



AUDIT COMMITTEE AGENDA

7.30 pm

**Wednesday
21 December 2011**

**Town Hall, Main Road,
Romford**

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)**

Paul McGeary

For information about the meeting please contact:

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email: james.goodwin@haverling.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 - 10)

To approve as correct the minutes of the meeting held on 22 September 2011 and authorise the Chairman to sign them.

5 HOUSING BENEFIT FRAUD OVERPAYMENT REPORT (Pages 11 - 14)

Report attached.

6 ANNUAL AUDIT LETTER (Pages 15 - 24)

Report attached.

7 CLOSURE OF ACCOUNTS TIMETABLE 2011/12 (Pages 25 - 30)

Report attached.

8 GOVERNANCE UPDATE (Pages 31 - 38)

Report attached.

9 INTERNAL AUDIT PROGRESS REPORT (Pages 39 - 66)

Report attached.

10 FRAUD PROGRESS REPORT (Pages 67 - 82)

Report attached.

11 DEMISE OF THE AUDIT COMMISSION

Officers will give an oral report at the meeting.

12 URGENT BUSINESS

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

13 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.

14 TREASURY MANAGEMENT UPDATE - QUARTER 2, 2011/12

(Pages 83 - 94)

Report attached.

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

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Public Document Pack Agenda Item 4

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
22 September 2011 (7.30 - 9.20 pm)**

Present:

COUNCILLORS:

Conservative Group Georgina Galpin (in the Chair) Roger Ramsey,
Frederick Thompson and Damian White

Residents' Group Clarence Barrett

Labour Group Paul McGeary

**Independent Residents
Group**

Apologies were received for the absence of Councillors Osman Dervish.

Unless otherwise indicated all decisions were agreed with no vote against.

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

11 MINUTES OF THE MEETING

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

12 UPDATE ON OBJECTION TO ACCOUNTS ACTION PLAN

The Head of Housing and Public Protection provided an update on the recovery of costs in relation to the provision of TV aerials in the housing stock, the recovery of costs for other services through service charges and the on-going Tribunal action in the case of Mr M (leaseholder).

The Committee were reminded of the background to these issues. Back in 2010 Mr M complained to the Council's auditors PricewaterhouseCoopers (PWC) regarding the way in which building insurance charges were levied, and the way in which charges were levied for access to TV and satellite access points.

Whilst PWC were satisfied that the charges on buildings insurance were reasonably calculated and reflected the costs incurred by the Council, they had concerns regarding the charges relating to TV/Satellite access points. They found that the Council was lawfully entitled to levy the charge. However, in 2005/6 the basis of recharging to leaseholders changed, but there was insufficient documentary evidence retained to explain how that decision had been arrived at. Also, PWC were concerned to note, that the full costs of the service were not being recovered and that the income from tenants and leaseholders did not cover the full charge. PWC recommended that this charge be reviewed.

Since the Council had received the letter from PWC officers had been proactive in tackling all the issues raised. Meetings had been held with the contractor responsible for the TV/satellite aerial points as a result of which the contractor, Surtees, has deleted the charge for the Mardyke Estate and agreed to charge only one amount per address, even where the address has more than one point. Finally officers have agreed a schedule of those properties which receive the service. These changes had lead to a reduction in the costs. Officers had drawn up a plan to extend the charge to all residents on the schedule of addresses as some 664 tenants and 391 leaseholders had been wrongly omitted. As a result of these actions the amount recovered in service charges would rise and should, in time, cover the contract costs. Increases in the amount we could charge any individual tenant were however constrained by rent restructuring rules and there might be a delay in achieving full recovery as new charges were phased in.

In response to other matters raised by PWC officers had started a comprehensive review of the recovery of other costs of services provided to tenants and leaseholders. Following discussions with residents the charges for Caretakers, Neighbourhood Wardens, fixed CCTV and bulk refuse collection had been adjusted so the charges for these services were fully recovered.

The current position in respect of other heads of charge was provided to the Committee. All reviews will seek to ensure fairness between tenants and leaseholders and will be subject to consultation with residents.

As previously advised the Council has appealed against the Leasehold Valuation Tribunal (LVT) decision in 2010. The Upper Tribunal have indicated that they will remit the case back to the LVT for a fresh hearing. The Council will appoint a barrister to present the Council's case which is likely to be heard in early 2012.

Efforts had been made to collect benchmarking data on the cost of the TV element of the Surtees contract but given the variety of ways in which landlords provide this service it has not been possible to obtain a definitive position. However it did appear that the cost of our contract was higher than average. Legal advice had originally been obtained about the possibility of terminating the contract, however, the contract documents were ambiguous.

Further papers had been found and fresh advice was being sought. The Committee asked to be kept informed of the outcome of the legal advice.

PWC advised the Committee that they anticipated Mr M taking them to the High Court when he received their response to his latest objection to the accounts.

In the light of the progress made by officers in responding positively to the PWC recommendations it was AGREED that officers now be asked to report verbally to every other meeting on progress with the contract and the appeal to the LVT.

13 **UPDATE ON PSL**

The Head of Housing and Public Protection informed the Committee on the current position with the arrears on Private Sector Leased (PSL) accommodation. The Committee were advised that the Council have a duty to re-house and the 810 units of PSL accommodation help meet this statutory duty. In the year ended 31 March 2011 the PSL team had collected 96.5% of the due rent. This rate of collection compared favourably with the collection rate for Council Tax and Council housing rents.

Arrears at 5 September 2011 owed by current tenants amounted to £544,577 with an in year collection rate of 94.1%. Additional resources had been provided to the PSL team to tackle this problem and the effectiveness of the response was being assessed on a weekly basis.

Figures for arrears left by former tenants were also provide to the committee and these showed that despite additional arrears arising during the year the total amount of outstanding arrears had decreased.

The Committee were advised that the PSL scheme was a cost effective method of providing temporary accommodation with the Council making a surplus on this provision. However this position may change with the Government proposals for changes in 2013/14.

Officers advised the Committee that Internal Audit were now comfortable with the new procedures. The original concern was that the level of arrears was not being tackled satisfactorily. This situation has now been addressed.

Given that the Debt Management Board regularly monitor the level of arrears it was AGREED that officers no longer need to report on this matter to the Audit Committee.

14 **ANNUAL STATEMENT OF ACCOUNTS 2010/2011**

The Statement of Accounts for 2010/11 were subject to audit by the Audit Commission's appointed Auditors, PricewaterhouseCoopers, and

Committee and the Group Director Finance & Commerce to sign and date the statement.

Copies of the Statement of Accounts had been circulated prior to the meeting and members of the Committee had been briefed on the Statement of Accounts, its purpose and the key issues arising.

Havering Council was a large and wide ranging organisation whose goals were:

- To ensure a clean, safe and green borough;
- To achieve excellence in education and learning;
- To provide opportunities for all through economic, social and cultural activity;
- To value and enhance the lives of every individual; and
- To deliver high customer satisfaction and a stable Council Tax.

The Statement of Accounts included all the financial statements and disclosures required by statute. These statements were as follows:

- Comprehensive Income and Expenditure Statement (C I & E);
- Statement of Movement in Reserves;
- Balance Sheet;
- Cash Flow Statement;
- Housing Revenue Account;
- Collection Fund;
- Pension Fund;
- Group Comprehensive Income and Expenditure Account;
- A Reconciliation of the Single Entity Surplus or Deficit for the year to Group Surplus or Deficit;
- Group Statement of Movements in Reserves;
- Group Balance Sheet; and
- Group Cash Flow Statement.

The accounts had been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the *Best Value Accounting Code of Practice 2010/11*, supported by International Financial reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The Code set out the proper accounting practices required by statute to be followed in preparing the statement of accounts. The principal changes which have been made to Havering's accounts since 2009/10 were summarised as follows:

- Accruals have been raised for short term accumulating absences (e.g. unpaid leave);
- A number of operating leases have been reclassified as finance leases;
- Revaluation gains in asset values have been credited to the C I & E Account where they match a previous impairment loss; and
- The net assets/liabilities of Foundation and Voluntary Aided Schools

have been removed from the Council's Balance sheet. The related revenue transactions of schools have also been removed from the C I & E and have been replaced with the Council's funding obligations.

The Committee were advised that prior year adjustments had been made to the 2008/9 Balance Sheet and the 2009/10 comparative data as disclosed in the accounts to ensure compliance with IFRS.

Officers responded to all members questions and where they were unable to provide all the information they offered to e-mail the full information to all members following the meeting.

The Committee:

1. **Approved** the Statement of Accounts without amendment;
2. **Noted** that the audited accounts must be published by 30th September 2011

15 **REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260**

PricewaterhouseCoopers (PWC) the Council's Auditors had issued a report to those charged with governance in accordance with ISA 260. By letter dated September 2011 PWC had indicated that they expected to be able to issue an unqualified audit opinion on the financial statements on 26 September 2011.

PWC had identified two issues which they considered to be significant matters. These were:

- The conversion to International Financial Reporting Standards ('IFRS'); and
- The valuation of the Authority's properties.

At the time PWC had drafted their report they had completed the audit, subject to the following outstanding matters:

- Review of the final draft of the accounts;
- Approval of the financial statements and letters of representation;
- Confirmation of any outstanding legal matters from the Monitoring Officer; and
- Completion procedures including our review of subsequent events.

ISA 260 required PWC to report on any audit adjustments, whether or not corrected by the Authority, that have, or could have, a material effect on the financial statements. They identified one error from their audit of the financial statements, above the £250,000 threshold, that had not been adjusted for by management. This was technical in nature and had no impact on the General Fund Balance. It was an isolated error that arose in the course of the IFRS adjustments posted to the accounts and did not represent a fundamental issue with the Authority's accounting processes for property, plant and equipment.

Officers informed the Committee that they had drafted a Letter of Representation as required by the regulations. The draft letter was circulated to members for consideration and no matters were raised.

The Committee **noted** the report and the content of the Letter of Representation.

16 **RESPONSE TO AUDITORS: REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260**

The Financial Services Manager submitted a report outlining management's response to the report from PricewaterhouseCoopers (PWC). He advised the Committee that the Council had worked closely with PWC during the detailed project plan for International Financial Reporting Standards (IFRS) implementation and in supporting the audit of the draft accounts. The work with PWC during the IFRS project plan had contributed to a smooth transition to IFRS based accounting. Officers had noted that one unadjusted error had been identified. As a consequence, the Council's Property, Plant and Equipment had been under estimated by £3m, or less than 1% of the net book value as part of the work for 2011/12. This had however had no impact on the net revenue out-turn on the level of usable reserves.

The Committee were also informed that the Council's depreciation policy had been re-written in 2010/11 in response to the changes required by the IFRS implementation. Officers had worked closely with internal and external valuers and had welcomed the opportunity to discuss the revised policy with PWC throughout the IFRS implementation. In common with most other authorities, the Council had adopted a de-minimus threshold below which assets were not componentised. It was understood that the external valuers had adopted a similar approach with other clients.

In 2011/12 a further tranche of assets will be revalued. As such, some assets might require componentisation: others will fall below the de-minimus threshold. Officers intended to discuss the policy with our Valuers and would discuss any proposed changes in policy with PWC at the earliest opportunity.

The Committee **noted** officers responses to PWC.

17 **INTERNAL AUDIT PROGRESS REPORT**

Officers advised the Committee that as at the end of June, (Quarter 1), 13 assignments were in progress but none had reached the final report stage. the work in progress included:

- School Audit – Brady Primary & Nelmes Primary.
- Probity Audit – St Kilda's Children's Centre.

- Computer Audits – Network Infrastructure, Enterprise Project and BACs IP.
- Risk Based Systems Audits – Complaints, Supply Chain Resilience, Disabled Facilities Grants, Commercial Property, Non Domestic Rates and Public Protection.
- Substantive Testing – Internal Shared Services.

The team had reviewed the grant files for two grants: Rainham Bus Interchange and Play Capital and, as required by the funding body, provided assurance that the Council had complied with the requirements set out in the grant conditions.

The annual review of the Council's Money Laundering Arrangements had also taken place. The Council had in place arrangements, outlined in a strategy and policy statement, to reduce the risk of its services being exposed to Money Laundering, be party to terrorist financing or recipients of the proceeds of organised crime generally.

The Council was not considered, in legislation, to be an organisation at high risk of exposure to this activity, however its obligations to the community were clear and in the current economic climate the risks the organisation faced from increased criminal or illegal money lender activity were increased.

The Internal Audit Team had received no money laundering reports in the period April 2010 to March 2011.

Officers had provided details of the proposed restructure of the Internal Audit team.

Details of the changes to the agreed Audit Plan were provided together with an update on all outstanding recommendations.

The Committee noted the report.

18 **FRAUD PROGRESS REPORT**

The Committee received a report on the work of the Benefit Investigation Team from 1st April to 30th June 2011. Previously the Committee received separate reports from the Benefits Investigation Team and the Internal Audit Fraud team. In the future the Committee will receive one report each quarter following the decision to change the line management for the Benefits Investigation Team so they report to the Internal Audit and Corporate Risk Manager. This will result, via a planned future restructure, in the creation of a Corporate Fraud Team.

Officers informed the Committee that from April 2013 it was proposed that Local Authority benefit fraud powers would be removed and a centralised fraud team would be formed within the Department of Work and Pensions.

The Committee expressed concern that this might lead to a conflict in the future.

The Committee were informed that two additional posts had been established for two years, funded by homelessness grant money, to tackle Housing Tenancy Fraud. Since the posts were established they have received 40 referrals for investigation.

Details of all referrals to both teams were provided for quarters 3 & 4 in 2011/11 and quarter 1 of 2011/12. The significant increase in referrals to the benefit team from external organisations in quarter 1 was due to National Fraud Initiative matches and outcomes from the single person discount exercise. Over this period the Benefit Fraud Team had received 518 referrals.

23 administrative penalties, 30 cautions and 26 prosecutions had been issued in the same period.

The Committee received details of two successful cases prosecuted by the Benefits Fraud Team, and information was provided of the sentencing of a significant benefit fraudster to 18 months prison yesterday.

The Committee asked that in future the amount of money recovered be included in the report.

Over the same period the Internal Audit Fraud Team had received 27 potential fraud reports and had resolved 44 cases, one of which had been referred to the police for prosecution. However, the Crown Prosecution Service had decided not to prosecute.

The report was **noted**.

19 **UPDATE ON THE FUTURE OF THE AUDIT COMMITTEE**

Officers provided a verbal update on the future of the Audit Commission. The Department of Communities and Local Government had indicated that the Audit Commission would be split. The in-house Audit Practice which currently undertakes the majority of audits for local public bodies will be hived off and the work transferred to the private sector by outsourcing contracts.

The Commission's Board has agreed this approach and was carrying out a procurement process to give private sector bidders the chance to compete for the Commission's audit work. This would mean all of the Commission's in-house work would be outsourced in time for the audit of 2012/13 accounts.

The Audit Commission would remain in place to oversee the contracts and other statutory functions but would be significantly smaller following the outsourcing.

The Audit Commission had split England into 4 regions, with London being split in to 2 sub areas, North and South, including Surrey and Kent. Tenders need to be submitted by 16 December with contracts awarded in the week commencing 20 February 2012.

There was no immediate impact for the Council.

The Committee **noted** the report.

20 TREASURY MANAGEMENT UPDATE

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

The Financial Services Manager presented the report that set out the context that was part of the Chartered Institute of Public Finance and Accountancy (CIPFA) revised Code of Practice for Treasury Management.

The revised Code suggested that Members would be informed of Treasury Management activities at least twice a year or preferably quarterly. The report ensured the Council was embracing Best Practice in accordance with CIPFA's revised Code of Practice.

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

The Committee **NOTED** the report

Chairman
21 December 2011

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AUDIT COMMITTEE

21 December 2011

Subject Heading:	Housing Benefit Fraud Overpayment Report
CMT Lead:	Cynthia Griffin, Director of Culture & Community
Report Author and contact details:	Chris Henry, Council Tax & Benefits Manager
Policy context:	To advise the Committee of the position in relation to fraudulent housing benefit Overpayments for the year 2010/11.
Financial summary:	There is no financial impact to be considered from this report.

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

Ensuring a clean, safe and green borough	<input type="checkbox"/>
Championing education and learning for all	<input type="checkbox"/>
Providing economic, social and cultural activity in thriving towns and villages	<input type="checkbox"/>
Valuing and enhancing the lives of our residents	<input checked="" type="checkbox"/>
Delivering high customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

This report provides the Committee with a record of fraudulent housing benefit overpayments outstanding at 31 March 2011.

RECOMMENDATIONS

1. That members note the contents of this report.

REPORT DETAIL

Introduction

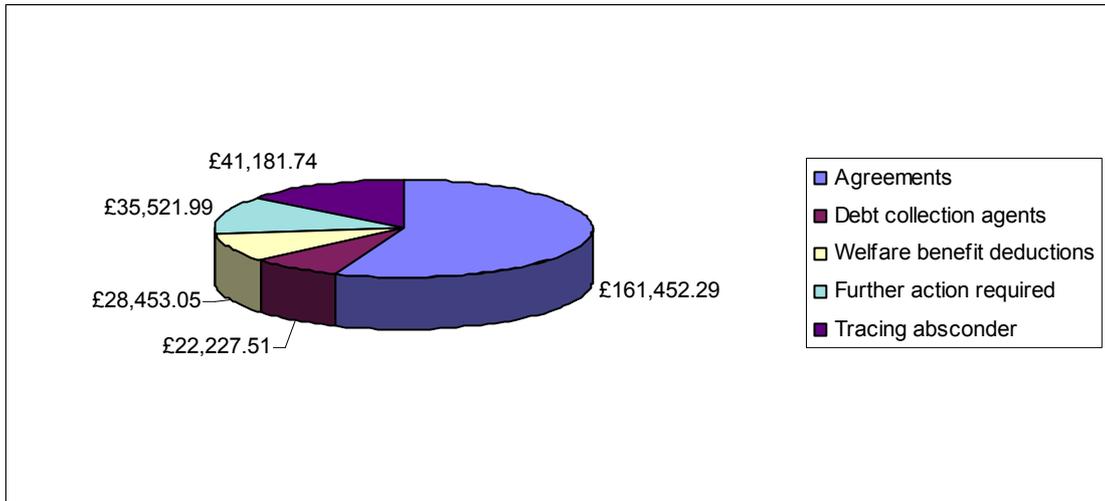
- 1.1 At its meeting on 22 September 2011, Audit Committee expressed an interest in the position of fraudulent overpayment collection. This report provides a statement of fraudulent overpayments outstanding for the financial year 1 April 2010 to 31 March 2011.
- 1.2 The Housing Benefit Overpayment Section within Customer Services comprises 2.5 FTE Overpayment Officers located within Council Tax & Benefits Service and the Contact Centre. They are responsible for the collection of all types of housing benefit overpayments. Approval has been given for an additional 1 FTE Overpayment Officer that will be a self-funding post.

Fraudulent Overpayment Collection

- 2.1 Fraudulent overpayments are produced throughout the year following a successful prosecution, administration penalty or caution being applied to a claimant.
- 2.2 The total value of fraudulent overpayments raised in 2010/11 was £480,763.75. As at 31 March 2011 £288,836.58 remained outstanding this related to 63 cases.
- 2.3 The table below reflects the fraudulent overpayment position at 31 March 2011 and the recovery stage at that time.
- 2.4

Recovery Stage of Fraudulent Overpayment	Balance at 31.03.2011
Agreements	£161,452.29
With debt collection agents	£22,227.51
Welfare benefit deductions	£28,453.05
Further action required	£35,521.99
Absconder being traced	£41,181.74
Total	£288,836.58

2.5 The information in Table 2.4 above is shown in pie chart form below.



IMPLICATIONS AND RISKS

Financial implications and risks:

Fraud will often lead to financial loss to the authority. By maintaining robust collection arrangements and a clear strategy in this area, the risk of such losses will be reduced. There are however, no financial implications or risks arising directly from this report.

Legal implications and risks:

The collection of housing benefit overpayments is governed by statute and this report reflects the position in terms of the balance outstanding. There are no legal implications from noting the contents of this Report.

Human Resources implications and risks:

There are no human resource implications arising directly from this report.

Equalities implications and risks:

There are none arising directly from this report.

BACKGROUND PAPERS

None

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AUDIT COMMITTEE

21 December 2011

Subject Heading:

Annual Audit Letter

Report Author and contact details:

Contact: Mike Board
Designation: Corporate Finance and Strategy Manager
Telephone: (01708) 432217
E-mail address:
Mike.Board@havering.gov.uk
Audit Committee responsible for approving accounts.

Policy context:

Financial summary:

N/A

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

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

Our external auditors PricewaterhouseCoopers will present their annual audit letter to the committee summarising the results of their 2010/11 audit.

RECOMMENDATIONS

To note the contents of the letter and consider any issues raised by the external auditor.

REPORT DETAIL

The purpose of the letter is to provide a high level summary of the results of the 2010/11 audit. The letter is included at appendix A.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. There are no financial consequences arising from the outcome of the audit of accounts. The issues raised in the letter are consistent with the matters raised in their earlier "Report to those charged with Governance" (ISA260) and have been addressed as part of 2011/12 closure planning.

Legal Implications and risks:

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

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

Government and Public Sector
***London Borough of
Havering***
Annual Audit Letter
2010/11 Audit

November 2011

The Members of the Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford
RM1 3BB

November 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. We look forward to presenting it to Members at the Audit Committee meeting on 21 December 2011.

Yours faithfully

PricewaterhouseCoopers LLP

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. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

*PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 7500, www.pwc.co.uk*

Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at the London Borough of Havering that is accessible for the Authority and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit report for the 2010/11 Statement of Accounts, incorporating the value for money conclusion; and
- Report to those charged with Governance (“the ISA 260 report”).

We shall present our report on the certification of claims and returns to the Audit Committee meeting on 29 February 2012.

The matters reported here are those that we consider are most significant for the Authority.

Scope of work

Our audit work is conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2011.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 26 September 2011. The most significant matters that we discussed with management during the course of our work were in relation to the conversion to International Financial Reporting Standards ("IFRS"), component depreciation and the valuation of the Authority's properties.

IFRS compliance

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom required that the Authority's accounts be produced in accordance with IFRS. 2010/11 was the first year in which the Authority was required to produce IFRS compliant accounts with compliant comparatives. This was a significant challenge for the Authority and we were pleased to report that the Authority provided good working papers to support the adjustments required by the conversion to IFRS.

Component depreciation of property, plant and equipment

IAS 16 – *Property plant and equipment* requires the separate depreciation of components of an item of property, plant and equipment whose cost is significant in relation to the total cost of the item and which have a shorter useful life than the item as a whole.

The Authority did not undertake component accounting of HRA land and buildings. Other items of PPE that were revalued or subject to capital expenditure in the year similarly were not depreciated on a component basis. Our findings in this area were set out in our ISA 260 Report and discussed with the Audit Committee on 21 September 2011.

Management should continue to assess the component accounting policy in accordance with the Code and IAS 16 each year, to ensure appropriate accounting within the Statement of Accounts.

Disclosure of IFRS requirements in the accounts

As part of our year end work, we reviewed the narrative disclosures in the accounts for compliance with the IFRS Code. We communicated several matters to the Authority regarding the presentation of disclosure notes in the accounts and the majority of these items were addressed. We noted that the format of the the Property, Plant and Equipment ("PPE") note does not match the recommended disclosure in the CIPFA Code Guidance Notes and recommended that, for the 2011/12 accounts, the Authority includes the format of the PPE Note as recommended by the CIPFA Code Guidance Notes.

Valuation of property plant and equipment

In response to the requirements of International Standards on Auditing, which were clarified this year to the extent that our work on valuations had to increase compared to previous years, we reviewed the methodology used by management and engaged our internal valuation team to review the valuation methods and assumptions used by the Council's valuers. Our testing did not identify any significant issues to bring to your attention.

We discussed these and other matters arising from our audit with the Audit Committee on 22 September 2011. Further more detailed matters arising have been discussed with the Group Director of Finance and Commerce and included in our Report to Management, referred to below. There are no other matters which we wish to draw to the attention of Members in this Letter.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and

- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts. We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Pension Fund accounts and annual report

We completed our audit of the Pension Fund accounts and issued an unqualified audit opinion on 26 September 2011. We also provide a separate audit opinion on the accounts and the related information which is included in the pension fund annual report. We issued an unqualified audit opinion on the annual report on 22 November 2011.

Objection to 2009/10 accounts

We explained in our report to those charged with governance, presented to the Audit Committee on 21 September 2011, that our work was still continuing to address the objection to the 2009/10 accounts. As such, we had not issued our completion certificate on either the 2009/10 or 2010/11 audits.

The objection relates to certain leaseholder service charges and is similar in nature to the objection we received to the 2008/09 accounts, for which we issued a report to management in August 2010. Since that time, the Head of Housing has provided reports to the Audit Committee summarising the work the Council has done to address the recommendations in our report. We met with the Head of Housing on 23 November 2011 to discuss the Authority's progress in addressing those recommendations and we understand that the Authority has further meetings planned with the relevant contractor.

At the time of drafting this Letter we are in the process of finalising our work and will update the Audit Committee on 21 December 2011.

Summary of Recommendations

In accordance with the Audit Commission's Standing Guidance for Auditors, we have provided a Summary of Audit Recommendations to the Group Director of Finance and Commerce in our "Report to Management – Summary of Audit Recommendations" report. Our summary includes eight recommendations relating to detailed internal financial control issues and opportunities for improving processes in the preparation of the annual accounts.

Acknowledgement

We would like to record our thanks to the Committee and to management for the co-operation and assistance we received during the course of our audit.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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<p>AUDIT COMMITTEE 21 December 2011</p>	

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

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

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

SUMMARY

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

RECOMMENDATIONS

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

REPORT DETAIL

1. Background

The Council successfully closed its accounts and prepared its Financial Statements on an IFRS (International Financial Reporting Standards) basis for the first time in 2010/11.

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

2. Key Issues

The key issues to be addressed during the 2011/12 closedown are as follows:

2.1. Infrastructure Assets

Infrastructure assets include roads, highways, bridges and street furniture. These assets are currently recorded on the Balance Sheet on a Depreciated Historic Cost (DHC) basis. The Whole of Government Accounts guidance includes a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis in 2011/12. It will be necessary to identify all such assets, with appropriate measurements and then establish the cost of replacing these assets at current prices (in accordance with The Code of Practice on Transport Infrastructure Assets). Valuations would need to be updated regularly in order to ensure compliance with The Code.

The phasing is expected to be over a three year period as set out below. In 2011/12 and 2012/13 the Council can opt to make a minimum disclosure by way of a note to the accounts with full disclosure in 2013/14.

In 2013/14, the Council's Balance Sheet valuation will increase significantly as would the annual depreciation and impairment charges to the related service revenue accounts. However, there would be no impact upon the Council's revenue out-turn as depreciation and impairment charges are reversed out through the

Capital Adjustment Account. The precise requirements are currently being evaluated by officers.

Year	Requirement
2011/12	Whole of Government Accounts full dry run on DRC basis
2012/13	Voluntary note to the Statutory Accounts
2013/14	Full disclosure

2.2. Accounting for Academies

The net assets of Academy schools will need to be removed from the Council's balance sheet and the associated revenue transactions will no longer be recorded in the Council's accounts. These transactions will be removed from the date of transfer to Academy status.

2.3. Foundation and Voluntary - Aided Schools

In 2010/11 it was determined that all Foundation and Voluntary - Aided Schools should be removed from the Council's accounts in order to comply with the requirements of the IFRS code. This was carried out successfully in 2010/11 albeit on a manual basis. In 2011/12 the focus will be in ensuring that these adjustments are embedded within the accounting and closedown arrangements.

2.4. Internal Shared Services

The creation of the Internal Shared Services structure brought with it a fundamental review of both the organisational structure and the financial systems. This will be the first year that closedown has been carried out under these new arrangements. The following matters are more important than ever in ensuring a successful closedown in 2011/12.

a) Clarity of roles and responsibilities

Each task needs to be identified and assigned to a specific individual. These tasks may be carried out by cost centre managers, Internal Shared Services staff or Corporate Finance staff the named individual should be clear as to the requirements of the task, when it should be completed and to whom it should be reported.

b) Completeness and accuracy of Information

In year transactions must be captured and recorded against the correct code. Year end cut off arrangements need to be properly understood and managed effectively. All reconciliations should be finalised and records maintained for audit inspection.

c) Timeliness of year end activities

In order to comply with statutory guidelines all year end activities must be completed in accordance with the timetable.

d) Year end reporting

The key reports required to produce the statutory accounts must be identified, developed and tested.

3. Progress to Date

The draft year end closure of accounts timetable and guidance notes have been extensively re-written in order to properly reflect the organisational and systems changes resulting from the creation of Internal Shared Services. Corporate Finance staff have met with Internal Shared Services staff on a regular basis in order to identify changes in responsibilities, systems and related processes. The draft documentation is currently subject to consultation and will be issued in January 2012.

The closedown process will begin in earnest from January 2012. The process will be monitored routinely by Corporate Finance. Regular reports will be made to both Corporate Management Team and Audit Committee.

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

a) IFRS transition

An unadjusted error was identified during the course of the audit which related to our IFRS transition. As a consequence, the Council's Property Plant and Equipment was understated by £3m, or less than 1% of the net book value of Property, Plant & Equipment as disclosed on the Balance Sheet. However, this had no impact on the revenue out-turn or the level of useable reserves. The correction will be reflected in the 2011/12 accounts.

b) Component Depreciation

In common with most other authorities, we have adopted a de-minimus threshold below which assets are not componentised. We understand that our external valuers, Wilkes Head and Eve have adopted this valuation approach with other clients. Our auditors, PricewaterhouseCoopers have recommended that component depreciation be fully implemented.

In 2011/12 a further tranche of assets will be revalued. As such, some assets may require componentisation; others will fall below the de-minimus threshold. We believe that the application of a de-minimus threshold is an effective and efficient way of managing the process. However, we acknowledge that this approach must be kept under review to ensure that the accounting disclosures are not materially affected. A meeting has been included in the draft timetable in order to discuss the policy with our Valuers and PwC.

IMPLICATIONS AND RISKS

Financial Implications and risks:

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

Legal Implications and risks:

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

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

[Background Papers List](#)

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AUDIT COMMITTEE

21 December 2011

Subject Heading:

Governance Update

Report Author and contact details:

Vanessa Bateman
Internal Audit & Corporate Risk Manager
Tel: 01708 - 433733.
E-mail : vanessa.batemen@havering.gov.uk

Policy context:

To update the Committee on the progress with regards the Annual Governance Statement including the 2010/11 Action Plan.

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 report aims to update Members regarding embedded arrangements with regards to Corporate Governance and the production of the AGS; the progress to address the issues identified in the 2010/11 AGS; and the work of the officer Governance Group to date in 2011/12.

RECOMMENDATIONS

1. To consider the contents of the report.

2. To note the progress made in addressing issues identified within the 2010/11 AGS.

REPORT DETAIL

Members of Audit Committee are responsible for the approval of the AGS. The Audit Committee are required as part of their role to consider any Corporate Governance related issues that need to be referred to the Governance Committee for review.

The framework and process to produce the AGS is fully embedded within the governance group's annual timetable and agenda.

During 2011/12 the officer Governance Group, chaired by the Group Director Finance and Commerce, has continued to meet quarterly. During the year the actions taken to address the issues identified in the 2010/11 AGS have been captured and reported to Governance Group. Appendix 1 details the action plan as at November 2011 and good progress is noted in all areas. The action plan will be updated again at the end of March 2012 at which time a decision will be taken as to whether each issue has been sufficiently addressed and can be removed.

A review of the membership of the Governance Group has been completed and invites extended to relevant colleagues across the organisation to make sure all Directorates are appropriately engaged with the Corporate Governance Agenda.

The process to draft the 2011/12 AGS is underway; the timetable has been reviewed by the Governance Group. The actions planned for the next couple of months include a review of:

- Organisational performance against the six principals of good governance;
- Assurances from external bodies;
- Issues coming out of audit work; and
- Mini Assurance Statement templates.

There are no significant issues to report to members at this time. Once all sources of assurance have been reviewed at the end of the financial year, a draft version of the AGS will be presented to the Committee in June for approval as part of the Council's Statement of Accounts. If necessary any significant issues will be highlighted to the Committee at the May meeting.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report. The risks of our arrangements not complying with best practice may lead to the Council not being viewed as open and transparent by stakeholders. Failure to produce a robust AGS could result in the Council's Accounts being qualified.

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. Equality and social inclusion are key factors to consider in the Council's Governance arrangements and any changes to the Code of Governance or other related policies and procedures are assessed in order to ensure the impact is appropriately identified.

BACKGROUND PAPERS

Annual Governance Statement 2010/11.
CIPFA/Solace – 'Delivering Good Governance in Local Government' framework.

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Significant Issue action already taken & future planned action as at June 2011.	Current Status As at November 2011.	CMT Lead
1. Data Quality & Management Information <ul style="list-style-type: none"> ➤ Review of Performance Indicators reported to CMT and Members; ➤ ICT Transformation programme work stream includes rationalisation of systems ➤ Implementation of Oracle system as part of Internal Shared Service Programme. ➤ Audit work to provide assurance. <ul style="list-style-type: none"> ○ Training on data quality for all officers compiling new PIs. ○ Transformation programmes continue. 	<p>Oracle dashboards have been launched, this includes HR and Budget information, data is updated nightly.</p> <p>Group training provided to all officers responsible for compiling PIs. 1:1 training is on-going where required.</p> <p>Work to align Key PIs within the organisation to external PIs (inc definition) where possible has commenced.</p> <p>A review of Government returns to compare data reported to that held and reported internally. Risks will be flagged to Heads of Service by Performance Officers. This risk to be considered as part of audits in service areas and specific audit of Data Quality later in year. Pro active assignment also to be completed.</p> <p>CLT working group on risk has been established – which will look at risk management processes regarding corporate / local risks/issues and how best to manage these.</p> <p>Work to assess IT systems and their fitness for business includes production of robust management information.</p>	<p>Group Director Finance & Commerce</p> <p>Group Director Culture & Community</p>

Significant Issue action already taken & future planned action as at June 2011.	Current Status As at November 2011.	CMT Lead
2. Information Governance <ul style="list-style-type: none"> ➤ Officer Governance Group monitored work of Information Governance Group during 2010/11. ➤ Action plan in place. ➤ Awareness campaign and training. ➤ Project on document classification in progress. ➤ Audit work completed 2010/11. <ul style="list-style-type: none"> ○ Groups will continue to progress action plan and monitor outcomes. ○ Widen network of officers promoting this by linking with Risk Management Group. ○ Audit work planned for 2011/12. 	<p>The Information Governance Group meetings are diarised throughout the year. The group reports to the Governance Group quarterly.</p> <p>Further progress towards electronic documents management.</p> <p>Training on GCSX and roll out of Egress (secure email) – training and e learning available.</p> <p>DPA training in SC&L.</p> <p>There is an ‘open government’ project implemented by the Leader of the Council to look at transparency and communication of certain information as appropriate.</p> <p>CLT working group on risk has been established – which will look at risk management processes regarding corporate / local risks/issues and how best to manage these.</p>	Assistant Chief Exec – Legal and Democratic Services.

Significant Issue action already taken & future planned action as at June 2011.	Current Status As at November 2011.	CMT Lead
<p>3. Project Management</p> <ul style="list-style-type: none"> ➤ Policies and Procedures are in place. ➤ Audit work completed. ➤ Lessons learned exercises undertaken. <ul style="list-style-type: none"> ○ Risk Management awareness training for Officers. ○ CMT to consider risk management paper which will determine how strengthened culture for managing risk can be achieved. 	<p>Transformation programme governance structures mean we have a central team overseeing the largest programmes and related projects within the organisation. These procedures include soft audit and lessons learned activity.</p> <p>All change within the organisation sits under the 'transformation umbrella' so it is controlled.</p> <p>Risk Management paper was considered by CMT and as a result a CLT working group on risk has been established. The objective of the group is to identify how more effective identification, understanding and communication of risk can be achieved the outcome of which would be more efficient and effective overall risk management.</p> <p>New competency framework being implemented for managers.</p>	<p>Group Director Finance & Commerce</p>

Significant Issue action already taken & future planned action as at June 2011.	Current Status As at November 2011.	CMT Lead
4. Contracts and Supply Chain Resilience <ul style="list-style-type: none"> ➤ Policies and Procedures are in place. ➤ Training is available to Officers. ➤ Contracts register is held. ➤ Review of contracts following objection to accounts. <ul style="list-style-type: none"> ○ Audit work planned 2011/12. 	<p>ISS brings increased visibility to expenditure coding.</p> <p>Resilience of Business Systems increased.</p> <p>First audit work is completed and report issued. Findings identify that risks are well managed where policies, procedures and rules and complied with.</p> <p>Previous audit work has flagged there are bigger risks around off contract spend and strength of detective controls in this area as management information is currently short in supply but will be more available in future.</p> <p>This risk area is a corporate risk so monitored via that process also.</p> <p>A review of SC&L contracts is planned. A procurement group is being established.</p> <p>Risk awareness increased and lessons learned from Southern Cross failure.</p>	Group Director Finance & Commerce.

AUDIT COMMITTEE

21 December 2011

Subject Heading:	Internal Audit 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 two 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 report advises the Committee on the work undertaken by the internal audit team during the period 1st July 2011 to 30th September 2011.

RECOMMENDATIONS

1. To note the contents of the report.

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

REPORT DETAIL

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

Section 1 Background and Resources

Some information about the resources is included for information.

Section 2 Audit Work 1st July to 30th September 2011

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

Section 3 Management Summaries

Summaries of all final reports issued in the period.

Section 4 Schools Audit Work

A summary of schools final reports issued in the period.

Section 5 Key Performance Indicators

The actual performance against target for key indicators is included.

Section 6 Changes to the Approved Audit Plan

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

Section 7 Outstanding Recommendations Summary Tables

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

Section 1 Background and Resources

- 1.1 The Audit team currently consists of a Principal Auditor, Senior Auditor, Auditor and Audit Technician. All posts are filled by permanent staff members, however the Principal Auditor post is seconded from the Fraud team while the restructure is approved and implemented. An additional part time agency resource has been employed to assist in delivery of the audit plan as the Senior Auditor was on maternity leave for the first half of the financial year.
- 1.2 The consultation period for the restructure launched at the end of July has been extended. It is anticipated the new structure will be signed off by the end of December and fully implemented ready for the start of the next financial year. The new structure aims to increase the flexibility of the team to ensure that it can fully support the organisation going forward; income generation will assist in meeting the team's allocated saving target.
- 1.3 The Insurance Team now sits with the Audit Team to align the risk management functions of the organisation. The Budgets for the two areas have been combined under the audit cost centre. The forecast outturn for 2011/12 is currently within the allocated budget.

Section 2 Audit Work 1st July 2011 to 30th September 2011.

- 2.1 At the end of September 40% of the audit plan had been delivered. This was against a target for the period of 35%.
- 2.2 At the end of September six assignments had been completed and ten were in progress but had not reached the final report stage.
- 2.3 Schedule 1 details the work completed in quarter two. Details are listed in the table below and management summaries under Section 3 starting on page 6.

SCHEDULE 1: 2011/2012 – Systems Audits Completed

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
St Kilda's Children's Centres	Substantial	0	3	1	4	2 (1)
NDR	Substantial	0	4	1	5	2 (2)
BACS Application	Substantial	0	3	1	4	2 (3)
Outsourced Server Support and Management	Substantial	0	7	3	10	2 (4)
Microsoft Exchange Server and Outlook Email Audit	Substantial	0	4	2	6	2 (5)
Complaints	Limited	1	1	1	3	2 (6)

2.4 Work in progress includes:

- Computer Audits – Network Infrastructure, Remote Access & Off Site Working, Oracle Financials.
- Risk Based Systems Audits – Supply Chain Resilience, Registrars, Public Protection – Fees and Charges, Disabled Facilities Grants, Jacobs Contract, Education Computer Centre.
- School Audit – La Salette RC Primary, Rainham Village Primary, St. Patricks Catholic Primary and Suttons Primary.
- Substantive/Proactive Testing – Internal Shared Services.

Section 3 Management Summaries

St Kilda's Children's Centre	ref 3(1)
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3.1 Background

3.1.1 A Children's Centre is a place in the community where families with children under the age of five can access a range of activities, services and information. The Centres work with parents and carers to ensure that services lead to better outcomes for children and their families, promote social inclusion and healthy and safer communities.

3.1.2 Since January 2010, Children's Centres have been subject to inspection by Ofsted, in a similar fashion to inspections currently carried out within schools.

3.1.3 Summary of Audit Findings

3.1.4 Previous audit work at another Children's centre identified issues which were relevant to the whole service. Where applicable action has been agreed with management that is being implemented across all centres. Although some of these recommendations are yet to be implemented the issues have not been raised again as part of this report.

3.1.5 At the time of the audit the budgets for children's centres were still held in a central code within the new Oracle 12 system, and had not been allocated out to the individual cost centre managers. As an interim measure last years budget is being used as a base and records of expenditure are being kept manually to inform budget monitoring. Action had been taken to raise this issue for resolution by the Internal Shared Service. Meetings with finance to discuss the budget were planned.

3.1.6 A payment made via Corporate Purchase Card (CPC) was found to be in breach of the Council's CPC policy. However it is noted that this was with the prior agreement of an authorised officer.

3.1.7 Access to the centres safe and therefore petty cash is restricted to the Deputy Manager. In the absence of the Deputy Manager, also the only CPC holder located on site, no other members of staff have access to funds. Some petty cash vouchers were found to be incomplete or missing.

3.1.8 The inventory of electrical equipment does not currently contain the make, model or serial number of the individual items. This was being rectified during the audit.

3.1.9 It was noted that in the absence of a corporate template, which is currently being drafted and approved, an on site multi agency working policy has been developed and implemented by the centre. To ensure consistency this will be superseded by the corporate version.

3.1.10 Audit Opinion

3.1.11 As a result of this audit we have raised three medium and one low priority recommendation.

3.1.12 Recommendations related to the need for:

- Corporate Purchase Card payments to adhere to the Council's policy (Medium);
- Access to petty cash to be extended to a second member of staff (Low);
- Petty cash payments to be completed in line with requirements (Medium); and
- The on site multi agency working policy to be replaced by the service wide partnership agreement once finalised (Medium).

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

NDR (Non Domestic Rates)	ref 3(2)
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3.2 Background

3.2.1 On the 1st April 2008, the London Borough of Havering (LBH) entered into a three year agreement for LBBB to discharge the Council's NDR function, with the option to extend the agreement annually. LBBB have since contracted the service to a company called Elevate.

3.2.2 Whilst the day to day administration of the NDR function has been transferred over to LBBB, responsibilities for a number of NDR processes remain with LBH.

3.2.3 Summary of Audit Findings

3.2.4 Evidence to support the provision of LBH procedures to LBBB in relation to NDR could not be provided. Some risks have been mitigated by the retention of approval responsibility and a LBH officer working on site at LBBB for the first 6 months, however, insufficient assurances are available to support that LBBB have been instructed to operate in line with LBH's procedural requirements.

3.2.5 Performance indicators relating to LBBB are collated by LBH as part of the periodic operational meetings, no assurances are available as to the quality of this data and there are no checks undertaken on accounts to verify the data is reasonable or to ensure that the level of activity on accounts is in line with expectations.

- 3.2.6 Since the introduction of ISS, limited work has been undertaken on the Council's suspense account due to work constraints. As work has now been carried out to clear transactions within the account, no recommendation has been raised.
- 3.2.7 When the agreement began in April 2008, any accounts in arrears where a liability order had been obtained prior to this date, remained the responsibility of LBH to recover. A report provided as part of the audit valued the debt on these accounts at approximately £3m across 572 accounts. By July 2011 £1.1m had been written off and with £400k being received in payments and/ or other account adjustments left the pre April 2008 debt with LBH at £1.5m. Recovery of these accounts has not been undertaken in line with Council requirements.
- 3.2.8 Delays in debt recovery could lead to debts being written off on the basis that the Council is statute barred from recovering them. No recommendation has been made regarding this issue as management have already implemented a team to review and resolve arrears on both Council Tax and NDR accounts.
- 3.2.9 Historically write off figures have not been reported to the Debt Management Board or the Governance Board. A corporate requirement has since been introduced to ensure that all write off information is reported to the Debt Management Board. Write off information should be used in conjunction with information relating to debt position to provide a clear picture of debt progress.
- 3.2.10 At the time of the audit a list of Business Improvement District (BID) properties was not available, resulting in an inability to carry out reconciliations to ensure that charges have been appropriately applied to all accounts. This list has since been generated.
- 3.2.11 The absence of a dedicated NDR resource, aside from the half post for the BID scheme, impacts on Lab's responsibility to deliver elements of the NDR function not designated to LBBD.
- 3.2.12 A review of the 114 individuals with access to the Academy NDR system identified 16 individuals who no longer work for LBH.

3.2.13 Audit Opinion

- 3.2.14 As a result of this audit we have raised four medium and one low priority recommendation.
- 3.2.15 Recommendations relate to the need for:
- Procedures to be reviewed and issued to the relevant provider (Medium);
 - Sample checking of accounts to monitor performance (Medium);
 - Amounts written off to be reported to the Governance Board (Medium);
 - Reconciliations of charges raised against BID properties (Medium); and
 - Users with access to Academy NDR to be reviewed (Low).

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

BACS Application	ref 3(3)
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3.3 Background

3.3.1 The BACS Application (BACKWAY IP Professional – called BACSTEL IP) is the mechanism and process adopted by BACS to enable a user of the BACS system to authenticate and sign payment messages submitted to the BACS system and to validate, confirm receipt and report on the processing of such payment messages.

3.3.2 The BACS file creation process is performed by the Internal Shared Services team via the e-business application hosted by Oracle while the loading and signing processes are performed by Business Systems.

3.3.3 The transmission process for the BACS files is performed by the operations team via the BACKWAY IP professional software. The BACS IP software has been installed on a dedicated machine and access is restricted to four admin staff.

3.3.4 Summary of Audit Findings

3.3.5 Audit testing identified the following:

- Leavers are not notified by line managers;
- There is no HR involvement in the leaver notification process;
- There is currently no facility in place to report and review inactive user accounts to assist in the timely identification of leavers;
- An account belonging to a leaver is still active on the system; and
- There are two accounts for users who no longer require access to the system.

3.3.6 The number of acceptable logon failure attempts has been configured to 10 and there is currently no log and report of security violations which means persistent attempts at accessing the system cannot be identified.

3.3.7 Although invoices should be paid within 30 days from the date that they are received, the targets are currently not being met and there is a delay of two weeks for payment.

3.3.8 The documentation for the recent upgrade of the BACKWAY IP application that was performed in August 2011 is not available for review.

3.3.9 Sample review of details logged on the Support Works system for a closed call for the transformation and implementation of an ERP solution identified that there is no evidence that the change had been tested or signed off.

3.3.10 Audit Opinion

3.3.11 As a result of this audit we have raised three medium priority and one low priority recommendations.

3.3.12 Recommendations related to the need for:

- The leaver management process to be reviewed (Medium).
- The Backway IP system to lock the account after 3 unsuccessful log ins and unsuccessful attempts should be recorded and logged (Medium).
- The back log of unpaid BACS invoices should be cleared and a process put in place for the timely payment of BACS invoices within the 30 day KPI requirement (Low).
- The Change log should be updated to reflect changes in the system and include evidence of test results (Medium).

3.3.13 A **Substantial** audit opinion has been given as while there is a basically sound system, there are limitations that may 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.

Outsourced Server Support and Management	ref 3(4)
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3.4 Background

3.4.1 The 2011/2012 Internal Audit plan includes an audit of the arrangements the Council has in place with ACS for the hosting and management of its hardware.

3.4.2 The current IT infrastructure at Havering is requiring upgrades and a refresh to continue to serve the Council's development of services. In 2008, the Council sought to outsource the hosting of its hardware to a specialist third party supplier. Initially an agreement was signed with Anix for the hosting of Havering servers in the London Docklands, however, following the takeover of Anix the new service provider, ACS (Affiliated Computer Services), has sought to relocate the Council servers at two data centres in Telford and Newport (Shropshire). As well as providing improved dedicated facilities for the hosting of servers, the move of the servers also provides the Council with improved Disaster Recovery the introduction of a robust disaster recovery capability and a technology refresh along the way.

- 3.4.3 The IT Infrastructure Programme is a programme within the ICT Transformation Programme and the data centre move (application migration) is a work stream contained within the IT Infrastructure Programme.
- 3.4.4 Through the application migration work stream, 30% of the applications have been migrated to date from the Town Hall data centre to the ACS data centres.
- 3.4.5 The takeover by ACS contributed to the delay of the migration as a period of redesign had to take place to ensure contractual obligations could be met.
- 3.4.6 Furthermore, issues were experienced with the SQL clusters and the Unix P Series not being available. Thus applications which were dependent on these could not be migrated. In addition to this, the work stream has also sometimes suffered from lack of resource availability as business systems resources need to be free from 'business as usual' activities to enable them to focus on Programme activities.
- 3.4.7 It is acknowledged that this has been noted by LBH and steps have been taken to employ additional project support and project managers.

3.4.8 Summary of Audit Findings

- 3.4.9 Review of the application migration work stream's risks and issues log, determined that it has not been populated.
- 3.4.10 It was confirmed that this list of systems to be migrated has not been formally agreed with the IT Infrastructure Programme Board as some additional systems are added to the Board.
- 3.4.11 A schedule of roles and responsibilities has been informally agreed with ACS. Furthermore, key personnel requiring back up staff and key technical personnel have not been formally identified.
- 3.4.12 Users outside of Business Systems who perform application testing in preparation for migration may not use test scripts and test plans to document the user acceptance tests carried out.
- 3.4.13 The sign-off to approve the migration into the live environment is informally received via e-mail and not formally recorded within the work stream documentation.
- 3.4.14 The original contract (between Havering and Insight) which referred to the services provided by Anix was not formally novated to ACS although it was indicated that ACS are working towards the original contract.
- 3.4.15 The service level agreement (SLA) with ACS states that service reports will include reporting on back-up information and environmental availability. However, this is not currently being reported on.

3.4.16 Review of the reports determined that between October 2010 and March 2011, LBH were subject to four major incidents and a formal complaint has been raised with ACS to produce a Service Improvement Plan.

3.4.17 An analysis has not been carried out to determine if it is feasible to meet the deadline of migrating all applications and whether sufficient resources are available to implement the migration. This date was driven from the need to realise benefits from the migration.

3.4.18 A specific visitor's procedure to access the data centre has not been documented.

3.4.19 CCTV cameras were not operational in the ACS data centres. Additionally, the cameras do not provide adequate coverage of the room or all the aisles.

3.4.20 Audit testing was unable to find any reference of insurance cover for Havering equipment at the ACS data centres within the contract.

3.4.21 Audit Opinion

3.4.22 As a result of this audit we have raised 7 medium priority and 3 low priority recommendations. In order to further improve the control environment, management need to ensure that:

- The application migration work stream risk and issues log is fully populated (Medium);
- The list of systems to be migrated to the ACS data centres is finalised (Medium);
- The proposed application migration deadline is reviewed (Medium);
- Roles and responsibilities are defined for each key personnel within the implementation process (Low);
- A consistent user acceptance testing procedure is followed for all systems to be migrated (Medium);
- Legal advice is sought over the requirement to update the contract with ACS (Medium);
- ACS service review reports are enhanced to include reporting on backups and environmental availability as per the service level agreement (Medium);
- ACS develop written standards for visitor and contractor access to the Havering hardware in the data centres (Low);
- CCTV coverage at the data centres is made operational to cover Havering hardware (Low); and
- Insurance agreements are in place over Havering equipment in the ACS data centre (Medium).

3.4.23 A **Substantial** audit opinion has been given as while there is a basically sound system, there are limitations that may 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.

Microsoft Exchange Server and Outlook Email Audit	ref 3(5)
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3.5 Background

- 3.5.1 It has been highlighted in the formal documented Havering ICT Roadmap 2010-2014 that the ICT infrastructure is in urgent need of a refresh and modernisation programme. The existing Novell GroupWise email system was identified, as outdated and unreliable and no longer fit-for-purpose in the ICT Roadmap and supported by independent reviews commissioned and undertaken by consultants AT Kearney and AMTEC.
- 3.5.2 At the time of this internal audit, the Novell GroupWise email system has been replaced and migrated to Microsoft Exchange Server 2003, with Outlook 2007 as the front-end client accessed by Council staff. Furthermore, the Exchange Server cluster, Storage Area Network (SAN) storage and Citrix environment has also been migrated to two geographically dispersed Data Centres in Telford and Newport, which is hosted and managed by Affiliated Computer Services (ACS).
- 3.5.3 There are design proposals and plans in place for the implementation of an Exchange Server and Outlook 2010 migration and upgrade project, as part of the strategic vision at the Council.

2.5.4 Summary of Audit Findings

- 3.5.5 Since the migration from Novell GroupWise to MS Exchange 2003, an appropriate and standardised mailbox size capacity management policy has yet to be formally agreed, documented, applied and monitored to better utilise the Microsoft Exchange Server data storage capacity.
- 3.5.6 There is currently no email archiving solution established and implemented at the Council and users have no limits applied to Exchange mailboxes.
- 3.5.7 Individual user Exchange mailbox restoration and recovery is the responsibility of in-house ICT Services at the Council. However, there are no defined and documented procedures available to cover the recovery of systems.
- 3.5.8 All inbound and outbound mail messages and attachments are scanned by the recently implemented Forefront Online Protection for Exchange (FOPE) solution. It was noted that for the new solution, there are various types of management reporting on email usage, viruses and spam generated from FOPE, which are yet to be formally defined and developed for the Council in conjunction with Internal Audit for monitoring and investigative purposes.

3.5.9 The Microsoft Exchange Best Practice Analyser was run on the Exchange 2003 Server which identified and reported seven Exchange critical issues which should be addressed and resolved. These are identified in the detailed findings of this report.

3.5.10 The ITIL Change Management Benchmark Assessment and Evaluation indicated that the existing email and Exchange Server Change Control and Management arrangements at the Council could be further aligned with the ITIL best practice framework.

3.5.11 Audit Opinion

3.5.12 As a result of this audit we have raised 4 medium priority and 2 low priority recommendations.

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

- Appropriate mailbox size policy settings are established and applied (Medium);
- An email archiving solution is fully evaluated, established and implemented at the Council (Medium);
- Operational procedures for the restoration and recovery of individual Exchange mailboxes are defined, documented and periodically tested (Low);
- Management reporting for email usage activities, top viruses, spam and content is fully evaluated, defined, documented and implemented at the Council (Low);
- The seven 'Critical Issues' identified and reported by the Microsoft Exchange Best Practice Analyser are addressed and resolved (Medium); and
- Effective Change Control and Management arrangements are established and implemented which are aligned with ITIL best practice standards (Medium).

3.5.14 A **Substantial** audit opinion has been given as the audit has found weaknesses in the system of internal control that may put the Council's objectives at risk.

Complaints	ref 3(6)
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3.6 Background

- 3.6.1 The Council implemented a corporate complaints process in September 2008. This process works using a Customer Relation Management (CRM) system which allows complaints to be recorded and tracked.
- 3.6.2 In June 2011 the CRM system was replaced. Functionality of this system remains similar to the previous system.
- 3.6.3 Havering 2014 includes a programme on customer services of which complaints is a work stream. Therefore a light touch review to provide assurance regarding current arrangements was carried out.
- 3.6.4 In order to test compliance, a sample of complaints across a randomly selected sample of departments was selected for review. A sample of correspondences' received were also selected where possible to identify potential complaints. Any specific issues identified from this testing will be reported separately to the relevant services.

3.6.5 Summary of Audit Findings

- 3.6.6 A number of issues found during the audit of service areas, such as complaints not being entered onto CRM, inconsistencies and inaccuracies in the information being entered have raised concerns that complaint number / statistics may be distorted by the information being recorded within the system.
- 3.6.7 Given the above, management information being used to make decisions may not be a true reflection of actual complaints.
- 3.6.8 Guidance on complaints handling dated October 2008 is available on the intranet. This document is contradictory and requires review to ensure it's clear and fit for purpose.
- 3.6.9 No quality spot checks are currently being undertaken either centrally or at a local level.
- 3.6.10 Controls have been introduced within Streetcare and Customer Services which require independent approval to change complaints to service requests.
- 3.6.11 Six recommendations were raised as a result of the 2009/10 Complaints audit. All recommendations have either been fully or partly implemented, although all of these recommendations will require revisiting given the implementation of the new CRM system and the staffing changes resulting from the introduction of ISS and recent restructures.

3.6.12 Audit Opinion

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

3.6.14 Recommendations raised relate to the need for:

- Review and update of the guidance available on the intranet (Medium);
- Refresher training for staff (Low); and
- The introduction of quality management spot checks within service areas (High).

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

Section 4 Schools Audit Work

Two Schools audits were finalised by the end of September. Results of the audits are included in Schedule 3 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	
Brady Primary School	Limited	1	12	4	17	4 (1)
Nelmes Primary School	Substantial	0	6	4	10	N/A

Brady Primary School	ref 4 (1)
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4.1 Previous Recommendations

4.1.1 There was one Priority One and five Priority Two recommendations made at the Annual Audit Health Check undertaken in May 2010. Of these three have been fully implemented and the three remain outstanding.

4.1.2 Recommendations outstanding relate to obtaining best value for money by acquiring sufficient quotes for all contracts; the annual inventory check and discrepancies above £500 to be reported to the Governing Body and minuted; and all portable school equipment to be Smart Water security marked. These have been reiterated in this report under recommendations four and nine.

4.1.3 Summary of Audit Finding

4.1.4 Scheme of Delegation has not been reviewed since February 2010.

4.1.5 Copies held of Governing Body minutes were not signed or dated.

4.1.6 It was noted that the school does not have a high interest account. Due to the current reduced benefits there is no recommendation to made as a result of this finding.

4.1.7 Office Manager is taking income home, to bank at her local branch.

4.1.8 Quotes are not being sought for purchases between £1000 and £10,000.

4.1.9 The Head Teacher is authorising orders over £3000.

4.1.10 Cheque stubs are not being initialled by cheque signatories.

- 4.1.11 Finance Committee Terms of Reference do not include responsibilities for charge cards.
- 4.1.12 School Finance Policy does not state cash withdrawal is not permitted with the charge card and the facility to do this has not been disabled.
- 4.1.13 Charge card transaction log has not been signed by the cardholder or authorised by two cheque signatories.
- 4.1.14 Debit entry on bank statement has not been initialled by cardholder verifying agreement to transaction log.
- 4.1.15 Scheme of Delegation does not include members of staff authorised to use charge cards including expenditure limits and other limits imposed on the card.
- 4.1.16 The inventory is not being kept up to date. Recently purchased items are not on the inventory and disposed of items have not been removed. Items of equipment are not always Smart Water security marked.
- 4.1.17 An annual Inventory is not being undertaken and therefore the results of the check are not being reported to Governing Body.
- 4.1.18 Equipment on loan log is not updated and does not include insurance details.
- 4.1.19 There is no Write Off Policy.
- 4.1.20 Lettings agreements are not being signed by a representative from the school.
- 4.1.21 There is no Asset Management Plan.
- 4.1.22 All governors are not included on the Single Central Record.
- 4.1.23 Passwords are only being changed at the beginning of each year.
- 4.1.24 Staff using their own cars for school business have not been checked to ensure they are legally qualified to do so.
- 4.1.25 There is no profit and loss account kept for residential school journeys.
- 4.1.26 There is no Grants Policy and approval is not sought from Governors regarding a budget to subsidise residential school journeys
- 4.1.27 Audit Opinion**
- 4.1.28 This audit report contains seventeen recommendations, one high, twelve medium and four low priority.
- 4.1.29 Recommendations relate to the need for:
- Scheme of Delegation to be reviewed;

- Copies of Governing Body minutes held to have date and signature of approval;
- Office Manager is not to take money home and is to be accompanied when banking income at the schools bank;
- Quotes to be sought for purchases;
- Headteacher to gain approval from Finance Committee to authorise orders over £3000;
- Cheque stubs to be initialled by cheque signatories;
- Terms of Reference for Finance Committee to include responsibilities for charge cards. A notation to be included in the Finance Policy stating the withdrawal of cash with the charge card is not permitted. Scheme of Delegation to include members of staff authorised to use charge cards including spending limits and other limits imposed on the card. Advice to be sought from the schools bank for disablement of the facility to withdraw cash with the charge card.
- A complete and up to date inventory to be maintained to include recently purchased items and the removal of disposals and all items of equipment to be Smart Water security marked;
- An annual inventory check to be undertaken and reported to the Governing Body for review;
- Equipment on loan register to be updated and include insurance liability;
- A Write Of Policy to be in place;
- Agreements for the hire of premises to be signed by a representative from the school;
- Asset Management Plan to be in place;
- Passwords for the schools IT systems to be changed termly;
- Members of staff using their own cars on school business to produce documents;
- A profit and loss account to be produced for all residential school journeys;
- A Grants Policy to be put in place and approval from Governors sought for the journey subsidy budget.

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

Section 5 – Key Performance Indicators

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

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

At the end of September 2011 the team is ahead of target with 40% of the audit plan having been delivered.

KPI 01 - Briefs issued										
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Actual	12	12	19	20						
Cumulative Target	12	17	22	29	36	43	48	55	60	60

It is estimated the team will undertake 60 audit assignments. Outputs from Fraud cases and schools are not counted in the 60. Due to the allocation of audit resources on Internal Shared Services which is not a traditional audit and has only one overarching brief, the actual briefs issued is behind target at the end of September.

KPI 02 – Draft Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	4	9	9	11							
Cumulative Target	5	8	10	14	19	26	35	40	48	55	60

At the end of September the team were three draft reports behind target.

KPI 03 – Final Reports											
	Q1	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Actual	2	0	4	8							
Cumulative Target	3	5	7	10	16	23	30	37	45	50	60

At the end of September the team were two final reports behind target.

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

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

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

The impact on the total days in the plan has been managed by adjusting the contingency budget and other budgets for the year. The totalled planned days remains at 1466.

Audit Title	Days	Revised Days	Directorate	Reason
Partnership & Joint Working	20	15	Corporate	Reduced scope.
Contracts & Procurement	40	20	Corporate	Reduced scope.
Outcomes of Transformation Programme	70	20	Corporate	Reduced scope.
Expenses	0	10	Corporate	Added to 2011/12 plan.
Internal Shared Services Controls Stage 2	0	75	F&C	Added to 2011/12 plan
Disaster Recovery	10	0	F&C	Deleted from plan as this has been undertaken previously as part of the Computer Audit Pan
Flood Act 2010	15	0	F&C	Included as part of the Emergency Planning Audit
Emergency Plan & Business Cont. incl. Flood Act	0	15	F&C	Focus of audit changed away from Disaster Recovery (See above)
Facilities Management	15	0	F&C	Audit was briefed last year. Risks identified were not sufficient, therefore deleted from plan.
Child Protection	15	0	SC&L	External Inspection in 2011.
Learning & Physical Disability Day Services	15	0	SC&L	Audit was briefed last year. Risks identified were not sufficient, therefore deleted from

Audit Committee 21 December 2011

				plan.
Appointeeships & Receiverships	10	15	SC&L	Increased scope.
Follow Up's	25	5		Number of days has been reduced to reflect the actual number of follow ups to be undertaken.
Contingency	14	0		Remainder of Contingency budget reduced to accommodate overall increase in planned work.



Section 7 – Outstanding Recommendations Summary Tables

Categorisation of recommendations

High: Fundamental control requirement needing implementation as soon as possible
 Medium: Important Control that should be implemented
 Low: Pertaining to Best Practice

Outstanding Internal Audit Recommendations – 2008/09

Review in 2008/09	HoS Responsible	Outstanding			Position as at end September 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
E Payments	Business Systems		1		1		
Commissioning of Works	Asset Management	1			1		
IT Security & Data Management	Business Systems	2			2		
Telecommunications	Business Systems	1			1		
Cemeteries & Crematorium	Housing & Public Protection		1		1		
	Total	4	2		6	0	0

Outstanding Internal Audit Recommendations – 2009/10

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

Outstanding Internal Audit Recommendations – 2010/11

Review in 2010/11	HoS Responsible	Outstanding			Position as at end September 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Tranman	Asset Management	3	1		4		
Service Desk	Business Systems		2	1	3		
Corporate Support Team	Asset Management		1	1	2		
Section 106	Development & Building Control		1		1		
IT Change Management	Business Systems		1		1		
Payroll	Shared Services			1	1		
Pensions	Shared Services			1	1		
Child Protection	Children & Young People's Services		2		2		
Thistledene Children's Centre	Children & Young People's Services		1		1		
IT Security	Business Systems		1		1		
Total		3	10	4	17	0	0

Outstanding Internal Audit Recommendations – 2010/11

Review in 2008/09	HoS Responsible	Outstanding			Position as at end September 11		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Complaints	Customer Services	1	1		2		
	Total	1	1		2	0	0



IMPLICATIONS AND RISKS

Financial implications and risks:

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. With regards Money Laundering criminal charges may result should employees not fulfil their personal responsibilities. Sanctions could also be imposed on the Council if it is considered not to be complying with legislation. There are no financial implications or risks arising directly from this report.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None.

AUDIT COMMITTEE

21 December 2011

Subject Heading:

Fraud Progress Report

Report Author and contact details:

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

Policy context:

To advise the Committee of the work and performance of the Council's anti fraud and corruption resources.

Financial summary:

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

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

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

SUMMARY

This report advises the Committee of the work of the Benefit Investigation Section and the Internal Audit Fraud Team from 1st July 2011 to 30th September 2011.

RECOMMENDATIONS

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

REPORT DETAIL

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

- Section 1. Background & Resources
- Section 2. HB/CTB Fraud Work & Internal Audit Fraud Work
 - A) Referrals & Fraud Reports
 - B) Current Case Load
 - C) Outcomes
 - D) HB/CTB fraud overpayments
 - E) Savings & Losses
- Section 3. Housing Tenancy Fraud Work
- Section 4. Proactive Fraud Audits
- Section 5. Direction of Travel

Section 1 Background & Resources

- 1.1 The September report aligned the reporting periods for the various fraud activities therefore this is the first quarterly report to Committee covering all anti fraud and corruption activity within the Council. Since the change in line management in September the two fraud teams have continued to work on there respective fraud activity areas. The key focus for this time period has been to establish a dedicated Housing Tenancy Fraud resource within the Benefit Investigations Team, an update on progress with this is included later in this report.
- 1.2 As previously reported the change in line management was as a result of a decision to more closely align the organisations fraud resources with a view to create a Corporate Fraud Team. The Council awaits further clarity regarding the planned creation of Single Fraud Investigation Service, particularly with regards funding arrangements, before it commences a review of resources and structures.
- 1.3 The Benefit Investigations Section is fully resourced using agency workers to cover the posts which have become vacant due to officers seconding to the Housing Tenancy Fraud posts.

- 1.4 The Fraud Team within Internal Audit currently has one post vacant; the substantive post holder is acting up within the systems audit side of the team. Up to October this post was covered by an agency worker, this post is being held vacant while the restructure is completed.
- 1.5 The Budgets are yet to be fully aligned to activity and adjustments are still being made to reflect what has transferred to Finance and Procurement. The forecast outturn for 2011/12 is currently within the allocated budget.

Section 2 HB/CTB & Internal Audit Fraud Work July to September

A) Referrals & Fraud Reports

2.1 The table at para. 2.2 provides the sources of fraud referrals for the respective sections.

2.2

Source of Referrals & Fraud Reports Quarter 2 2011/12 (Q2 10/11 is included for HB/CTB for comparison)				
Number of Referrals/ Type	HB/CTB Referrals Q2 11/12	HB/CTB Referrals Q2 10/11	IA Fraud Reports Q2 11/12	Overall Total Q2 11/12
Anonymous	38	38	4	42
External Organisations / Members of the Public	25	47	2	27
Internal Departments Whistleblowers	66	95	1	67
Data Matching	107	0	0	107
Total	236	180	7	243

2.3 The table at para. 2.4 shows the categories of the potential fraud referrals from July 2011 to September 2011. For comparison purposes the same quarter last year has been included in the table.

2.4

Referrals by Category		
Potential Fraud	Quarter 2	Quarter 2
	10/11	11/12
Capital	25	19
Contrived Tenancy	9	-
Income from Other Sources	14	13
Living Together	66	66
Non-Dependant	7	11
Non-Resident/vacated	13	35
Other welfare benefits	-	-
Working	36	18
Non Commercial Tenancy	4	2
Other	6	5
Single Person Discount	n/a	67
Fraudulent Housing Application	n/a	2
Total	180	236

2.5 The table at para. 2.6 shows the categories of the potential fraud reports from July 2011 to September 2011.

2.6

Reports by Category	
Potential Fraud	Quarter 2
	11/12
PC – misuse and Abuse	1
Misuse of Council Time	1
Breach of Code of Conduct	1
Breach of Council Procedures	11
Falsification of Records	1
Overcharging by Supplier	1
Overpayment Recovery	0
Total	7

B) Current Caseload

2.7 The table at para. 2.8 shows the current caseload by category.

2.8

Current Cases by Category	
Potential Fraud	As at Dec 11
Capital	41
Contrived Tenancy	1
Income from Other Sources	41
Living Together	85
Non-Dependant	21
Non-Resident/vacated	51
Other welfare benefits	0
Working	31
Non Commercial Tenancy	5
Other	6
Single Person Discount	63
Fraudulent Housing Application	6
Total	351

2.9 The table at para. 2.10 shows the current caseload by category.

2.10

Current Cases by Category	
Potential Fraud	As at end of Quarter 2 11/12
PC – misuse and Abuse	2
Misuse of Council Time	2
Breach of Code of Conduct	1
Breach of Council Procedures	2
Falsification of Records	1
Overcharging by Supplier	1
Overpayment Recovery	1
Total	10

C) Outcomes

2.11 The number of successful outcomes for the benefits investigations team from July 2011 to September 2011 is detailed in Table 2.12 below.

2.12

Successful Outcomes			
Sanction/ Offence Type	Administrative Penalties	Cautions	Prosecutions
Capital	4	2	-
Working and Claiming	3	2	1
Contrived Tenancies	1	1	-
Living Together	2	-	4
Income from other sources	-	9	-
Vacated	-	1	-
Non Dependants	1	2	-
Total	11	17	5

2.13 The financial investigator has been in post for a year, she currently has seven ongoing Proceed of Crime (POCA) cases which have resulted in the restraint of ten houses, several cars, two speedboats and a Winnebago. As a direct result of her POCA action two large overpayments were repaid in full, one for £40,000 and one for £8,000.

2.14 Press releases are issued to publicise the successful outcomes of cases, extracts from two of the most successful cases, during the period to which this report relates have been included below. Names have been removed from the press releases, although the information is in the public domain, due to the time that has elapsed since Court hearings.

- 2.15 A 37 year old mother of two from Saddleworth Square, Romford was sentenced to 16 months imprisonment on 21/09/11 by His Honour Judge Saggerson at Basildon Crown Court. At an earlier hearing the woman had pleaded guilty to fraudulently claiming over £140,000.00 in Housing Benefit, Council Tax benefit and Income Support between 1996 and 2009. She had declared that she was a single parent but was living with her husband. A joint investigation by Havering Council and the DWP fraud teams revealed that the couple had a joint bank account and were both registered on the tenancy for the property. The childrens' schools held the same address and home phone numbers as emergency contacts for both parents. Companies House also held the husband's home address as that of his wife. During an interview, the claimant maintained that her husband stayed a few nights a week but slept on the settee. She said that they had separated eleven years earlier.
- 2.16 Mr X 52, of West Close Rainham, RM13 9AR was sentenced on to 12 months imprisonment for a £46,000 Housing Benefit fraud. The fraud began when Mr X claimed to be renting a property from a female to whom he denied being related. This person was in fact in wife and the owner of the property where they lived together with their two children. Mr X declared that he had to pay £875 .00 a month rent when in actual fact his wife was paying the mortgage. When interviewed by Council investigators, Mr X admitted that he had done wrong and pleaded guilty at Court. Although he was given credit for this by His Honour Judge Davies, the judge also stated that Mr X had fraudulently obtained money that is meant for the poor and therefore it had to be known that this was a serious offence where only an immediate custodial sentence was justified. This was not the first time that Mr X had been jailed for fraud. In 2002 he was sentenced to three years imprisonment for stealing £475,000 from his employer, The Workers' Educational Association, a charity that provides educational help for the unemployed. At the time Mr X was its senior accountant.

2.17 The case outcomes for the Internal Audit investigations from July to September are detailed in table 2.18 below.

2.18

Case Outcomes	
Outcome	Qtr 2
Management Action Plan	0
Disciplinary	1
Dismissed	1
Resigned	1
Contract ended	0
Insufficient Evidence	10
No case to answer	1
Refund received	0
Property Recovered	1
Total	15

2.19 One of the cases involving a tenant who admitted making a fraudulent Right to Buy application received a Police Caution for committing an offence of Fraud by False Representations contrary to Section 2 Fraud Act 2006.

- False Representation – The Right to Buy application was false as the answer to the principal home question was untrue the property being purchased was proved not to be his principal home.
- Gain –The tenant would have gained a council property worth £92,500 to which he was not entitled. He would have gained a discount of £38,000 on the purchase price to which he was not entitled therefore purchasing the property for around £54,500.
- Loss – The tenant would have caused a loss to the London Borough of Havering of at least £38,000, this being the discount on the purchase price of the property
- A valuable housing resource would have been lost along with future rental income.

D) HB/CTB Fraud Overpayments

2.20 The value of fraudulent housing benefit overpayments generated for the second quarter of the 2011/12 year are contained in table 2.21.

2.21

Fraudulent Overpayment	
Type	Qtr 2
Rent Rebate	37,376
Rent Allowance	102,046

Council Tax Benefit	44,977
Total	184,399

E) Savings and Losses

2.22 There have been no losses identified since the start of the financial year; results from prior periods have previously been reported to Committee. However following an anonymous allegation that a tenant was purchasing a Council property under the Right to Buy scheme but did not live in the property the result of the Internal Audit investigation successfully establish this resulting in a savings of £38,000 Right to Buy discount and unquantifiable future rental income which would have been lost (see 2.19).

Section 3 Housing Tenancy Fraud Work

A) Background

- 3.1 Grant money has been awarded to Local Authorities to assist them in strengthening their arrangements to tackle Housing & Tenancy Fraud. This grant money is intended to free up both Council properties and those managed by Registered Social Landlords (RSLs) in the Borough. There is a commitment for this grant money to continue until 2012/13.
- 3.2 In August 2011 two temporary dedicated Housing Tenancy Fraud Posts were established within the Benefits Investigation Team. Some specialist project support resource has also been procured to support the implementation of the new processes.
- 3.3 Good progress has been made to establish links with both Homes in Havering and the more significant Registered Social Landlords in the Borough. In addition we are working closely with the councils Homeless and Lettings Teams to try to pick up fraud cases before they are signed up for secure tenancies.
- 3.4 Homes in Havering are the biggest landlord in the Borough with approximately 10,000 tenants. We have established a variety of mechanisms to support their work such as carrying out large scale tenancy audits on their behalf, providing fraud awareness training for the staff and holding a fortnightly surgery morning at Chippenham Road where the staff can drop-in and get advice and assistance with potential fraud cases.
- 3.5 The Tenancy Fraud team currently have 60 cases under investigation. These are mostly Homes in Havering properties (46) but there are also four London and Quadrant, two Guinness Trust, three Old Ford, three from the councils Tenant Management Organisation's and two Public Sector Leased.
- 3.6 The Team carried out their first large scale tenancy audit exercise on behalf of Homes in Havering over the weekend of 21-22 October. The Waterloo Road Estate was chosen as its central Romford location and its proximity to the station make it attractive for rental purposes. 182 addresses were checked and the exercise was very positively received by all the residents. Due to the success of the exercise it has been agreed that the tenancy fraud team will organise three per year.

B) Referrals

3.7 Referral source and category.

Source of Referrals Aug-Nov 2011	
Number of Referrals/ Type	
Social Landlords (inc. HiH)	34
Anonymous	24
External Organisations / Members of the Public	1
Internal Departments / Whistleblowers	8
Proactive initiative	8
Total	75

3.8

Referrals by Category	
Potential Fraud	Aug-Nov 2011
Subletting	38
Not main/principal home	31
Obtained tenancy by deception	1
False claim for Succession	2
Fraudulent assignment	0
Fraudulent RTB	0
Unlawful Mutual Exchange	0
Fraudulent Housing Register Application	0
Fraudulent Homeless Application	3
Total	75

C) Outcomes

3.7

Successful Outcomes (Note: Cases may have multiple outcomes)	
Outcome Type	Aug-Nov 2011
Tenancy Relinquished voluntarily (keys handed in)	4
Property recovered via court action	0
Succession / assignment / Mutual Exchange prevented	0
RTB stopped	0
Homeless Duty discharged	1
Housing Register application withdrawn	0
Temporary accommodation withdrawn	1
Prosecution	0
Total	6

D) Case Studies and Proactive Work

3.8 False Homeless Application

Ms X applied to Havering council for assistance with Housing. Initially she applied to go on the Housing Register and then after the birth of her child she applied as Homeless. She told council staff that she had been living in her sister's house and that her sister was throwing her out as she was selling the property. She was provided with Temporary Accommodation, initially in a hostel and then subsequently she was moved into Private Sector Leased (PSL) accommodation. She claimed Income Support and Housing Benefit. She complained to the PSL team that her accommodation was not suitable due to her daughter's medical condition. Her case was reviewed, as required by law. She was asked to supply medical evidence of her daughter's condition. The correspondence supplied had a different address on it. The review officer was suspicious and referred the case to the Tenancy Fraud Team. A full investigation was carried out. It was discovered that prior to making her homeless application Ms X had been living at a different address (also owned by her sister). This address had not been declared on any of the three application forms that she had completed and had not been sold. Ms X was interviewed under caution. She did not admit that that she had done anything wrong but after the interview she moved out of the PSL property and handed the keys back. The council has now discharged its housing duty to Ms X and the file is being prepared for prosecution.

3.9 Tenancy and Housing Benefit Fraud

Ms X was the tenant of a two Bedroom Council property in Collier Row. She was in receipt of Housing Benefit as she was apparently a lone parent. In September an anonymous caller contacted the fraud team and informed us that Ms X had got married and moved out of her council property. A full investigation was undertaken and it was discovered that Ms X had indeed married and was living with her new Husband, a company director, in his large detached house in the Marshalls Park area. Ms X was interviewed under caution. She admitted that she had moved out. She said that she had kept the flat for her teenage daughter. A Notice to Quit was served at the end of the interview. Ms X handed the keys to the property back to Homes in Havering and she will be cautioned for the Housing Benefit fraud.

Section 4 Proactive Fraud Assignments

4.1 Proactive fraud assignments are planned audits either:

- resulting from previous audits that have highlighted potential weaknesses;
- the follow up of recommendations that have been agreed and implemented;
- management have identified potential areas of fraud and require assurance; or
- the use of a matrix of risks has identified areas of high income or expenditure.

4.2 Details of proactive audits completed to date and currently in progress are set out below:

Description	Outcome
Welfare benefits for provision of care	Completed
Banking arrangements	Completed
Honoraria payments	Completed
Corporate Plant	In progress
Electricity usage and payments	In progress
Trade refuse	In progress

Section 5 **Direction of Travel**

- 5.1 The Audit Commission annually publish a paper on protecting the public purse. This paper gives an overview of fraud within the public sector and details some best practice. The London Borough of Havering have been mentioned in the November 2011 issue in relation to the single person discount exercise they undertook. The report also mentions that Havering recovered five council properties as a direct result of the data match.
- 5.2 The report highlighted procurement as a current key fraud risk. In particular, they cited: cartels involved in bidding collusion; claims for extra costs; provision of inferior goods/services; contractors ignoring minimum pay and Health & Safety; false invoices; and inflated performance.
- 5.3 The report also highlighted direct payments as an emerging risk - in particular, a national increase in reported fraud cases of 55%. They cite:
- fraud by the person managing the budget for someone else;
 - fraud by the provider of care services; and
 - difficulty in detecting and proving fraud.
- 5.4 The Fraud Team were aware of these issues and will consider these and other emerging risk areas as part of the planning process for future plans and allocation of resources.
- 5.5 With the introduction of Universal Credit (UC) the DWP and HMRC planned to create a Single Fraud Investigation Service (SFIS). The aim of this is to improve efficiency and consistency in the investigation of fraud. The initial plan was for fraud investigators from Local Authorities, DWP and HMRC to form one service from April 2013 and for powers to be removed from the Council at that time. Various options were identified and consulted upon. A significant proportion of Local Authorities have gone for 'Option 1' which keeps the resources employed by the Local Authority but has them working under DWP processes and procedures.
- 5.6 Following consultation it has been agreed that Option 1 be implemented. However, this is seen as an interim option. Over the long term, the nature of fraud investigation operations will change once UC has been substantially rolled out. It is therefore anticipated that secondary legislation will be passed so that Local Authorities retain the power to investigate HB/CTB and UC Fraud and that changes are likely to impact in 2015 rather than 2013. The preparation for SFIS continues and work to understand the financial impacts on Local Authorities will now proceed. Internally work will also commence to make sure the fraud resources available to this organisation are directed to where they add most value and ensure efficient and effective processes are in place by aligning activity.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

Legal implications and risks:

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

Human Resources implications and risks:

The planned restructure of the Fraud resources will be dealt with in accordance with the Councils Managing Organisational Change and Redundancy policy, procedures and guidance.

Equalities implications and risks:

None arising directly from this report. These risks are considered as part of all corporate policies so as with the HR implications the planned restructure will take account of equalities.

BACKGROUND PAPERS

'Protecting the Public Purse' – Audit Commission.

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

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