



Havering

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.30 pm	Wednesday 25 April 2012	Committee Room 2 - Town Hall
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Members 6: Quorum 3

COUNCILLORS:

**Conservative Group
(4)**

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

**Residents' Group
(1)**

Clarence Barrett

**Labour Group
(1)**

Denis Breading

**For information about the meeting please contact:
James Goodwin 01708 432432
email: james.goodwin@havering.gov.uk**

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 29 March 2012 and authorise the Chairman to sign them.

5 JACOBS CONTRACT FOLLOW-UP

An oral report will be given by Head of Asset Management.

6 CLOSURE OF ACCOUNTS TIMETABLE 2011/12.

An oral report will be given by the Head of Financial Services.

7 ORACLE AUDIT REPORT - FOLLOW-UP (Pages 9 - 20)

Report attached..

8 INTERNAL AUDIT PROGRESS REPORT (Pages 21 - 38)

Report attached.

9 EXTERNAL AUDIT PLAN 2011/12 PENSION FUND AUDIT (Pages 39 - 56)

Report attached.

10 TRAINING REQUIREMENTS FOR AUDIT COMMITTEE. (Pages 57 - 60)

Report attached.

11 DRAFT AUDIT PLAN - UPDATE. (Pages 61 - 70)

Report attached.

12 ANNUAL REPORT OF THE AUDIT COMMITTEE. (Pages 71 - 84)

Report attached.

13 DEMISE OF THE AUDIT COMMISSION.

An oral report will be given by the Head of Financial Services.

14 URGENT BUSINESS

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

15 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.

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

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**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
29 February 2012 (7.30 - 8.58 pm)**

Present:

COUNCILLORS:

Conservative Group Georgina Galpin (in the Chair) Osman Dervish (Vice-Chair), Roger Ramsey and Frederick Thompson

Residents' Group Clarence Barrett

Labour Group Denis Breading

**Independent Residents
Group**

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

31 CHAIRMAN'S ANNOUNCEMENTS

The Chairman advised the Committee that Councillor Denis Breading had been appointed to serve on the Committee to replace Councillor Pat Murray. Councillor Murray had just attended one meeting when he replaced Councillor Paul McGeary.

The Committee placed on record their appreciation of Councillor McGeary's service on the Committee.

32 MINUTES OF THE MEETING

The minutes of the meeting held on 21 December 2011 were agreed as a correct record and signed by the Chairman.

33 UPDATE ON OBJECTION TO ACCOUNTS ACTION PLAN

The Committee were advised that officers had been pursuing the options available to legally terminate the contract. The original Counsel's opinion had concluded that this would not be possible. However, when further papers were found Counsel had now concluded that it would be legally possible to terminate the contract. Officers were drawing up a termination letter and once the digital switch over had been completed in May 2012 officers would meet with Surtees to hand over the termination letter. The

biggest risk associated with this course of action was that Surtees would withdraw and at the same time remove the equipment they had installed. Counsel's opinion indicated that this was not an option open to Surtees.

In response to the auditors report officers had undertaken a comprehensive review of service charges over the past two years. This had culminated in the new charges been levied on tenants with effect from the recent rent review. One significant area was that approximately 2,000 tenants were now required to pay a service charge for TV points and grounds maintenance. Of the 2,000 letters sent to tenants to advise them of the charge, only 94 had resulted in a response.

PwC had been presented with a list of tenants who receive the TV service. They indicated that this satisfied their requirements, but they would not be checking the list, they just needed an assurance that the list existed.

With regard to Mr MacDonald the Council had appealed against the LVT decision and this would be heard in early May.

PwC advised the Committee that they had issued a final conclusion to Mr MacDonald's objection to the 2010/11 accounts. He was not happy with the conclusion and had exercised his right to appeal to the High Court.

The Committee **noted** the report.

34 **NDR (NON DOMESTIC RATES)**

The Head of Customer Services attended the meeting to provide the Committee with an update on his response to the Internal Audit report on Non Domestic Rates. The Committee were advised that of the five recommendations in the review three had been completed and two were being progressed.

Resources to strengthen the monitoring of the work being undertaken on the Council's behalf by London Borough of Barking and Dagenham were being increased. Furthermore, procedures were being reviewed and when agreed would be provided to the service providers.

The Committee **noted** the report.

35 **COMPLAINTS**

The Committee received an oral report from the Head of Customer Services on progress towards implementing the recommendations of the Internal Audit review of the corporate complaints process. The review had raised three recommendations. The response from management as explained by the Head of Customer Services was that all staff should receive up to date training not just complaints staff. The guidance on the Intranet had been updated.

The one area of concern remaining related to quality spot checks by management. This was not the sole responsibility of Customer Services and relied on Heads of Service to ensure spot checks were carried out. The Committee were concerned that no complaints were bypassing the CRM system. Officers were of the opinion that the spot checking would pick up any problems.

The Committee **noted** the report.

36 EXTERNAL AUDIT 2010/11 AUDIT PLAN

The Council's External Auditors, PricewaterhouseCoopers (PWC) had submitted their proposed External Audit Plan for 2011/12. The Committee were advised that the fee proposed for 2011/12 was £368.099, a reduction of nearly £10,000 on the fee for 2010/11. PWC advised the Committee that they proposed to treat mis-statements less than £500k as being clearly trivial.

PWC identified the following Financial Statement Risks which they would consider during the audit. These were;

- Fraud – management override of controls
- Fraud – Recognition of income and expenditure
- New financial system – Oracle E-Suite
- Depreciation expense may not be correctly treated in the accounts.

Additionally they would consider the risk that the savings plans identified by the July 2011 Cabinet might not be robust enough.

As requested by PWC the Committee **confirmed**:

- Other than the matter reported to this meeting the Committee had no knowledge of fraud, actual, suspected or alleged, including those involving management:
- The Committee have a supervisory role in respect of fraud, the power to investigate lies with officers; and
- The committee receive regular reports from those officers responsible for investigations allegations of fraud and undertaking proactive audits to identify fraud and the opportunities for fraud.
- The committee receives regular training to ensure it is fully equipped to understand all issues relating to its role as an Audit Committee.

The Committee **noted** the report and recognised that a separate report would be submitted to the Pensions Committee in respect of the audit of the Pension Fund.

37 2010/2011 AUDIT REPORT OF GRANT CLAIMS AND RETURNS.

The Committee were advised that the External Auditors PricewaterhouseCoopers (PWC) had issued their Grants Certification Report (2010/11). Of the ten claims and returns which required certification nine needed no qualification. The tenth claim in respect of Housing and

Council Tax Benefit required an amendment of £942 against a claim of £96.7m.

When PWC had drawn up their Action Plan for 2010/11 they had identified five recommendations for the Council to address during the year. All five recommendations had been implemented. The Action Plan for 2011/12 contained two issues identified during the 2010/11 audit process for addressing in 2011/12. These were a recommendation that the Council continue its programme of training officers regularly in respect of the Housing and council tax benefits subsidy, and that the Council review the specific issues regarding the classification by type of council dwellings.

Officers informed the Committee that the issues raised during the audit of the Housing and council tax benefits subsidy claim would continue to be incorporated in the Benefit Officer training programme. With regard to the classification by type this would no longer be needed after 1 April 2012. However, it would be good practice in the future to maintain the classification. HiH would continue to sample check the stock analysis as and when properties were surveyed for decent homes work. It was not deemed value for money to undertake a whole stock check.

The Committee were advised that although confirmation was still awaited it appeared that just 9 grants will require Audit Commission certification in 2011/12.

The Committee **noted** the report.

38 **ANNUAL REVIEW OF RISK MANAGEMENT ARRANGEMENTS**

Officers informed the Committee that an annual review of Risk Management Arrangements is usually reported to the Audit Committee, along with the revised Strategy and a copy of the Corporate Risk Register (CRR). However, this year a Corporate Leadership Team (CLT) working group had been established to review the Risk Management Arrangements. Accordingly the Committee was provided with an update on progress to date and the next planned steps.

It was acknowledged that the Council had robust Risk Management arrangements within services; however, it was the communication link between the Service and Corporate level where more efficiency through stronger links could be exploited. This was particularly important going forward as resources available to the organisation were reduced.

The key conclusions of the CLT group were:

- 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 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.

The CMT would be considering a full report in March, following which a further report would be submitted to this committee for agreement.

The Committee **noted** progress so far.

39 **INTERNAL AUDIT CHARTER AND TERMS OF REFERENCE**

The Committee were advised that the requirement for a local authority to have an internal audit function was implied by s151 of the Local Government Act 1972, which required that authorities 'make arrangements for the proper administration of their financial affairs.' Additionally Regulation 6 of The Accounts and Audit Regulations 2011 made provision for relevant bodies to maintain an adequate and effective internal audit of their accounting records and systems of internal control.

The Council have adopted the CIPFA Code of practice for Internal Audit in Local Government in the UK 2006 and its definition of Internal Audit. Officers had drawn up a Terms of Reference and Internal Audit Charter setting out the role and responsibilities of Internal Audit. Details of the proposed changes to update the document were considered by the Committee.

The Committee **APPROVED** the updated Internal Audit Charter and Terms of Reference as attached as Appendix 'B' to the report.

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

Each year the Committee consider its Strategy and Plan for the forthcoming year. The Strategy outlined the means by which Internal Audit would achieve its objectives. The individual audits shown in the plan and the assurance gained by completing them would be fed into the Head of Internal Audit Opinion, which was a key assurance for the Annual Governance Statement.

Officers informed the Committee that although the draft Action Plan was available there was a need to consult with management before it could be finalised. A large contingency had been maintained as it was envisaged that the implementation of a new approach to risk management would identify a number of additional areas where management would require assurance. Officers intended to represent the Plan to the next meeting of the Committee.

The report was **noted**.

41 **INTERNAL AUDIT PROGRESS REPORT**

Officers advised the committee that in quarter 3 they had completed 8 systems audits. Of these 6 had received substantial audits and two limited audits. Details of work in progress were provided.

The Committee asked that officers attend the next meeting of the Committee to respond to the limited assurance given in respect of the Jacobs Contract follow up. Similarly the Committee asked that officers attend the next meeting to provide their response to the 24 recommendations raised in respect of Oracle Financials.

In response to questions from the Committee officers were able to give an assurance that the issues raised in respect of Registrars had been actioned and that a further annual audit would take place as programmed. No additional action was necessary at this time.

The Committee noted that no action was required in respect of the three completed school audits, all of which had received a substantial opinion.

Subject to the above the report was **noted**.

42 **FRAUD PROGRESS REPORT**

The Committee were provided with details of the work of the Benefit Investigation Section and Internal Audit Fraud Team from 3 October to 30 December 2011. Officers advised the Committee that grant funding had been provided to the Council to deal with tenancy fraud, and this money had been used to strengthen the structure and resource available within the investigations team. For six months two housing benefit investigators would work alongside the two existing investigators, seconded into the temporary posts set up to investigate tenancy fraud referrals. Pro-active work was expected to generate 1000 additional referrals for the benefits team. During this period it was proposed to restructure the team to ensure the establishment was flexible enough to meet the needs of the organisation in the future.

Officers provided the Committee with details of the number of cases dealt with in the quarter. Examples of successful cases were provided for the Committee's information.

Officers additionally provided the Committee with details of one case which had led to the Council changing its procedures to ensure the fraud could not be repeated. The Group Director, Finance and Commerce agreed to regularly update the Committee.

The Committee **noted** the report.

43 **ANNUAL REVIEW OF AUDIT COMMITTEE EFFECTIVENESS**

The Committee were advised that last year a full review of the Committee's effectiveness had been undertaken compared to best practice guidance issued by the Chartered Institute of Public Finance & Accountancy was completed and an improvement plan drawn up. Officers were now updating the committee on progress. A self assessment check had been undertaken by the Chairman which highlighted four areas for improvement. Of the four areas two were now fully compliant and two partially compliant.

The Audit Committee does not have separate Terms of Reference, these were included in the Council's constitution, and the Chairman was satisfied that these arrangements were satisfactory. Meeting dates were set annually by the full Council and these were publicised on the Council's website.

The report was **noted**.

44 **DEMISE OF AUDIT COMMISSION**

Officers updated the Committee on the proposals following the Under the current proposals External Auditors would need to be appointed by Full Council on the advice of an Independent Panel with an independent Chairman, and a majority of independent members. What was meant by Independent Members was still unclear and officers would update members when clear advice was available.

The Committee **noted** the report.

45 **CLOSURE OF ACCOUNTS TIMETABLE 2011/12**

Officers advised the Committee that the closure timetable had been issued and was being monitored by Corporate Finance staff.

The following matters had been addressed since the initial report.

- a) The procedure manual had been issued to all finance staff.

- b) ISS staff we investigating the potential to produce the accrued leave report from Oracle (which would avoid the sampling approach adopted last year).
- c) Corporate Finance staff had met with valuers to review the policy in connection with the componentisation of assets. Further work was being undertaken before the related accounting policies were updated
- d) Progress was 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 were required for disclosure in 2011/12.
- e) The draft format of accounts had now been created for 2011/12 based upon the latest guidance.
- f) Systems reconciliations were being monitored by ISS staff on a monthly basis. These would be reviewed during regular ISS/Corporate joint meetings in the lead up to closure.
- g) The external auditors, PwC would commence the interim audit on 26th March.

The Committee **noted** the report.

46 **TREASURY UPDATE**

The Committee resolved to exclude 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.

As discussed at the last meeting a briefer and more relevant report had been submitted for the Committees consideration. A full list of the Councils investment as at 31 December 2012 had been provided.

The Committee **noted** the treasury management activities detailed in the report.



AUDIT COMMITTEE

25 April 2012

Subject Heading:

Oracle Follow Up

Report Author and contact details:

Vanessa Bateman
Internal Audit & Corporate Risk Manager
Tel: 01708 - 433733.

Policy context:

E-mail : Vanessa.bateman@havering.gov.uk
To advise the Committee on progress to
implement the recommendations from the
Oracle on Demand audit.

Financial summary:

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

Good progress has been made to address the issues and implement recommendations raised by the Oracle on Demand audit report.

Of the 24 Medium priority recommendations 19 have been implemented.

Appendix 1 contains a summary of the outcome of the follow up.

The assurance provided to management remains at 'Limited' but by June 2012 could be 'Substantial' if the actions are completed as currently planned.

An update will be included as part of the Annual Internal Audit Report to be presented at the June Meeting.

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise questions for management regarding progress.

REPORT DETAIL

In September 2011 an audit of the Oracle on Demand system commenced. The objective of the audit was to provide assurance regarding the internal controls within the Oracle system which had been implemented in April 2011. The audit focused on the modules for Accounts Payable, Accounts Receivable and Payroll but also considered general access and security controls for the system.

The audit reviewed the following key risk areas:

- Application Management and Governance;
- System Security;
- Interface Controls and Data Flow;
- Data Input Controls;
- Output Controls;
- Change Control;
- System Resilience & Recovery; and
- Support Arrangements.

As a result of the audit 24 medium priority recommendations were raised and a 'Limited Assurance' was provided to management. All recommendations were agreed at the time of issuing the final report and deadlines for all were prior to 31st March 2012.

The management summary for this audit was presented to Audit Committee in February 2012 as part of the Internal Audit progress report. Members requested an update regarding this report due to the number of recommendations that had been raised.

In March 2012 a formal follow up of the audit was completed and progress against all actions was reviewed. Where actions had been completed by management evidence to support this was gathered.

Appendix 1 details that outcome of the follow up work.

The results are also summarised below:

- 19 recommendations have been completed at the time of the follow up (1, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 14, 15, 16, 18, 19, 20, 21, 22);
- 3 recommendations were in progress with extended implementation dates identified (2, 23 and 24); and
- 2 recommendations will be considered as part of wider projects (7 and 17).

The follow up indicates that good progress has been made in implementing recommendations and therefore addressing the risks identified by the original audit. It is also acknowledged that the resources tasked with addressing the control weaknesses are also heavily involved with other activity related to the Internal Shared Service Programme and all resources have also been subject to restructures since the original report was issued.

Due to the nature of the outstanding actions the assurance provided from the audit work remains at 'Limited Assurance', however if actions are completed in line with revised deadlines then by June 2012 a 'Substantial Assurance' rating is achievable.

Further follow up work will be completed in June 2012.

IMPLICATIONS AND RISKS

Financial implications and risks:

None directly arising from this report, managers have the opportunity of commenting on audit recommendations 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. Resources to follow up audit work are included within the annual audit plan and provided within existing budgets.

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

Original Audit 2011/12 Audit Report							
Rec no	Recommendation	Priority	Responsible Officer	Implementation Date	Status (Complete/In Progress/Not Started)	Follow Up Finding (for all that are not complete)	Revised Implementation Date (where applicable)
1	We recommend that the Project Documentation such as the Project Initiation Document (PID) should be formalised and approved prior to commencement of future projects and should adequately identify all key stakeholders to be involved in the implementation.	M	Head of Shared Services	For future projects	Complete		N/a
2	A review should be undertaken of the user accounts that have generic user names to establish whether they are still required. Where no longer required, these accounts should be disabled.	M	Systems Accountant, Financial Systems Control Team	31st December 2011	In progress	High risk generic responsibilities targeted first and closed down with remainder considered low risk which will be dealt with by the end of April 2012.	30th April 2012
3	A review of the current Oracle user population should be undertaken to ensure that password expiry settings that are currently set to expire accounts after 60 days are consistently applied across all accounts.	M	Systems Accountant, Financial Systems Control Team	Immediate	Complete		N/a

4	The number of failed attempts that a user is permitted to log into the system should be reviewed with a view to reducing the number of attempts to three attempts from the existing five attempts that are currently permitted. We also recommend that the unsuccessful login report should be reviewed to identify any persistent attempts at accessing the system.	M	Systems Accountant, Financial Systems Control Team	31st December 2011	Complete		N/a
5	Documented procedures should be developed for the user management processes including the processes for user creation, amendment and removal. Furthermore, all original requests for access and amendments to access should be formally retained. We also recommend that a summary document should be developed for all roles defined on the system and explanations of their capability with a view to identifying the consequences of provision of access and any conflicting access, which may introduce segregation of duty conflicts.	M	Systems Accountant, Financial Systems Control Team	31st January 2012	Complete		N/a

6	A review of the user population in the Oracle system should be undertaken to ensure that roles have been correctly assigned and that privileges are not excessive for the identified roles. The new user eform should be reviewed and updated to reflect the available access options within the Oracle on Demand system to ensure that access levels are accurately captured at the time of the initial request for system access. Reviews should also be undertaken on a periodic basis to re-confirm that access privileges are correctly assigned as well as establishing a system to ensure leavers are removed from the Oracle system in a timely manner. Investigation should also be undertaken to establish a more user-friendly output report, which reports users and their access privileges which can be easily reviewed.	M	Systems Accountant, Financial Systems Control Team	31st March 2012	Complete		N/a
7	The Council should identify the available capability for Oracle systems auditing and monitoring to identify auditing at user activity and database row change level. This should look to identify which fields would be beneficial to establish auditing of user activity on the system.	M	Systems Accountant, Financial Systems Control Team	31st March 2012	In progress	Oracle GRC system and other solutions being looked at which would allow real time monitoring of Oracle as well as run reports for system auditing.	31st October 2012

8	The Oracle Competency Centre should ensure that knowledge of the interfaces is shared between team members to assist in succession planning and to ensure that all knowledge on the system is shared.	M	Corporate & Business Applications Manager	31st January 2012	Complete	All of the interfaces have been documented and follow standard Oracle documentation format. All members of the Oracle support team are familiar with this documentation. The interface skills are also readily available on the contract market so the risk to the organisation is minimal.	N/a
9	Procedures should be documented for the management of all Oracle interfaces to document the reconciliation processes along with the accountability for the reconciliation processes.	M	Transactional Services Manager	31st January 2012	Complete	An exercise to map all interfaces and confirm responsibilities has been completed. Swift Interface Instructions held APACS (i.e. credit/debit card) files created in PARIS and sent to the Bank with reconciliation procedures.	N/a
10	The Accounts Payable Galaxy Library interface should be reviewed to establish if this interface can be automated to eliminate the current manual routine used to transfer information.	M	Transactional Services Manager	31st March 2012	Complete		N/a
11	All Accounts Payable interface routines should be subject to a consistent reconciliation monitoring and recording process to ensure that the reconciliation of the Social Services SWIFT interface is adequately monitored and recorded.	M	Transactional Services Manager	31st January 2012	Complete		N/a

12	The current inability to reconcile the Transfuel and Translive interfaces should be investigated and resolved. Furthermore, where issues are identified with the reconciliation of interfaces, this should be brought to the attention of the Oracle Competency Centre immediately to be added to the issues and further development list.	M	Transactional Services Manager Corporate & Business Applications Manager	31st December 2011	Complete		N/a
13	The efficiency of the Accounts Receivable Swift Interface should be reviewed to establish the reasons for the delay in the running of the interface and the production of invoices which can result in the recovery timeline commencing before the invoices are received by the customer. Furthermore, the Accounts Receivable team should ensure that they specify the files required for the transfer of the interface for communication with ICT.	M	Transactional Services Manager Corporate & Business Applications Manager	31st March 2012	Complete		N/a
14	Procedures should be developed and maintained for Payroll and Accounts Payable processes. All process documentation should be subject to regular review and appropriate version control should be established documenting the author and date of review.	M	Transactional Services Manager	31st December 2011	In progress	Workshops have been held to combine knowledge with existing materials and Payroll and Accounts payable procedures are now in place.	31st March 2012

15	Data input screens across the Oracle on Demand system should be reviewed to establish: Whether superfluous options/screens can be removed; and Where, in some cases, failure to complete fields which are not mandatory can lead to later errors. e.g. Accounts Receivable where the profile field is not mandatory and where failure to populate this field leads to payment rejections. This should be completed with a view to making some system input fields mandatory for completion to enhance data quality	M	Transactional Services Manager	31st March 2012	In progress	Review process has focussed on key screens first.	31st March 2012
16	A secondary check should be undertaken of the Accounts Payable 'Batch Direct Payments' to help ensure the accuracy of the data input to the system.	M	Transactional Services Manager	30th November 2011	Complete		N/a
17	The Council should identify if address validation and postcode look up can be implemented within the system to improve the quality of address information that can be input into the Oracle on Demand system.	M	Transactional Services Manager Corporate & Business Applications Manager	31st March 2012	Not started	To be dealt with under the joint procurement project	Apr-13

18	The Council should identify if the Payroll process of importing timesheets can be amended in Oracle to ensure that data is in the correct format and does not require manual intervention to correct formatting.	M	Transactional Services Manager	31st December 2011	Complete		N/a
19	A secondary check should be undertaken of Accounts Payable bank details that are input to the system to help ensure the accuracy of data input to the system.	M	Transactional Services Manager	30th November 2011	Complete		N/a
20	The Council should review the reports, which can be produced from the payroll process, and these should be documented including the details of the recipients of the reports and the frequency of the production required.	M	Transactional Services Manager	31st December 2011	Complete		N/a
21	The current problems with the Business Intelligence reporting module should be reviewed and resolved to enable the organisation to be able to produce the required level of management information.	M	Corporate & Business Applications Manager	31st December 2011	Complete		N/a

22	The process for the management of changes on the system should be formalised for testing changes and gaining business user engagement in the user acceptance testing process. The Council should ensure that the standard change control process developed by Business Systems is followed for all changes to the database.	M	Transactional Services Manager Corporate & Business Applications Manager	31st March 2012	Complete		N/a
23	A review should be undertaken of users with access to the 'My Oracle Support' portal to remove the access for users who no longer require access to this system.	M	Corporate & Business Applications Manager	31st March 2012	In progress	A review has been undertaken and most users who no longer require access to the 'My Oracle Support' portal have been removed..	31st March 2012
24	A schedule of Disaster Recovery test exercises should be developed, as well as a backup restore schedule to confirm the integrity of backups taken and to prove that the system can be recovered on a periodic basis and in a timescale in line with the relevant ISS Business Continuity Plan.	M	Corporate & Business Applications Manager	31st March 2012	In progress	A DR test should be carried out without further slippage to ensure that the data being backed up is complete and useable and to test the process works as expected.	30th June 2012



AUDIT COMMITTEE

25 April 2012

Subject Heading:	Internal Audit Interim Progress Report
Report Author and contact details:	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of progress to deliver the approved audit plan in quarter three of 2011/12.
Financial summary:	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 is an interim report to advise the Committee on the final report issued prior to year end. The final quarterly report will be presented in June along with the Head of Internal Audit Opinion.

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

This progress report contains an update to the Committee regarding Internal Audit activity presented in seven sections.

Section 1 Final Reports issued prior to 30th March

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

Section 2 Management Summaries

Summaries of all final reports issued in the period.

Section 3 Schools Audit Work

A summary of schools final reports issued in the period.

IMPLICATIONS AND RISKS

Financial implications and risks:

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. 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 Audit Work 3rd January 2012 to 30th March 2012.

- 1.1 Schedule 1 details the work completed in quarter four. Details are listed in the table below and management summaries under Section 3 starting on the next page.
- 1.2 Work has also been completed on the systems and processes within the Internal Shared Service. It has not been possible to provide any assurance too management with regards they key financial processes Payroll, Accounts Payable and Accounts Receivable. Control Working Groups took place in February and March to identify and recommend solutions regarding general control weaknesses and those specific to each system and the outputs are currently being considered by Management. An update will be provided in June.

SCHEDULE 1: 2011/2012 – Systems Audits Completed

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
Crematorium – Grave Allocations & Record Keeping	Substantial	0	6	0	6	2 (1)
Education Computer Centre	Limited	3	6	0	9	2 (2)
Treasury Management	Full	0	1	0	1	2 (3)
Appointeeships & Deputyships	Limited	6	5	0	11	2 (4)
Network Infrastructure	Limited	4	5	1	10	2 (5)

Section 2 Management Summaries

Crematorium – Grave Allocations & Record Keeping	Ref 2 (1)
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2.1 Background

2.1.1 The cemeteries and crematorium section falls within the Culture & Community Directorate, providing management of Romford, Hornchurch, Rainham and Upminster Cemeteries and the South Essex Crematorium. The office is based at the South East Crematorium, Upminster.

2.1.2 The service covers the following:

- Burials and Cremation Services;
- Management of cemeteries;
- Management of the crematorium & memorial gardens; and
- Grounds maintenance of cemeteries and crematorium.

2.1.3 On the 9th December 2011, Internal Audit were asked to review controls in place in relation to Cemetery Burial Allocations and Records, to provide assurance to management.

2.1.4 Summary of Audit Findings

2.1.5 Management have taken action to mitigate the risks in this area also in complying with changes in legislation further compensating controls now exist within processes.

2.1.6 Non compliance issues in relation to completion and retention of key documents have been identified during testing. The lack of management spot checks have resulted in these errors going undetected.

2.1.7 Information set out within the memorial permit application form relating to the protocol for permits does not accurately reflect the current working practice relating to this process.

2.1.8 The process for recording checks undertaken on memorial permits has resulted in an incomplete audit trail where limited evidence is available to demonstrate that checks were carried out in line with expectations.

2.1.9 Audit Opinion

2.1.10 As a result of this audit we have raised six medium priority recommendations, relating to the need for:

- Officers carrying out checks to be clearly identifiable;
- Supervisory checks to be undertaken;
- Training to be undertaken with staff;
- Regular unannounced spot checks on graves dug;
- A review of the memorial permit application form and process; and

- Memorial permit checks to be consistently documented.

2.1.11 A **Substantial Assurance** has been given as while there is basically a sound system of control, there are weaknesses that put some of the system objectives at risk, and there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

2.2 Background

- 2.2.1 The Council's Educational Computer Centre (ECC) offers schools the opportunity to purchase support through a number of service level agreements.
- 2.2.2 In 2010 the Council's Internal Audit team took over responsibility for the completion of the school audits. This audit aimed to provide assurance that sufficient controls were in place within the ECC to mitigate risks around ICT for those schools buying into these traded services.

2.2.3 Summary of Audit Findings

- 2.2.4 Due to a lack of financial reconciliations, in a small number of cases schools being overcharged and undercharged for services remained undetected until they were identified as part of the audit review.
- 2.2.5 Verbal agreements, incomplete audit trails and a lack of available management information and monitoring have left schools at risk. Services are being provided without agreement or charge in addition to services selected and paid for not being delivered.
- 2.2.6 No performance monitoring is being undertaken, local indicators have not been identified.
- 2.2.7 No controls are in place to record all works undertaken at schools to allow service provision and staff performance to be monitored.
- 2.2.8 Management information is limited and does not provide a full picture of the performance of the service.
- 2.2.9 A lack of information available to establish whether fees and charges applied to ECC services are sufficient to cover the cost of provision.
- 2.2.10 Weaknesses identified in this audit may also apply to the administration of other traded services. This should be considered by management when implementing recommendations. In addition this risk will be covered in the 2012/13 audit plan.

2.2.11 Audit Opinion

- 2.2.12 As a result of this audit we have raised three high and six medium priority recommendations.
- 2.2.13 Recommendations related to the need for:
- Action to be taken to rectify billing issues identified (*Medium*);

- A process for the ECC to agree with schools the following year's services and associated costs. The outcome of school selections to be forward for inclusion in annual billing (*Medium*);
- Regular income reconciliations to be completed (*Medium*);
- Services being provided to be reviewed for compliance with agreements (*High*);
- Records for back ups and investigation of unsuccessful back ups (*High*);
- A central system for recording all ECC related works (*Medium*);
- Local performance indicators to be established (*Medium*);
- Relevant management information reports to be built (*Medium*); and
- A service review to fully understand the costs in running the service, including a further review of fees and charges (*High*).

2.2.14 **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.

Treasury Management	Ref 2 (3)
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2.3 Background

2.3.1 In the past effective Treasury Management has yielded the Council considerable additional income by the timely investment of surplus funds into various diverse secure investment mediums. The current precarious position of financial markets worldwide mean's that interest rates are low and the resulting additional income is less than in previous years but is still significant.

2.3.2 In the last financial year, on average, sums of £94.6m were available for investment and it is of paramount importance that this is invested as safely as possible within the Council's risk appetite and guidance from CIPFA. This is clearly detailed in the approved Treasury Management Strategy and Policies.

2.3.3 Summary of Audit Findings

2.3.4 The administrative spreadsheets used to record part of the Treasury Management system are not password protected and non Treasury Management staff have access to the shared area on the I.T system where they are held.

2.3.5 Audit Opinion

2.3.6 As a result of this audit we have raised one medium priority recommendation relating to data integrity.

2.3.7 A **Full Assurance** has been given as the audit has found that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

Appointeeships & Deputyships	Ref 2 (4)
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2.4 Background

2.4.1 The London Borough of Havering (LBH) provides a service for any individual, over the age of 18, who lacks the mental capacity to manage the administration of their own finances.

2.4.2 The Mental Capacity Act (MCA) 2005 which was effective from 2007 requires that all organisations within the community work together to try and maintain people's independence. All efforts are made to keep people in their own homes wherever possible.

2.4.3 The MCA Part 1 provides for the management of the property and financial affairs of patients by the Court of Protection (COP). A statement confirming that the adult is currently "incapable by reason of mental disorder of managing and administering his property and affairs" must accompany all applications submitted to the Court. The medical certificate will have to be completed by a suitably qualified person such as the adult's doctor, consultant, social worker or speech therapist, and must be on the approved Court of Protection form.

2.4.4 In most cases the person acting on behalf of the patient and reporting to the Court of Protection will be a relative or friend and in some cases where the patient has sufficient funds a Solicitor is appointed. The Local Authority will only be asked to take over the responsibility of Deputyship, formerly known as Receivership, when:-

- There is no relative or friend able, willing and acting in the clients best interest, to act on their behalf
- It is felt by the Court of Protection that there is a safeguarding issue because there is evidence that the patient is being or is potentially being financially abused

This Service provision is therefore only provided to the most vulnerable in Society.

2.4.5 If there is capital less than £2,000 and the income is only state benefits with no other financial or property affairs, then, in order to administer these benefits It is only necessary to make an application for Appointeeship to the Department of Works and Pensions

2.4.6 The appointment of Deputyships is wholly controlled by the Court of Protection and they require an annual report detailing all actions taken on behalf of the patient.

2.4.7 Providing a Deputyship service is not a statutory service. However, if it was not provided then the already vulnerable people who need assistance would be placed at further risk. More reliance would be placed on an already

stretched voluntary sector to fill the gap. They are already heavily involved in providing services to assist people in staying in their own homes for as long as possible. Plus, given that it is a job requiring specialist skills, it is seen by most authorities in England and Wales as best practice to have such a service within their authority.

2.4.8 The London Borough of Havering currently manages approximately 162 cases with a total of £4.6m in liquid assets. The Client Finance Team has been responsible in facilitating around £868,000.00 worth of income for collection by the Financial Assessment & Benefits Team. This data is continuously changing in an upwardly direction.

2.4.9 The team are a member of APAD (Association of Public Authority Deputies) where information and experiences are shared. They also provide a best practice Guidance together with conferences and meetings both at a national and local level.

2.4.10 Summary of Audit Findings

2.4.11 There is a Procedure Manual but, it requires reviewing and updating.

2.4.12 Since June there have been two Benefit specialists employed as Information Officers. They work in the Front Door Team which is part of the Havering Direct Service. These staff screen all callers to assess that their benefit entitlements have been claimed. The Team Leader is keen that this service is conveyed to all staff so they can utilise this expertise.

2.4.13 The financial records maintained are comprehensive, but there are no formal Management reporting systems.

2.4.14 Financial Procedure Rules were followed when opening the AIB Account; however Section S, Bank Arrangements and Cheques section of the Financial Framework was not followed. It states that "*The Group Director, Finance and Commerce will maintain a listing of all bank accounts, including the responsible employee, and will request that the information is regularly reviewed.*" As this was not done the account was not subject to the increased scrutiny applied to the corporate investment and banking arrangements. This could have resulted in serious problems if AIB had not been able to honour its commitments, as happened with other Banks. It would have been LBH's responsibility to make good any losses from Clients funds in the Authority's care. Any losses would have resulted in a waste of public funds. Currently there is around £2.2m held in the AIB account.

2.4.15 Reports to the Court of Protection (COP) are not reviewed by a second Officer nor signed off by management

2.4.16 The cash collection system does not comply with the corporate Insurance Policy.

2.4.17 The current system of management control is weak and leaves the system open to abuse or allegations of abuse. The Quality and Safeguarding Manager (who is the line manager for the Client Finance Manager) retired in January 2012.

2.4.18 Most of the knowledge base for the system and its clients is with the Client Finance Manager. He devised the Database and Spreadsheets and is the primary user of these. He also carries out any reconciliation and completes the Court of Protection Reports.

2.4.19 There is no formal system of reporting to the Insurance Manager details regarding:-

- Cash collection arrangements
- Cash collection amounts
- Amount of cash held on site
- Physical security of cash held on site.

2.4.20 **Audit Opinion**

2.4.21 As a result of this audit we have raised eleven recommendations. Six high priority and five medium recommendations relating to:

- Benefit assessments (*High*);
- Transferring monies from Allied Irish Bank to Nat West (*High*);
- Other bank accounts operating under the name of LBH (*High*);
- Management Controls (*High*) & (*Medium*);
- Cash collection arrangements (*High*);
- Procedure Manual (*Medium*);
- Succession Planning (*Medium*);
- Court of Protection reports (*High*);
- Annual Report (*Medium*); and
- Insurance Report (*Medium*).

2.4.22 The opinion is given in the light of the fact that although the system for Appointeeships and Deputyships is adequate, there are limited Managerial controls operating, which compromises the assurance that can be placed on the system.

2.4.23 **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.

Network Infrastructure	Ref 2 (5)
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2.5 Background

2.5.1 The 2011/2012 Internal Audit plan includes an audit of the network infrastructure.

2.5.2 The network infrastructure provides essential controls in relation to the corporate risk of regulatory obligations and corporate governance as the Council places significant reliance on the use of Information Technology to fulfil its operational and statutory obligations. It is therefore critical that a secure and robust network infrastructure exists to ensure that confidentiality, integrity, and availability is maintained and that ongoing service delivery and support is provided.

2.5.3 At the time of our audit (June 2011), Havering currently has around 30% of its applications and servers located at the external data centres while the remainder, including the network infrastructure, are still hosted and managed by the Council by Business Systems. Future developments will see the majority of applications being hosted by an external provider and the development of further collaborative working with the London Borough of Newham with whom there is currently a network connection.

2.5.4 Summary of Audit Findings

2.5.5 Audit testing identified that the network infrastructure has vulnerabilities in its design and includes some single points of failure:

- The data centre at the Town Hall currently does not have an alternate source of power supply should it have a major power supply disruption; Although a UPS is in place this only provides enough power to shut systems down safely. We do note that management is investigating power generators however these have not been installed at the time of the audit.
- There is no UPS (Uninterrupted Power Supply) or alternate power source at Mercury House; Again, the main comms room on the 5th is covered by UPS and LBH is actively looking to supply UPS systems wherever possible
- Although there are no live services shared with Newham Council at present, should the situation change, which it is expected to, the present architecture supported by a single firewall between the Council and the link to Newham is a point of concern; and
- The connection between the Council and Homes in Havering has lost the additional network resilience following the closure of the Whitworth Centre. We were informed in our audit that the provider is investigating methods to improve network resilience via logical routing. This was work in progress at the time of our audit.

- 2.5.6 There is a tool in place to monitor the Council's network, it had at the time of the audit been configured to send automatic notification or alarms to the network team should this monitor or detect a problem on the network; We have been informed that the Council has implementing Tevista to provide a graphical representation of the network topology, which is monitored at all times by the Service desk & S&N team. The Council has also now implemented the Nimsoft portal monitoring tool.
- 2.5.7 The service desk was due to be reconfigured to incorporate Internal Shared Services and Change Control functionality in keeping with the SLA and the monthly performance service report lacks detail on recurring trends within the system; This is due to a reconfiguration of the system when change control was implemented, meaning that service metrics for call type analysis was lost.
- 2.5.8 There are no documented build standards for the network devices and tools that would assist in benchmarking or verifying the standards that are currently used;
- 2.5.9 Although there is a plan to migrate most of the Council's services to the external data centre, due to the current absence of a detailed migration plan and delays in application migration at present, most of the server estate at the Council requires updating and has not had updates or patches applied since approximately July 2009. Additionally, review of the two core routers (switches) identified that its operating system has reached its 'end of life' and therefore is not supported by the vendor, although the Council does have support via a contract with infosec.
- 2.5.10 We identified that there were some security features in the configuration of the core routers that had either not been applied or were weak, for example, strong authentication controls are not used, a weak encrypted password is in use and there is no legal banner warning against unauthorised access;
- 2.5.11 Currently, there is no hardware replacement policy however hardware will be replaced following application migration to the new data centre, although there is a plan for a desktop refresh;
- 2.5.12 Owing to resources engaged in the transformation project, a number of functions that should have been carried out have not been performed as they should have been, for example, applying upgrades and patches to the servers and network devices;
- 2.5.13 The Council's corporate firewalls are not supported by the vendor although through discussion during our audit we understand that there is a plan in place to replace these and replacements have been procured and are awaiting installation.

2.5.14 During the course of the audit, we identified there were three live servers managed externally that did not have an Anti Virus software installed on them and that nearly 60% of the desktops in use do not have an Anti Spyware function enabled; The company dispute this, stating that all servers were patched, but one had to have AV uninstalled temporarily due to performance issues. This has now been resolved.

2.5.15 Audit Opinion

2.5.16 As a result of this audit we have raised four high priority, five medium priority and one low priority recommendations.

2.5.17 In order to further improve the control environment, management need to ensure that:

- Consideration should be given to the removal of or minimising the single points of failure in the Council's network infrastructure design. *(High Priority) Management Comment:* UPS in place in key vulnerabilities and temporary power provision under investigation.
- The Council should consider the use of an automatic alarm notification or messaging system to notify support staff of any failure or problems. *(Low Priority) Management Comment:* In place at external provider, Tevista in place at LBH
- Consideration should be given to enhancing the Service Desk report to include KPI's from the Service Level Agreement and reporting. *(Medium Priority). Management Comment:* This will be taken into consideration however may be restricted via future integration with ISS.
- Network standards and configuration for network devices should be documented. Security tools such as the CIS (Centre for Internet Security) RAT (Router Audit Tool) should be used to check and harden network devices; *(Medium Priority) Management Comment:* This will be taken into consideration.
- Council hosts and network equipment should have the latest patches and updates applied; *(High Priority) Management Comment:* However risks are attached to this strategy as the equipment is very old and unable to support the latest patches. This means that hosted applications could fail if updates are applied. LBH has decided to expedite migration to the external data centre.
- Security controls over the router configurations should be enhanced; *(Medium Priority) Management Comment:* This will be taken into consideration.
- A hardware replacement policy should be developed. *(Medium Priority) Management Comment:* New hardware is in place at provider and is awaiting plan for migration of services. Local hardware supported by Infosec.
- Management should ensure that the availability of its resource is reviewed. *(Medium Priority) Management Comment:* Priority is transformation activities.
- The corporate Firewalls should be updated. *(High Priority) Management Comment:* Firewall replacements are underway

- A regular review should be conducted of all the hardware on the Council's network to ensure they have the latest Anti-Virus software (*High Priority*) *Management Comment:* External Provider have confirmed that all hardware has the latest signatures and LBH is currently replacing Trend AV with MS FEP.

2.5.18 At the time of our audit there was considerable work ongoing and progressing to develop responses and to improve the sustainability and resilience of the network and for all recommendations made management has identified the action required to address the weaknesses identified. This is supported by a number of work streams within the Transformation Programme to develop the IT infrastructure in addition to further collaborative working with Newham and the ongoing process to transfer more of the server estate to the external data centres.

2.5.19 **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.

Section 3 Schools Audit Work

Six Schools audits were finalised by the end of March. 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	
Ardleigh Green Junior School	Substantial	2	3	4	9	N/A
Elm Park Primary School	Substantial	1	4	3	8	N/A
Parklands Junior School	Substantial	2	7	4	13	N/A
The RJ Mitchell Primary School	Substantial	2	7	2	11	N/A
Whybridge Infant School	Substantial	2	7	0	9	N/A
Corbetts Tey Special School	Substantial	0	6	5	11	N/A
Scotts Primary School	Substantial	1	7	3	11	N/A

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AUDIT COMMITTEE

25 April 2012

REPORT

Subject Heading:

Report Author and contact details:

**EXTERNAL AUDIT PLAN 2011/12
PENSION FUND AUDIT**

Ciaran McLaughlin

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PricewaterhouseCoopers

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Policy context:

To consider the External Audit plan for the Pensions fund audit.

Financial summary:

This report sets out the planned area of work for the Pension Fund audit. The proposed fee has previously been reported to the Committee.

REPORT OF THE CHIEF EXECUTIVE

SUMMARY

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

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. The previous report to the Committee set out the main audit plan for financial year 2011/12. This report deals specifically with the audit of the Pension Fund.

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 and developments
- Communicating and reporting
- Audit approach
- Project management
- Independence.

The broad approach to the audit work is set out in pages 3, 4 and 5.

As set out in the Plan, the overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Council acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. It is PwC's responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice.

IMPLICATIONS AND RISKS

Financial implications and risks:

The attached plan reflects the fee for the Pensions Fund element of the 2011/12 audit, as previously reported to the Committee, and now confirmed as set out below:

Element	2011/12 Fee £	2010/11 Final Fee £
Pension Fund	35,000	35,000

As previously advised to the Committee, 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 Pension Fund 2011/12 Audit Plan –
PricewaterhouseCoopers

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Havering Pension Fund

Year ending 31 March 2012

Audit plan prepared for the
Audit Committee on 25 April
2012

Draft – 02 April 2012



Table of Contents

1. Introduction and developments	1
2. Communicating and reporting	2
3. Audit approach	3
4. Project management	6
5. Independence	7
Appendix 1: Summary of the audit process.....	8
Appendix 2: Compliance matters	9
Appendix 3: Other engagement information.....	10

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 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.

1. Introduction and developments

The purpose of this plan

Our audit plan has been prepared to inform those responsible for the governance of Havering Pension Fund (“the Fund”) about our responsibilities as the external auditors of London Borough of Havering (“the Council”) and how we plan to discharge them. This audit plan has been prepared for the Audit Committee meeting on 25 April 2012 and the Pensions Committee meeting on 27 June 2012.

The overall direction of the Fund’s Investment Strategy is delegated to the Council’s Pensions Committee (“the Committee”).

The London Borough of Havering acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. It is our responsibility to carry out an audit in accordance with the Audit Commission’s Code of Audit Practice (“the Code”).

Our objectives

Our objective is to obtain sufficient evidence to enable us to give an opinion on the truth and fairness of the Fund’s accounts.

The main areas of audit focus we have identified and our planned responses are described in section 3. Please let us know if you have any questions about our approach and we can discuss these with you.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Code which was last updated in March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies (the Statement) which was updated in March 2010. Both documents are available from the Chief Executive or the Audit Commission’s [website](#).

Changes during the year

We understand from our review of the minutes and from the Havering finance team that there have been no significant changes to the Fund which will impact on this year’s audit.

A detailed planning meeting has been scheduled in April 2012.

Other requirements

Auditing standards also require us to tell you about some compliance matters. We have done this in appendix 2. Our firm’s practices also require us to raise further matters with you. We have done this in appendix 3.

2. Communicating and reporting

What we will report to you

We will report to you on whether the Fund's accounts give a "true and fair" view. This means concluding from our work if we can give reasonable assurance that the accounts are not materially misstated, whether due to error or fraud. We also report on whether the accounts contain the information required by legislation.

We read the other information accompanying the accounts and consider if it is consistent with them. We will consider the impact on our opinion if we become aware of any material inconsistencies.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

We're not required to undertake work for the sole purpose of identifying breaches of the law, but if potential breaches are identified we will discuss these with the Committee, unless prevented from doing so by legal requirements (which may be the case if the matter could relate to fraud).

To discharge our responsibility to report to those responsible for the governance of the Fund we propose to present any detailed reports to the Committee. We will however include a summary of the main issues in our plans and reports to the London Borough of Havering, as the administering authority of the Fund.

We have included in appendix 2 a list of the other matters we have to communicate under International Standards on Auditing ("ISAs") and how we will do this.

3. Audit approach

Significant risks

ISAs require us to identify during the planning process what we consider to be the significant risks for our audit. ISAs also tell us that we need to include the risk of management overriding controls as significant (as it could link to a possible fraud). We plan to respond to this risk during the audit as follows:

- Discuss the risk of fraud with the Committee and management.
- Review Committee meeting minutes and understand any significant or unusual transactions to determine if they are appropriately accounted for.
- Review controls over approving payments from the Fund, testing a sample of payments.
- Consider accounting journals processed to identify any unusual or unexpected items and look for evidence of review and approval.
- Include an element of unpredictability in our testing.

Summary of our approach

This is not an exhaustive list of all the tests that we will perform, but summarises the main aspects:

	Overall control environment	Investments and investment return	Contributions	Benefits and expenditure
Governance controls	✓	✓	✓	✓
Administration and accounting controls	✓	✓	✓	✓
Service organisation controls	✓	✓		
Analytical procedures		✓	✓	✓
Detailed testing		✓	✓	✓
Independent confirmations		✓		

Focus area

Planned response

Investment assets and returns

Existence of investments	<ul style="list-style-type: none"> • Understand the Committee and management monitoring controls, including reviewing Committee meeting minutes. • Obtain independent confirmations of assets from the custodian and investment managers. • Review internal controls reports (AAF/SAS70) on investment management and custody.
Valuation of investments	<ul style="list-style-type: none"> • Test valuation of quoted investments against third party sources. • Understand how the Committee and management validate asset values provided by investment managers for investments which are not quoted, including pooled investment vehicles.
Completeness of investments	<ul style="list-style-type: none"> • Review the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments.

Focus area	Planned response
Performance of investments reported is consistent with the accounts	<ul style="list-style-type: none"> Review the reconciliations performed in-house between investment manager and custodian assets.
Allocation of investments is in accordance with the Statement of Investment Principles ('SIP')	<ul style="list-style-type: none"> Review the allocation of investments compared with the requirements of the SIP.

Contributions

Payment of employer contributions in accordance with the Rates and Adjustment Certificate and employee contributions per the prescribed rates for local government employees (England and Wales) ("the schedules")	<ul style="list-style-type: none"> Review the controls over payroll and validate on a sample basis that these are operating as expected. Undertake analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions. Consider the monthly contributions received and investigate any unusual fluctuations. Test on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules. Review the timing of the payment of contributions according to bank details compared with the requirements of the schedules.
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Benefits and membership

Benefits are correctly calculated according to the local government regulations	<ul style="list-style-type: none"> Review the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected. Undertake analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase. Consider the monthly total pensions paid and investigate any unusual fluctuations. Perform substantive testing on a sample basis over material types of benefit payments.
Membership statistics accurately reflect the membership of the scheme	<ul style="list-style-type: none"> Review the results of any pensioner existence checking exercise completed during the year. Compare membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.

Focus area	Planned response
Other areas	
Current assets and liabilities are appropriately accounted for	<ul style="list-style-type: none"> • Review balances compared with the prior year and against our expectations from testing of income and expenditure. • Obtain independent confirmation of cash balances. • Review controls over cash movements and bank account authority levels.
Related party transactions	<ul style="list-style-type: none"> • Understand the controls that the Committee and management have over the identification of related parties and transactions with them. • Make specific enquiries for any transactions which look to be outside of the normal course of business.

4. Project management

Your engagement team

Name	Role	Telephone	Email
Julian Rickett	Engagement Leader	020 7804 0436	julian.c.rickett@uk.pwc.com
Ciaran McLaughlin	Engagement Director	020 7213 5253	ciaran.t.mclaughlin@uk.pwc.com
Jo Maguire	Pensions Director	0113 289 4085	josephine.p.maguire@uk.pwc.com
Kashif Parvez	Pensions Manager	020 7213 5295	kashif.x.parvez@uk.pwc.com

Timetable

We have included a number of the main dates and events in the audit process below, including when you are expecting to receive information from us. To help us meet this, please make sure that a draft of the annual report, quality reviewed on behalf of the Committee, is ready before we start our work. This helps us to be efficient and raise any queries as early as possible.

Month/Deadline	Audit activity
02 April 2012	Detailed planning meeting with Havering Finance and Pensions administration teams
25 April 2012	Audit plan to be presented to the London Borough of Havering, Audit Committee
w/c 21 May 2012	Interim audit
w/c 09 July 2012	Final audit fieldwork (on-site for 2 weeks)
03 August 2012	Clearance meeting
19 September 2012	Target date for issue of: <ul style="list-style-type: none"> • Audit Opinion on the Statement of Accounts; • Value for Money Conclusion; • Opinion on the Whole of Government Accounts return; and • Audit Opinion on Pension Fund Annual Report.
30 November 2012	Deadline for issue of Annual Audit Letter

Fees

Our fees are prescribed by the Audit Commission and are set at £35,000 for 2011/12 (£35,000 in 2010/11).

5. Independence

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.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

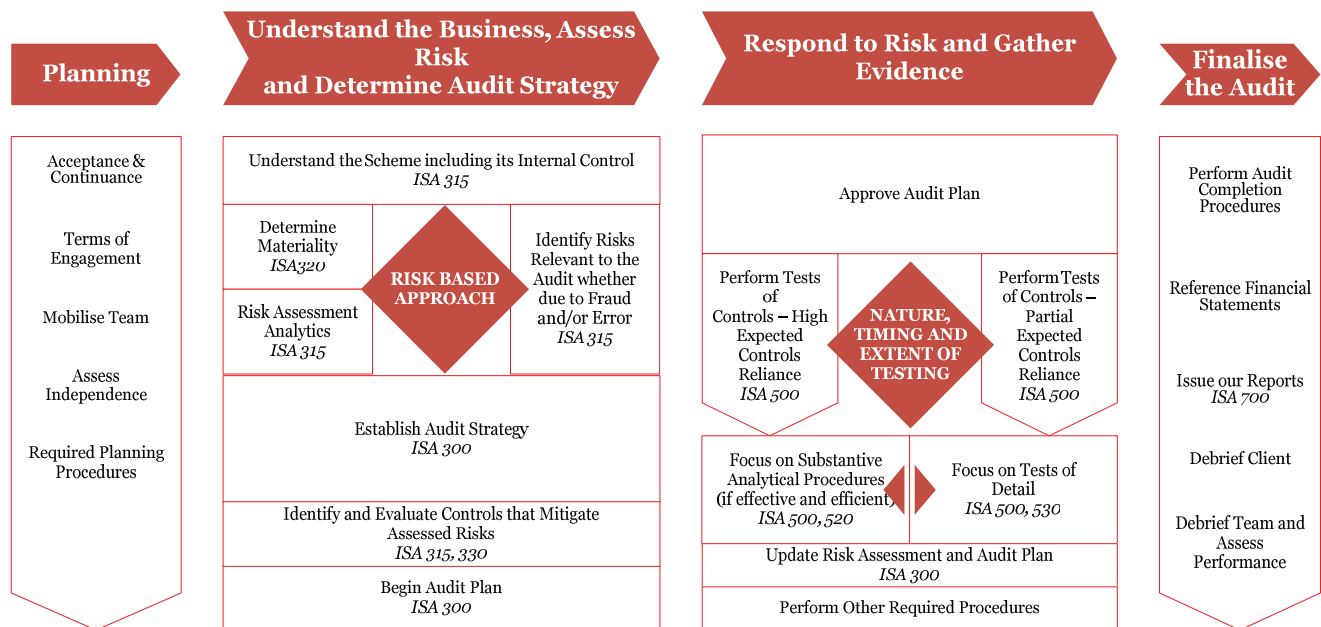
Relationships and investments

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.

Appendix 1: Summary of the audit process



The starting point of our audit approach is our assessment of the risks of material misstatement. We then identify the controls that the Committee and management have in place which mitigate these risks.

Then we undertake our work:

- testing of internal controls;
- analytical review, such as reasonableness testing; and
- detailed substantive testing of balances, such as obtaining third party confirmations of balances or agreeing transactions to member files.

Where we believe that appropriate controls are in place we plan to test and rely upon these controls. In other areas, or where it is more efficient to do so, we plan to take a largely substantive approach to the audit. Some substantive procedures will be carried out for each material account balance.

Appendix 2: Compliance matters

Specific communications

Under ISAs 260 and 265 (UK & Ireland), we are required to make some specific communications to you and this is how they will be addressed:

ISA requirement	Audit plan	Year-end report	Separate letter
The responsibilities of the auditor to form and express an opinion on the accounts (which does not relieve those charged with governance of their responsibilities with regard to the accounts)	✓		
An overview of the planned scope and timing of the audit	✓		
Views about the qualitative aspects of accounting practices and financial reporting		✓	
Significant matters and difficulties, if any, encountered during the audit, including those discussed with management		✓	
Written representations			Representation letter *
Other matters, if any, which in our judgement are significant to the oversight of the financial reporting process		✓	
The form, timing and expected general content of our communications	✓		
Significant deficiencies in internal control		✓	

*The representation letter is signed by the Council and covers the requirements for the Fund as well.

Materiality

We plan and perform our audit in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement.

Materiality depends on the size and/or nature of misstatements we identify, judged in the surrounding circumstances. Generally, we consider differences to be material if they could individually or collectively influence the decisions taken by users of the accounts as a result of reading them. Our overall materiality is based on 1% of the Fund's net assets at the year end.

Auditing standards require us to keep a record of misstatements in order to assess their impact on the accounts both individually and in aggregate. We also set a cut-off level and below this can conclude that differences are 'trivial' and that we don't need to take any further actions. Based on the 2010/11 accounts, we expect that this figure will be around £195k but will update this upon receipt of the draft accounts.

If we do identify any non-trivial differences which are not adjusted in the accounts, we will need to obtain confirmation from you in the letter of representation that you are happy that these have not been changed.

Appendix 3: Other engagement information

The Audit Commission appoint us as auditors to 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.

In the event that, pursuant to a request which the London Borough of Havering has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The London Borough of Havering agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the London Borough of Havering shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the London Borough of Havering discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This report has been prepared for and only for the London Borough of Havering in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local government bodies) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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AUDIT COMMITTEE

25 April 2012

Subject Heading:

Training requirements for Audit Committee

Report Author and contact details:

Vanessa Bateman
Internal Audit & Corporate Risk Manager
Tel: 01708 - 433733.

Policy context:

E-mail : Vanessa.bateman@havering.gov.uk
To advise the Committee regarding the changes to the constitution with regards training for Members.

Financial summary:

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

The Pensions and Audit Committee have both given consideration to the importance of having adequately trained Members and substitute members. As a result a proposed amendment to the constitution has been suggested and approved.

This report advises the Committee on the changes and the planned approach to implementing them.

A formal training plan will be presented at the June meeting.

RECOMMENDATIONS

1. To note the contents of the report.
2. To comment on the planned actions within the report.

REPORT DETAIL

An extract from the constitution regarding training and membership is included below:

Part 4, section 3 - **Committee Procedure Rules** paragraph 17 **Training and continuity of membership of certain committees**

(a) In the interests of business continuity, each Group and Group Leader shall ensure that any Member appointed to a place allocated to that Group on the each of the Committees referred to in the following table shall have received, or shall within six months of appointment receive, training appropriate to its membership.

(b) Each Group and Group Leaders shall strive to avoid making changes to their representation on the Committees referred to in the table for as long as possible and shall accordingly seek to ensure that their members remain on the particular committee for the period indicated:

Committee	Period
Adjudication and Review	At least two years
Audit	Full four year term
Licensing	At least two years
Pensions	Full four year term
Regulatory Services	At least two years
Standards	At least two years

(c) For the Audit, Pensions, Regulatory Services and Standards Committees, Groups shall nominate members other than those appointed to the respective Committees to be “designated substitutes”, to attend a meeting in the event that an appointed member is unable to do so. “Designated substitutes” shall participate in the same training opportunities as appointed members.

In March the Governance Committee agreed the changes to the constitution relating to member training for both Pensions and Audit Committee members. The changes were ratified at Council on 28 March.

Audit Committee, 25 April 2012

The agreed change is that sub paragraphs (a) and (c) should be strengthened by the addition of the following sentence at the end of both paragraphs “If a member does not undertake the required training within six months of appointment then that member shall not partake in the decision making of the Committee until their training has been completed” and at the end of paragraph (c): “ Non-nominated members may not act as substitutes.”

These changes have been proposed following consideration of the outcome of the Annual review of the Statement of Investment Principles and a review of its Governance Compliance Statement which were discussed at the Pension Committee on 9th November 2011. The Audit Committee had also given consideration to the need to ensure all members and named substitutes should be adequately trained.

As a result of these changes the following actions will be taken:

- 1) All members/political parties will be asked to nominate substitute members;
- 2) Skills assessment work completed as part of the annual review of effectiveness will be extended to cover substitutes;
- 3) A training plan will be produced;
- 4) Approval of training plan at June Committee;
- 5) Implementation and monitoring of plan;
- 6) Annual review as part of the planned review of Audit Committee Effectiveness.

Below is an outline of the areas relevant to the Audit Committee’s Terms of Reference:

- Annual Accounts including International Financial Reporting Standards;
- Treasury Management;
- The role of the Audit Committee in Local Government;
- The role of Internal and External Auditors
- Risk Management and Internal Control;
- Corporate Governance including the Annual Governance Statement;
- Internal Fraud and Corruption risks;
- External Fraud risks;
- Money Laundering;
- Confidential Reporting (Whistle Blowing);
- Bribery Act.

A full training plan will be presented to the June Committee of approval.

The most appropriate method of delivery will be selected based on the development or learning need. This is likely to be officer briefings (verbal or written), e learning or training with external specialists.

Regular reports on training will be presented and details will be included in the Annual Report of the Committee.

IMPLICATIONS AND RISKS

Financial implications and risks:

None directly arising from this report, as most training is provided by officers and therefore does not incur a cost other than resources. Where external training is required this will be funded from current budgets. 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:

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



AUDIT COMMITTEE

25 April 2012

Subject Heading:

**INTERNAL AUDIT DRAFT 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

Policy context:

To propose the 2012/13 Internal Audit
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 Audit Plan.

Appendix A 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.

Since the last meeting consultation has taken place with Senior Management to ensure the content of the plan meets their requirements for the coming year.

RECOMMENDATIONS

- 1 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.
- 2 To approve the plan on the basis of any agreed amendments arising during the meeting.
- 3 To note that any required changes to the Audit Plan during the financial year, as considered necessary by the Internal Audit & Corporate Risk Manager, will be reported for discussion within the progress report to the next Audit Committee meeting.

REPORT DETAIL

1. Audit Plan 2012/13

- 1.1 The audit plan has been derived by considering:
 - Audit issues identified during 2011/12;
 - Request from Management;
 - Risk Registers; and
 - Consultation with Senior Management
- 1.2 The audit plan has been derived by reviewing and updating the Strategic Audit Plan and the list of key systems / areas of risk (audit universe). Both the Corporate and Service Risk Registers have been considered. Audit issues identified during 2011/12 have also been fed into the process. Meetings have taken place with Heads of Service and/or Service Internal Audit Representatives to discuss potential audit areas and any specific issues or concerns.
- 1.3 The plan has been circulated to Senior Management for comment. Any issues arising from this consultation will be reflected in the final version of the plan, and any of a material nature will be advised to the Committee.
- 1.4 As an audit plan is not a static document and is always evolving as risk plans are amended, service provision changes and previous audits change the categorisation of the risk assessment of a service. This means that the audit plan will change in year. In setting the plan for the coming year consideration has been given to the current pace of change within the organisation. It is difficult to identify exactly, at the present time, where Internal Audit resources will be most needed within our new structures so

audit days have been allocated to larger areas than usual and will be drawn down on as necessary.

- 1.5 By delegating the responsibility for everyday operational decisions to the Internal Audit & Corporate Risk Manager this will facilitate efficient work processes during the year. Any changes to the plan will be reported back to the Committee as part of the regular progress reports.

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 & 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>
<p>That the plan is not flexible enough to meet the needs of the council during the year</p>	<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 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 then 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 engaged.</p> <p>Training needs are assessed at 6 monthly intervals via the PDR 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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Service Area - CORPORATE	Audit Area	Budget	Group Director
ALL	Data Quality / Performance Management	15	Culture & Community
ALL	Contracts and Procurement	40	Finance & Commerce
ALL	Partnership/Shared Working Governance	25	Finance & Commerce
ALL	iExpenses	15	Finance & Commerce
ALL	Agency Worker Contract	15	Finance & Commerce
ALL	PDR Assurance	15	Finance & Commerce
ALL	Debt Management	25	Finance & Commerce
ALL	Petty Cash/Pre Paid Cards	20	Finance & Commerce
ALL	Income Management inc Cash	15	Finance & Commerce
ALL	Information Governance	25	ACE Legal & Democratic
ALL	Change Management	20	Finance & Commerce
	230		

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	5	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
Housing & Public Protection	Housing	20	Culture & Community
Homes in Havering	Annual Audit Plan	80	Culture & Community
Street Care	Parking	15	Culture & Community
Street Care	Joint Tender - Highways and St Lighting	20	Culture & Community
	220		

Service Area - SOCIAL CARE & LEARNING	Audit Area	Budget	Group Director
Children's	Children's Centres - probity programme	15	Children's
Children's	Troubled Families Funding Return	10	Children's
Children's	Youth Service	15	Children's
Children's	Looked After Children	15	Children's
Adult's	Personalisation	25	Adult's
Adult's	Apointeeships (residential homes)	15	Adult's
Adult's	Self Directed Support	20	Adult's
Learning & Achievement	Schools	115	Learning & Achievement
Learning & Achievement	Traded Services	15	Learning & Achievement
245			

Service Area - FINANCE & COMMERCE	Audit Area	Budget	Group Director
Finance & Proc	Budgetary Control	15	Finance & Commerce
Finance & Proc	Fixed Assets	10	Finance & Commerce
Finance & Proc	Main Accounting	10	Finance & Commerce
Asset Management	Transport	20	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
180			

COMPUTER AUDIT			
Business Systems	Telecomms	10	Finance & Commerce
Customer Services	Customer Services	15	Culture & Community
Business Systems	Contingency	25	Finance & Commerce
Business Systems	Modern.gov	15	Finance & Commerce
Business Systems	Northgate Paris	15	Finance & Commerce
Business Systems	Network Permissions	15	Finance & Commerce
Business Systems	Release of Software	15	Finance & Commerce
Business Systems	Operating System TBC	15	Finance & Commerce
125			
FRAUD			
All	Reactive Fraud & Special Investigations	300	Finance & Commerce
All	Pro-active Fraud	130	Finance & Commerce
430			
	Governance	25	
	Risk Management	80	
	Advice to Directorates	15	
	Sign off of Grant Claims	10	
	Contingency	0	
	Follow Ups	16	
146			

1576

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AUDIT COMMITTEE

25 April 2012

Subject Heading:

Annual Report of Audit
Committee

Report Author and contact details:

Vanessa Bateman
Internal Audit & Corporate Risk Manager
Tel: 01708 - 433733.

Policy context:

E-mail : Vanessa.bateman@havering.gov.uk
The Annual report of the work of the Audit
Committee

Financial summary:

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

In accordance with best practice the Committee submits an annual report to the Council on the work of the Committee. The Draft report is attached at appendix 1.

RECOMMENDATIONS

1. To comment on the draft report.

2. To agree the final report should be presented to the next appropriate Council Meeting.

REPORT DETAIL

Annual Report 2011/12

The report contains the following information

- Information;
- Background;
- Structure;
- Coverage;
- Key issues arising/considered;
- Work to ensure effectiveness; and
- Priorities for forthcoming year.

Key highlights from the report are:

- The Committee maintained its usual work plan based on its Terms of Reference but also considered specific reports and assurances on: an objection to the council's accounts, PSL former tenant arrears, Complaints and Non Domestic Rate.
- The Committee received briefings on Fraud and Corruption, Risk Management and Housing Tenancy Fraud.
- The Committee approved accounts compiled in accordance with the International Financial Reporting Standards for the first time in 2011.
- The Committee approved the Annual Governance Statement for the first time.
- Appendix A of the report details agenda items considered at each meeting, Appendix B outlines training and Appendix C contains a forward plan.

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:

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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Havering
LONDON BOROUGH



Havering
LONDON BOROUGH

**ANNUAL REPORT ON THE
WORK OF
THE AUDIT COMMITTEE**

April 2012

1. Introduction

1.1 This report covers the period April 2011 to March 2012 and outlines:-

- Information relating to the Audit Committee;
- The coverage of work undertaken by the Audit Committee;
- Key issues arising;
- Actions taken during the year, including training, to ensure the effectiveness of the Audit Committee; and
- Future planned work and challenges.

2. Background

2.1 The Audit Committee has been in place for a number of years and has as its terms of reference:

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

3. The Audit Structure

Audit Committee Cllr Georgina Galpin (Chair from May 2010)
 Cllr Osman Dervish
 Cllr Roger Ramsey
 Cllr Frederick Thompson
 Cllr Clarence Barrett
 Cllr Denis Breeding

Internal Auditors Internal Service

External Auditors PricewaterhouseCoopers (PwC)

4. Audit Committee coverage

4.1 The Audit Committee has received the reports as set out in Appendix A. The coverage can broadly be categorised as regular and specific. More information on both is set out below.

4.2 Regular Work

The Committee has regularly reviewed:

- Progress against the audit plan and performance;
- Key findings/issues arising from each audit undertaken;
- Progress against implementation of the recommendations;
- Anti fraud and corruption activity, including frauds investigated and outcomes;
- Treasury Management activity;

- The demise of the Audit Commission; and
- The Accounts closedown timetable and progress reports.

4.3 Specific Review / Reports

There were several during the year including a review and approval of:

- the Risk Management Strategy;
- the Anti Fraud and Corruption Strategy;
- the Statement of Accounts including Annual Governance Statement;
- the Internal Audit Strategy; and
- the Annual Audit Plan,

The Committee also received assurances via:

- Annual Report from Internal Audit; and
- The work of External Audit (PwC).

5. Key issues arising

- 5.1 Members of the Audit Committee have been regularly briefed on the objection to the Statement of Accounts by a resident and the subsequent enquiry by PwC.
- 5.2 The Committee approved the Annual Governance Statement for the first time in June 2011; this was previously the responsibility of the Governance Committee.
- 5.3 Private Sector Leasing former tenant arrears were highlighted as an issue. Members continued to be briefed on this matter until they were satisfied that they had received adequate assurances.
- 5.4 The introduction of the requirement of compliance with the International Financial Reporting Standards meant significant changes to the annual accounts that the Committee is responsible for approving.
- 5.5 The Committee received updates from the relevant Head of Service regarding areas where audit assurances had not improved or recommendations not implemented in line with planned timescales.

6. Work to ensure effectiveness of Committee

- 6.1 The Committee has received dedicated training and awareness sessions on Risk Management, Fraud and Housing Tenancy Fraud.
- 6.2 In February the annual review of the committee's effectiveness was undertaken. The Committee completed a skills questionnaire and progress towards completing the action plan from the prior year was reviewed. There were no significant issues from this exercise.
- 6.3 The Committee has agreed that all members and substitute members must be trained sufficiently to fulfil their roles; this has been agreed as a change to the Constitution by Governance Committee and Council.

7. Priorities and work plan for the forthcoming year

- 7.1 The Audit Committee is currently planned to meet on five occasions over the next municipal year. There are specific reports planned throughout the year, running through a mix of quarterly progress reports and annual reviews of specific strategies and policies within the remit of the Committee, together with progress reports from the Council's external auditor.
- 7.2 Officers will ensure any all members on the Committee, and their substitutes, are adequately trained in their roles.
- 7.3 The Committee will continue to focus on ensuring Value for Money and challenging weak areas that have been highlighted by the work of Internal Audit.
- 7.4 The Committee will focus on the new Risk Management arrangements being launched in April 2012 and seek assurances that robust arrangements are in place.
- 7.5 Fraud prevention and detection will be high on the Audit Committees agenda going forward.
- 7.6 The briefings for Committee members will be extended to include all members who wish to participate.

**AUDIT COMMITTEE AGENDA ITEMS
FROM APRIL 2011 TO DATE**

May 2011

- Update of objection to accounts action plan
- Update on PSL arrears
- External Audit fee letter
- Internal Audit interim progress report
- Annual Review of Anti-Fraud and Corruption Arrangements
- Fraud progress report
- Annual Report on Whistleblowing
- Annual Report of Audit Committee
- Update on DCLG consultation on future of Public Audit.
- Urgent Business

June 2011

- Update of objection to accounts action plan
- Update on PSL arrears
- CFO Accounts update report
- External Audit progress report
- Annual Head of Internal Audit Report
- Internal Audit progress report
- Annual Governance Statement
- Urgent Business
- Annual Treasury Report

September 2011

- Annual Statement of Accounts
- International Standards of Auditing – Report to those charged with Governance
- Response to Auditors
- Update on Objection to the Accounts
- Update on PSL
- Internal Audit progress report
- Fraud progress report
- Update on the future of the Audit Commission
- Urgent Business
- Treasury Update

December 2011

- Housing Benefits Overpayment Report
- Annual Audit Letter
- Accounts closedown timetable
- Governance Update
- Internal Audit Progress Report
- Fraud Progress Report
- Demise of Audit Commission
- Urgent Business
- Treasury Update

February 2011

- Complaints
- Non Domestic Rates
- External Audit Plan
- 10/11 Audit Report of Grant Claims
- Annual review of Risk Management
- Annual Review of the Audit Committees Effectiveness
- Internal Audit Progress Report
- Fraud Progress Report
- Internal Audit Charter and TOR
- Internal Audit Plan 11/12 and Strategy
- Closure of Accounts Timetable
- Urgent Business
- Treasury Update

AUDIT COMMITTEE MEMBERS TRAINING / AWARENESS

Timescale	Session	Coverage	Attendance
May	Fraud	General Fraud update	No record
December	Housing Tenancy Fraud	New team and new processes for tackling HT Fraud	Cllr Galpin Cllr Binion Cllr O'Flynn Cllr Thompson Cllr Ramsey Cllr Barrett
February	Risk Management	Corporate Risks interactive session	Cllr Galpin Cllr Ramsey Cllr Thompson Cllr Dervish

AUDIT COMMITTEE – FORWARD PLAN / TRAINING

FORWARD PLAN	AGENDA ITEM	PLANNED TRAINING
June 2012	<ul style="list-style-type: none"> • Update on objection to accounts • CFO Accounts update Report • External Audit Progress Report • Internal Audit Progress Report • Fraud Progress Report • Annual Review of Anti Fraud & Corruption Arrangements inc Money Laundering and Whistleblowing • Annual Audit Report • Annual Governance Statement • Demise of Audit Commission • Annual Treasury Report 	Fraud
September 2012	<ul style="list-style-type: none"> • Annual Accounts • Report to those charged with Governance • Response to Auditors • Internal Audit Progress Report inc Outstanding Recommendations Report • Fraud Progress Report • Demise of Audit Commission • Treasury Update 	TBC – separate plan to June Committee
December 2012	<ul style="list-style-type: none"> • Update on the objection to the accounts • Annual Review of Risk Management Arrangements • Annual Audit Letter • Closure of Accounts Timetable • Internal Audit Progress Report • Governance Update • Fraud Progress Report • Demise of Audit Commission • Treasury Management Report 	TBC
March 2013	<ul style="list-style-type: none"> • External Audit Plan • Internal Audit Draft plan and strategy. • Internal Audit progress report • Fraud Progress Report • Annual Review of Audit Committee Effectiveness • Internal Audit Charter and Terms of Reference • Annual Grants review • Demise of Audit Commission 	TBC

	<ul style="list-style-type: none">• Treasury Management Report	
April 2013	<ul style="list-style-type: none">• Interim Internal Audit Progress Report• Annual Report of Audit Committee• Close down Accounts timetable• External Audit Pensions Plan• Demise of Audit Commission	TBC

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