	Business Systems	1			1		
Cemeteries & Crematorium	Housing & Public Protection		1		1		
<b>Total</b>		<b>6</b>	<b>2</b>		<b>8</b>	<b>0</b>	<b>0</b>

**Outstanding Internal Audit Recommendations – 2009/10**

Review in 2009/10	HoS Responsible	Outstanding			Position as at end December 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Integrated Youth Services	Children's and Young people		1	1	2		
Climate Change	Culture & Community		1		1		
Government Connect GCSx	Business Systems	2	2		4		
Commensura	Shared Service		1		1		
Contract Completions	Asset Management			2	2		
Integrated Children's Systems	Children's and Young People		2		2		
	<b>Total</b>	<b>2</b>	<b>7</b>	<b>3</b>	<b>12</b>	<b>0</b>	<b>0</b>

**Outstanding Internal Audit Recommendations – 2010/11**

Review in 2010/11	HoS Responsible	Outstanding			Position as at end December 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Tranman	Asset Management	3	1		4		
Service Desk	Business Systems		2	1	3		
Corporate Support Team	Asset Management		1	1	2		
Section 106	Development & Building Control		1		1		
IT Change Management	Business Systems		1		1		
Payroll	Shared Services			1	1		
Pensions	Shared Services			1	1		
Child Protection	Children & Young People's Services		2		2		
IT Security	Business Systems		1		1		
<b>Total</b>		<b>3</b>	<b>9</b>	<b>4</b>	<b>16</b>	<b>0</b>	<b>0</b>

Outstanding Internal Audit Recommendations – 2011/12

Review in 2011/12	HoS Responsible	Outstanding			Position as at end December 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Complaints	Customer Services	1	1		2		
	<b>Total</b>	<b>1</b>	<b>1</b>		<b>2</b>	<b>0</b>	<b>0</b>

# AUDIT COMMITTEE

29 February 2012

**Subject Heading:**

Fraud Progress Report

**Report Author and contact details:**

Vanessa Bateman – Internal Audit & Corporate Risk Manager  
ext: 3733 email:

**Policy context:**

vanessa.bateman@havering.gov.uk  
To advise the Committee of the work and performance of the Council's anti fraud and corruption resources.

**Financial summary:**

This report details financial information relating to fraud investigations.

**The subject matter of this report deals with the following Council Objectives**

Clean, safe and green borough	[X]
Excellence in education and learning	[X]
Opportunities for all through economic, social and cultural activity	[X]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[X]

**SUMMARY**

This report advises the Committee of the work of the Benefit Investigation Section and the Internal Audit Fraud Team from 3<sup>rd</sup> October 2011 to 30<sup>th</sup> December 2011.

**RECOMMENDATIONS**

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of the officers where required, either with regards the cases highlighted or the performance of the respective teams.

**REPORT DETAIL**

This report contains three sections; the content of each section is outlined below:

Section 1. Background & Resources

Section 2. HB/CTB Fraud Work, Housing Tenancy & Internal Audit Fraud Work

- A) Case Load
- B) Referrals & Fraud Reports
- C) Current Case Load
- D) Outcomes
- E) Case Studies and Proactive Work
- F) HB/CTB fraud overpayments
- G) Savings & Losses

Section 3. Direction of Travel

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

Fraud and corruption will often lead to financial loss to the authority. By maintaining robust anti fraud and corruption arrangements and a clear strategy in this area, the risk of such losses will be reduced. Arrangements must be sufficient to ensure that controls are implemented, based on risk, to prevent, deter and detect fraud. The work of the fraud team often identifies losses which may be recouped by the Council. The work of the Benefit Investigation Team regularly identifies benefit to which claimants are not entitled which are to be recovered by the Council. There are however, no direct financial implications or risks arising directly from this report.

**Legal implications and risks:**

There are no legal implications from noting the contents of this Report.

**Human Resources implications and risks:**

There are no HR implications from noting the contents of this Report.

**Equalities implications and risks:**

There are no Equalities implications from noting the contents of this Report.

**BACKGROUND PAPERS**

None.



**Section 1**    **Background & Resources**

- 1.1 Grant funding provided to the Council to deal with tenancy fraud has been used to strengthen the structure and resource available within the investigations team. For six months two housing benefit investigators will work alongside the existing two investigators, seconded into the temporary posts set up, to investigate tenancy fraud referrals. Agency workers are being used to backfill the housing benefit fraud posts. Pro active work is expected to generate 1000 additional referrals for the investigations team. It is planned that within the six month period a restructure of the team will be launched to ensure the establishment is flexible enough to meet the needs of the organisation in the future.
- 1.2 The vacant Principal Auditor post within Internal Audit has been advertised and the interviews will take place in March.
- 1.3 The forecast outturn for 2011/12 is currently within the allocated budget.

**Section 2    Fraud Cases October to December**

**A) Case Load**

2.1 The table at para. 2.2 provides the total cases at the start and end of the period and referrals, cases closed and cases completed.

2.2

<b>Caseload Quarter 3 2011/12</b>						
<b>Team</b>	<b>Cases At start of period</b>	<b>Referrals received</b>	<b>Referrals rejected/ overloaded</b>	<b>Cases Fraud not Proven</b>	<b>Cases Successful</b>	<b>Cases at end of period</b>
HB/CTB	430	181	23	97	47	444
HT	49	37	-	6	3	77
Corporate	16	5	0	1	5	15
<b>TOTAL</b>	<b>495</b>	<b>223</b>	<b>23</b>	<b>104</b>	<b>55</b>	<b>536</b>

**B) Referrals & Fraud Reports**

2.3 The table 2.4 provides the sources of fraud referrals for the respective sections.

2.4

<b>Source of Referrals &amp; Fraud Reports Quarter 3 2011/12</b>				
<b>Number of Referrals/ Type</b>	<b>HB/CTB Referrals Q3 11/12</b>	<b>HT Referrals Q3 11/12</b>	<b>IA Fraud Reports Q3 11/12</b>	<b>Overall Total Q3 11/12</b>
Anonymous	50	12	1	63
External Organisations / Members of the Public	11	0	0	11
Internal Departments Whistleblowers	73	5	4	82
Social Landlords (inc HiH)	11	12	0	23
Data Matching / Proactive initiative	36	8	0	44
<b>Total</b>	<b>181</b>	<b>37</b>	<b>5</b>	<b>223</b>

2.5 The table at para. 2.6 shows the categories of the potential HB/CTB fraud referrals from October 2011 to December 2011.

2.6

<b>Referrals by Category</b>	
<b>Potential Fraud</b>	<b>Quarter 3 11/12</b>
Capital	9
Contrived Tenancy	3
Income from Other Sources	7
Living Together	68
Non-Dependant	7
Non-Resident/vacated	48
Other welfare benefits	-
Working	18
Non Commercial Tenancy	-
Other	8
Single Person Discount	11
Fraudulent Housing Application	2
<b>Total</b>	<b>181</b>

2.7 The table at para. 2.8 shows the categories of the potential corporate fraud reports from October 2011 to December 2011.

2.8

<b>Reports by Category</b>	
<b>Potential Fraud</b>	<b>Quarter 3 11/12</b>
PC – misuse and Abuse	-
Misuse of Council Time	2
Misuse of Council Vehicle	1
Breach of Code of Conduct	1
Breach of Council Procedures	-
Falsification of Records	-
Overcharging by Supplier	-
Overpayment Recovery	1
<b>Total</b>	<b>5</b>

2.9 The table at para. 2.10 shows the categories of the potential tenancy fraud reports from October 2011 to December 2011.

2.10

<b>Referrals by Category</b>	
<b>Potential Fraud</b>	<b>Quarter 3 11/12</b>
Subletting	16
Not main/principal home	18
Obtained tenancy by deception	-
False claim for Succession	1
Fraudulent assignment	-
Fraudulent RTB	1
Unlawful Mutual Exchange	-
Fraudulent Housing Register Application	-
Fraudulent Homeless Application	1
<b>Total</b>	<b>37</b>

**C) Current Caseload**

2.11 The table at para. 2.12 shows the current caseload by category.

2.12

<b>Current Cases by Category</b>	
<b>Potential Fraud</b>	<b>As at Dec 11</b>
Capital	39
Contrived Tenancy	3
Income from Other Sources	36
Living Together	118
Non-Dependant	23
Non-Resident/vacated	87
Other welfare benefits	8
Working	36
Non Commercial Tenancy	5
Other	13
Single Person Discount	71
Fraudulent Housing Application	5
<b>Total</b>	<b>444</b>

2.13 The table at para. 2.14 shows the current caseload by category.

2.14

<b>Current Cases by Category</b>	
<b>Potential Fraud</b>	<b>As at end of Quarter 2 11/12</b>
PC – misuse and Abuse	-
Misuse of Council Time	6
Misuse of Council Vehicle	1
Breach of Code of Conduct	3
Breach of Council Procedures	1
Falsification of Records	1
Overcharging by Supplier	1
Overpayment Recovery	2
<b>Total</b>	<b>15</b>

**D) Outcomes**

2.15 The number of successful outcomes for the benefits investigations team from July 2011 to September 2011 is detailed in Table 2.16 below.

2.16

<b>Successful Outcomes</b>			
<b>Sanction/ Offence Type</b>	<b>Administrative Penalties</b>	<b>Cautions</b>	<b>Prosecutions</b>
Capital	6	1	1
Working and Claiming	2	3	1
Contrived Tenancies	-	-	-
Living Together	1	2	4
Income from other sources	2	2	3
Vacated	-	1	2

Non Dependants	-	-	-
<b>Total</b>	<b>11</b>	<b>9</b>	<b>11</b>

2.17 The financial investigator has been in post for over a year. She currently has seven open cases which has resulted in nine properties, eight vehicles, two speedboats and three banks accounts being restrained. Two of the cases are in their final stages and it is likely we will confiscate assets under the Proceeds of Crime Act within the next six months.

2.18 The following is a case summary from a case successfully prosecuted within the period of the report.

2.19 Mr X received benefit for accommodation that he claimed to rent on a farm. An investigation established that the claimant ran his business on the farm, owned horses, ran an equestrian centre and hired out the lakes to fisherman. It was also discovered that the claimant didn't actually reside at the property but lived with his wife at a property where she claimed benefit as living on her own. In a large scale operation both properties were visited and searched by Council Officers, DWP and Police Officers. Due to the weight of personal and financial property found at the addresses both Mr & Mrs X's benefit claims were cancelled resulting in both of them being prosecuted. Mrs X received 42 weeks custodial suspended for 24 months and ordered to undertake 120 hours of unpaid work. She was also ordered to pay £500 costs. Mr X received a 24 month conditional discharge on all offences to run concurrently. He was also ordered to pay £500 costs.

As a result of this fraud the total benefit overpaid by the London Borough of Havering was £55,447.59.

2.20 The case outcomes for the Internal Audit Fraud Team from October to December are detailed in table 2.21 below.

2.21

<b>Case Outcomes</b>	
<b>Outcome</b>	<b>Qtr 2</b>
Management Action Plan	3
Disciplinary	-
Dismissed	2
Resigned	-
Contract ended	-
Insufficient Evidence	1
No case to answer	-
Refund received	-
Property Recovered	-
<b>Total</b>	<b>6</b>

2.22 The case outcomes for the Internal Audit investigations from October to December are detailed in table 2.23 below.

2.23

<b>Successful Outcomes</b> (Note: Cases may have multiple outcomes)	
<b>Outcome Type</b>	<b>Q3 11-12</b>
Tenancy Relinquished voluntarily (keys handed in)	4
Property recovered via court action	-
Succession / assignment / Mutual Exchange prevented	1
RTB stopped	-
Homeless Duty discharged	1
Housing Register application withdrawn	-
Temporary accommodation withdrawn	1
Prosecution	-
<b>Total</b>	<b>7</b>

## E) Case Studies and Proactive Work

### 2.24 First Success from Tenancy Audit

We reported last time on the tenancy audit at Waterloo Road Estate. The Tenancy Fraud Team have recently recovered the first property as a result of this exercise.

When the exercise took place the tenant of flat X was not home for all three visits (including Saturday morning). So a card was left asking for contact to be made. This was not responded to so a further visit was undertaken, still with no answer, and so a letter was left informing the Mrs X that she had seven days to make contact. The case was classified as “suspicious” and investigations were commenced. The tenant eventually made contact after four weeks. A visit was arranged to carry out the tenancy audit. When the investigator visited the flat was furnished but lacked “homely” items such as pictures, photos, etc. The flat was very cold and there was no TV. The investigator asked the tenant to explain her whereabouts for the last four weeks and why she had not telephoned. The tenant said she had been on holiday and had been staying with her daughter. When the investigator asked why she did not have a TV the tenant said that she could not afford a TV or a TV licence. It was suspected that Mrs X was not using the property as her main and principal home.

Further investigations were conducted on Mrs X. It was found that she was the owner of two houses in Clacton, one that she appeared to live in and one that was rented out. Two investigators visited the house in Clacton. Mrs X was found at her two bedroom, semi-detached bungalow in Clacton with her Husband. She had a large flat screen TV and a TV licence. Mrs X denied not using the flat and claimed that she stayed in Clacton only

occasionally and that the bungalow was her holiday home.

A Notice to Quit was served by Homes in Havering and as a result Mrs X handed the keys in on 10 February 2012.

#### 2.25 Successful Partnership with Guinness Trust

As part of the Tenancy Fraud work that has taken place across the borough we have been establishing partnerships with the larger Social Landlords within Havering. One of these is Guinness Housing Trust. Guinness had rented a three bedroom house to Miss Z and her two children last summer. The tenancy had been granted by way of a mutual exchange with a Kent based Social Landlord. The Guinness Housing officer had become suspicious the Miss Z had never actually moved in and asked Havering Council for assistance. We undertook an investigation on their behalf. We found that Miss Z had never moved in to the property and had sub-let it to a Mr and Mrs Y for £800 per month. She had not paid any rent to Guinness since taking up occupation so this was pure profit. As a result of our findings Guinness Trust served NTQ on Miss Z and Mr and Mrs Y. The keys were handed in on 24 January 2012. The property will be re-let shortly to a family from Havering Council's housing register.

#### F) **HB/CTB Fraud Overpayments**

2.26 The value of fraudulent housing benefit overpayments generated for the third quarter of the 2011/12 year are contained in table 2.27.

2.27

<b>Fraudulent Overpayment</b>	
<b>Type</b>	<b>Qtr 3</b>
Rent Rebate	194,775
Rent Allowance	171,286
Council Tax Benefit	82,297
<b>Total</b>	<b>449,358</b>

#### G) **Savings and Losses**

2.28 When a fraud is committed there may be two elements to the financial consequences. The table below details the losses identified in the period 1st October 2010 to 31st March 2011 and the case details.

Definitions of terms in table:

**Losses** - These are the sums of money that the audit determined have been lost or stolen.

**Savings** - refer to the amounts of money that the detection of the fraud has



prevented being lost. A prime example of this would be the discount on a right to buy. If we prevent the sale then we prevent the discount being given and thereby we save the Council money.

**Management to recover** - These are the actual sums of money which management can take action to recover from those "lost".

2.29

Case details	Savings identified	Losses Identified	Management to recover	Details
Change of bank details fraud.		310,000	90,000	A payment was made to a fraudulent bank account following receipt of a bogus request to change bank details.

**Section 3** **Direction of Travel**

- 3.1 There is a focus on proactive work in both the Housing Benefit and Tenancy Fraud Teams. The second single person discount data match has now taken place and has resulted in around 400 matches where fraud has been indicated. These cases will have further intelligence gathered and will be prioritised accordingly. A data match has also taken place using Homes in Havering and credit referencing data. The outcome is expected to show around 600 matches. As detailed earlier in this report a temporary structure has been implemented to deal with the sudden increase in investigations that this proactive approach has generated.
- 3.2 There have been no further updates regarding the introduction of Universal Credit and the creating of the Single Fraud Investigations Service. Several joint workshops have taken place but no details have been released to date.
- 3.3 In the short term the Investigations Team will be restructured but resources will continue to specialise. In the longer term a Corporate Fraud Team will be created, this will take place when there is greater certainty around the SFIS and when internal risk assessment work regarding fraud risks has been completed. The decision whether to bring the management of the housing stock back in house and the resulting changes to the Council's structure are also relevant to the future of the fraud team.

# AUDIT COMMITTEE

29 February 2012

**Subject Heading:**

Annual Review of Audit Committee Effectiveness

**Report Author and contact details:**

Vanessa Bateman – Internal Audit & Corporate Risk Manager  
ext: 3733 email:  
[vanessa.bateman@havering.gov.uk](mailto:vanessa.bateman@havering.gov.uk)

**Policy context:**

To inform the Committee of the results of the Annual Review of Audit Committee Effectiveness.

**Financial summary:**

There is no specific financial impact to be considered from this report.

**The subject matter of this report deals with the following Council Objectives**

Clean, safe and green borough	[X]
Excellence in education and learning	[X]
Opportunities for all through economic, social and cultural activity	[X]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[X]

**SUMMARY**

Best practice guidance suggests the effectiveness of the Audit Committee is considered on an annual basis. In 2011 a full review against best practice guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) was completed and an improvement plan drawn up.

This years review has considered changes in the committee and this report updates the Committee on the actions taken since the last review.

**RECOMMENDATIONS**

1. To note the contents of the report.

## REPORT DETAIL

A self assessment checklist has been produced by CIPFA as part of the Toolkit for Local Authority Audit Committees. In 2011 the Committee Chair, with assistance from the Interim Internal Audit and Corporate Risk Manager, undertook the full self assessment seeking comments from the members of the Committee as part of the process. The self assessment covers 10 different areas of Committee responsibility, administration and activity.

As a result of the self assessment four areas were highlighted for improvement. These were included in an improvement plan which was agreed by Audit Committee on 1 March 2011.

To inform this year's review a meeting was held with the Chair of the Audit Committee to review changes which may affect the self assessment and progress with the improvement plan.

The membership of the Committee is generally stable; one new member has recently joined the Committee so one to one support will be provided to ensure they feel fully informed and able to fulfil their role. The programme of briefings on relevant topics have continued and are timetabled going forward.

Progress against the improvement plan is reported in Appendix A.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

None directly arising from this report, however the existence of an effective Audit Committee is fundamental in ensuring the Council maintains a robust system of internal control. Failure of the Audit Committee to undertake its duties in an effective manner may result in issues that arise not being addressed.

### **Legal implications and risks:**

There are no legal implications from noting the contents of this Report.

### **Human Resources implications and risks:**

There are no HR implications from noting the contents of this Report.

### **Equalities implications and risks:**

There are no Equalities implications from noting the contents of this Report.

Audit Committee, 29 February 2012

**BACKGROUND PAPERS**

Audit Committee Handbook, HM Treasury, 2007

CIPFA Toolkit for Local Authority Audit Committees, 2006.

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## Appendix A

### Audit Committee effectiveness improvement plan – Update on progress

<b>ESTABLISHMENT, OPERATION AND DUTIES</b>				
<b>Role and remit</b>				
<b>Issue</b>	<b>Compliance</b>			<b>Action</b>
	Yes	Partial	No	
Does the audit committee have written terms of reference?		X		<p>2011 - Terms of Reference should be agreed that cover the roles and responsibilities of the Audit Committee that are separate from the constitution.</p> <p>2012 – No change – as the Committee's TOR are included in the constitution it is not feasible to fully comply with this requirement. However the chair of the committee is satisfied that the current arrangements are satisfactory and partial compliance is acceptable.</p>
<b>Membership, induction and training</b>				
Have all members' skills and experiences been assessed and training given for identified gaps?	X			<p>2011 - A skills and knowledge assessment needs to be conducted to inform future training needs for the committee.</p> <p>2012 – Skills audit has now been completed and will inform the relevant individuals and/or groups training plan for the coming year.</p>
<b>Meetings</b>				
Do the terms of reference set out the frequency of meetings?		X		<p>2011 - Democratic Services will be consulted with regards to including this in the TOR.</p> <p>2012 – No change, although now classified as partial as meeting dates are set a year in advance and publicised on the councils website. The committee chair considers this is adequate provision.</p>
<b>FINANCIAL REPORTING AND REGULATORY MATTERS</b>				
Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	X			<p>2011 - A mechanism needs to be established for members of the committee to receive circulars and updates.</p> <p>2012 – A full training plan is followed through the year, usually covering topical issues. Committee is regularly briefed on ongoing matters by the Head of Finance or the Internal Audit Manager.</p>

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# AUDIT COMMITTEE

29 February 2012

<b>Subject Heading:</b>	Closure of Accounts Timetable 2011/12
	Contact: Mike Board Designation: Corporate Finance & Strategy Manager Telephone: (01708) 432217 E-mail address: mike.board@havering.gov.uk
<b>Policy context:</b>	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2011/12
<b>Financial summary:</b>	There are no direct financial implications to the report. However, the increased disclosure requirements relating to Infrastructure assets may require additional costs to be incurred in relation to the valuation and review of those assets.

**The subject matter of this report deals with the following Council Objectives**

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

**SUMMARY**

This report advises the Audit Committee of the progress to date in preparing for the closure of Accounts 2011/12 since the initial report of 21 December 2011.

## RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to prepare for the 2011/12 closure of accounts.

## REPORT DETAIL

### 1. Background

An initial report on the progress in preparing for the 2011/12 close-down was made to Audit Committee. Progress to date is discussed below.

### 2. Progress to Date

- 2.1 The Closure timetable has now been issued and is being monitored by Corporate Finance staff.
- 2.2 The following matters have been addressed since the initial report.
  - a) The procedure manual has been issued to all finance staff.
  - b) ISS staff are investigating the potential to produce the accrued leave report from Oracle (which would avoid the sampling approach adopted last year).
  - c) Corporate Finance staff have met with valuers to review the policy in connection with the componentisation of assets. Further work is being undertaken before the related accounting policies are updated
  - d) Progress is being made in connection with the collection of asset valuation data for the recognition of heritage assets and transport infrastructure assets. The heritage asset valuations are required for disclosure in 2011/12.
  - e) The draft format of accounts has now been created for 2011/12 based upon the latest guidance.
  - f) Systems reconciliations are being monitored by ISS staff on a monthly basis. These will be reviewed during regular ISS/Corporate joint meetings in the lead up to closure.
  - g) The external auditors, PwC will commence the interim audit on 26<sup>th</sup> March.

### **Financial Implications and risks:**

The technical accounting changes arising from the revisions to The Code of Practice do not give rise to any direct financial implications. However, the more complex accounting and valuation requirements associated with infrastructure assets will generate additional work and may give rise to increased cost pressures. In particular, it will be necessary to introduce a regular valuation programme for all infrastructure assets in order to value them on a Depreciated Replacement Cost (DRC) basis instead of Depreciated Historic Cost (DHC).

The following risks have been identified in 2012 and are being monitored corporately.

- a) *Restructure of ISS & Closedown arrangements on new system*  
Regular liaison meetings have now been established between ISS and Corporate Finance staff in order to monitor progress against the timetable. It is planned to continue to monitor all systems reconciliations on a regular basis in the lead up to closedown. The actual system closedown arrangements for year end remain of crucial importance.
- b) *Schools Systems Interface*  
Schools Financial transactions are recorded in a separate Schools Financial System. At the time of preparing this report it has not been possible to upload the data. The interface has been re-written and is currently being tested. However, if this matter cannot be resolved it will be necessary to adopt a fallback position to upload data manually in order to ensure that deadlines are met.

### **Legal Implications and risks:**

Section 21 of the Local Government Act 2003 requires that accounting practices including the Statement of Accounts be undertaken in accordance with proper practices set out in relevant regulations. The Local Authority must also have regard to the code of Practice on Local Authority Accounting for 2011/12 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1<sup>st</sup> April 2011.

### **Human Resources Implications and risks:**

None arising directly

### **Equalities and Social Inclusion Implications and risks:**

None arising directly

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**CHERYL COPPELL**  
**Chief Executive**

Background Papers List

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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