



# Havering

L O N D O N B O R O U G H

## AUDIT COMMITTEE AGENDA

**7.30 pm**

**Thursday  
28 February 2013**

**Town Hall, Main Road,  
Romford**

Members 6: Quorum 3

**COUNCILLORS:**

**Conservative Group  
( 4)**

**Residents' Group  
( 1)**

**Labour Group  
( 1)**

**Independent  
Residents' Group  
( 0)**

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

Clarence Barrett

Denis Breading

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

**James Goodwin 01708 432432**

**email: [james.goodwin@havering.gov.uk](mailto:james.goodwin@havering.gov.uk)**

## AGENDA ITEMS

### 1 CHAIRMAN'S ANNOUNCEMENTS

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

### 2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

### 3 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to declare any pecuniary interest in any of the items on the agenda at this point of the meeting.

*Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.*

### 4 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the meeting held on 4 December 2012 and authorise the Chairman to sign them.

### 5 EXTERNAL AUDIT PLAN 2012/13 (Pages 7 - 32)

Report attached.

### 6 2011/2012 AUDIT REPORT OF GRANT CLAIMS AND RETURNS (Pages 33 - 52)

Report attached.

### 7 CHILDREN'S CENTRE FOLLOW UP (Pages 53 - 58)

Report attached.

**8 CLOSURE OF ACCOUNTS 2012/13** (Pages 59 - 64)

Report attached.

**9 INTERNAL AUDIT DRAFT STRATEGY AND PLAN FOR 2013/14** (Pages 65 - 78)

Report attached.

**10 INTERNAL AUDIT PROGRESS REPORT - QUARTER 3, 2012** (Pages 79 - 96)

Report attached.

**11 FRAUD PROGRESS REPORT - QUARTER 3, 2012** (Pages 97 - 108)

Report attached.

**12 ANNUAL REPORT OF FRAUD AND CORRUPTION** (Pages 109 - 122)

Report attached.

**13 ANNUAL REVIEW OF AUDIT COMMITTEE EFFECTIVENESS** (Pages 123 - 138)

Report attached.

**14 URGENT BUSINESS**

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

**15 EXCLUSION OF THE PUBLIC**

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

**16 TREASURY MANAGEMENT - QUARTER 3, 2012-13** (Pages 139 - 144)

Report attached.

**17 RISK BASED VERIFICATION** (Pages 145 - 164)

Report attached.

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

**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Town Hall, Main Road, Romford  
4 December 2012 (7.30 - 8.50 pm)**

**Present:**

**COUNCILLORS:**

<b>Conservative Group</b>	Georgina Galpin (in the Chair) Wendy Brice-Thompson (In place of Frederick Osborne), Roger Ramsey and Frederick Thompson
<b>Residents' Group</b>	Clarence Barrett
<b>Labour Group</b>	Denis Breading

Apologies were received for the absence of Councillor Frederick Thompson .

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

**23 MINUTES OF THE MEETING**

The minutes of the meeting held on 25 September 2012 were agreed as a correct record, and signed by the Chairman.

**24 JACOBS CONTRACT UPDATE**

The Committee were provided with an update on the situation with the Jacobs contracts. They were advised that Jacobs had been provided with the Highways contract in 2010. At that time it was anticipated that any changes suggested by Jacobs could then be included in the Architectural Design Services contract. Unfortunately Jacobs had raised a number of issues and these were dealt with by the exchange of correspondence. This had led to an unacceptable delay.

A final version of the Highways Contract had now been provided to Jacobs and the Architectural Design Services contract would follow shortly.

In the interim period the council had been working to general terms. Officers advised the Committee that lessons had been learnt and procedures tightened up.

The report was noted but officers were advised that the Committee would require a further update if the contracts were not signed by the next meeting.

**25 LEASEHOLDER VALUATION TRIBUNAL UPDATE**

Officers advised the Committee that the Council had won the case against Mt M when it had been referred back to the Leasehold Valuation Tribunal. The Tribunal had found that the charge was fair and reasonable.

PWC advised the Committee that Mr M challenge against them had been dismissed by the Courts and costs had been awarded against him. His only possibility for appeal was if it was in the Public Interest. PWC did not believe this was a viable option.

In the circumstances PWC could finally sign off on the last three years accounts.

The Committee were advised that officers would update the Committee on the situation with the Surtees contract at the next meeting.

The Committee noted the reports.

**26 ANNUAL AUDIT LETTER**

PWC advised the Committee that they had no issues to bring to the Councils attention. The Committee were reminded that PWC had reported their findings to the Committee on 25 September, following which they had issued an unqualified audit opinion, an unqualified value for money conclusion and raised no issues. They had been unable to issue the audit certificate because the Council had not prepared its Pension Fund Annual Report and Accounts.

The Audit Letter identified two significant recommendations. These related to:

- Listing of creditor and accruals from Oracle system: and
- Monthly payroll reconciliations did not operate as intended throughout the year.

The Committee were informed that Management had responded and the second recommendation had already been dealt with. Work was in progress to ensure that ISS could ensure the relevant reports would be available by the end of 2012/13.

The report was noted.

**27 ACCOUNTS CLOSURE TIMETABLE**

Officers informed the Committee of progress in preparing for the closure of accounts in 2012/13. The Council had successfully closed its accounts and prepared its Financial Statements on an IFRS (International Financial Reporting Standards) basis for the second time in 2011/12. A number of technical changes required under the Code of Practice in 2012/13. The

priority for the closure programme was to ensure that all key activities had been captured in the timetable and roles and responsibilities identified and understood.

Officers had identified a number of key issues which would need to be addressed during the closedown, these were:

- Infrastructure Assets – this year this would include roads, highways, bridges and street furniture (including bollards);
- Homes in Havering – the re-integration of the Arms Length Management Organisation would require a number of changes to the accounting disclosures;
- Oracle Phase 2 – I-Procurement;
- Public Health Transfer – Public Health services in Havering were being transferred to the Council in April 2013;
- Council Tax Benefit System reform – the Welfare Reform Act 2012 would abolish the national Council Tax benefit scheme from April 2013;
- Local Government Financial Settlement – major changes in Local Government Funding were expected to be confirmed in the Government's autumn statement including the localisation of Business Rates;

The timetable had been issued and was being monitored.

The Committee were concerned at the extra work involved in accounting for Infrastructure assets, especially bollards and asked officers to draft a letter for the lead member to send to the borough's M.P.'s expressing their concerns.

The report was **noted**.

## 28 **INTERNAL AUDIT PROGRESS REPORT QUARTER 2**

The Committee received the latest progress report from the Internal Audit and Corporate Risk Manager. During quarter two all posts in the establishment had a permanent post holder in place and by the end of September £40,828 of the £50k income target relating to the systems audit team had been achieved.

The Committee were informed that 4 (four) systems audits had been completed, all had received a limited opinion. It was confirmed that the recommendations for the Ingrebourne Children's Centre applied to the audit reports for the other two Children's Centres visited, i.e. Elm Park and South Hornchurch.

Officers informed the Committee that the budgets for the 13 Children's Centres had not been devolved and there were some problems. There was no risk management of strategic oversight and a lack of direction from the centre. The Committee raised the issue of the failure to arrange CRB checks for cleaners at the centres. Officers explained that the cleaners were

provided as a corporate service and the Children's Centres had a reasonable expectation that all the cleaners had been CRB checked.

Given the issues raised the Committee have asked for an update to be submitted to the next meeting.

Details of the follow up audit of the Education Computer Centre were provided for the Committee's information. Given the lack of progress in responding to the initial recommendations a further follow up had been scheduled for April 2013.

The Committee expressed concern that the Council no longer had the authority to follow up the schools audit work for schools which had become academies. Officers advised the Committee that they were approaching all the schools with an offer to continue the work but schools were no longer required to have Internal Auditors when they became academies. Given the number of recommendations raised with regard to Frances Bardsley School for Girls the Committee asked that the Governing Body be reminded that the Council were unable to follow up to ensure that the recommendations were actioned. A copy of the letter would be sent to all members of the Committee and the Department for Education.

## **29 FRAUD PROGRESS REPORT QUARTER 2**

The Internal Audit & Corporate Risk Manager provided the Committee with an update of the work undertaken by the Investigations Team and the Internal Audit Fraud Team from 2<sup>nd</sup> July 2012 to 28<sup>th</sup> September 2012. The restructure of the Investigations Team had been finalised at the end of September and the process to recruit had been started with agency resources in place to cover the post until a permanent post holder started.

The Committee was advised that funding had been approved to cover the continued establishment of two previously unfunded posts given the generation of more referrals following data matching referrals.

Details of a number of successful cases were provided for the Committee's information. Officers advised that an ex-employee of the Benefits Team had been successfully prosecuted and a long standing case under the Proceeds of Crime legislation had been concluded with the council probably getting back £140,000 of overpayment.

The Committee asked whether the Council's recovery proceedings were sufficiently robust. The Group Director, Finance and Commerce informed the Committee that the Council's overall debt position was good. Additional capacity was available until the end of December and a request had been made to extend this for a further 9 months.

Where recovery was from an on-going benefits case the process was always lengthy. However, where greed was involved the Council was utilising the Proceeds of Crime legislation as a deterrent.



Officers advised that the changes in the collection of Business Rates from April 2013 could present challenges for the Council and the emerging risks had been recognised.

The report was **noted**.

30 **GOVERNANCE UPDATE INC WHISTLEBLOWING**

The Committee received an update regarding the embedded arrangements with regard to Corporate Governance and the production of the Annual Governance Statement. The process to draft the 2012/13 Annual Governance Statement was underway: the timetable had been reviewed by the Governance Group. The actions planned for the next couple of months included a review of:

- Our governance arrangements against the updated CIPFA/Solace – ‘Delivering Good Governance in Local Government framework’ which was due to be issued in December 2012;
- Assurances from external bodies;
- Issues coming out of audit work; and
- Mini Assurance Statement templates.

The report was **noted**.

31 **TREASURY MANAGEMENT QUARTERLY REPORT**

***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 Committee noted details of the Councils investments as held at 30 September 2012. They were pleased to note that in the quarter they had outperformed the benchmark by 59 bp and the budgeted return by 46bp. Officers did advise that this position might not continue in the remaining two quarters as the returns were subject to the vicissitudes of the market.

The report was **noted**.

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Chairman



# AUDIT COMMITTEE

28 February 2013

**Subject Heading:**

**EXTERNAL AUDIT PLAN 2012/13**

**Report Author and contact details:**

Chris Hughes  
Chris.hughes@uk.pwc.com  
PricewaterhouseCoopers

Mike Board  
Corporate Finance & Strategy Manager  
Tel: 01708 - 432217  
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**Policy context:**

To consider the External Audit plan.

**Financial summary:**

N/A

## REPORT OF THE CHIEF EXECUTIVE

### SUMMARY

The attached report, Appendix 1, advises the Audit Committee of the proposed External Audit Plan for 2012/13.

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

### RECOMMENDATIONS

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

**REPORT DETAIL**

PricewaterhouseCoopers (PwC) are the current External Auditor for the London Borough of Havering.

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

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

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

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

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

The total audit fee from the 2011/12 plan was £343,099. The fee now proposed for the 2012/13 audit is £202,359. This represents a reduction of 59% compared to last years plan. In addition, a further charge of £34,000 will be made for the certification of claims and returns, which is 49% lower than that included in the 2011/12 plan. A sum of £2,500 is included in connection with Oracle 12 testing. An audit fee of £21,000 is payable in connection with the pension fund audit as compared with £70,000 in 2011/12, a reduction of 60%. This is payable by the Pension Fund.

A comparison of the proposed fee against the sums actually charged in 2011/12 is shown in the table below:

Element	2012/13 Fee £	2011/12 final Fee £
Audit of accounts	202,359	378,000
Certification of claims and returns	34,000	77,000
Pension Fund	21,000	35,000

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

There are no other financial implications or risks arising directly from this report.

**Legal implications and risks:**

None arising directly from this report

**Human Resources implications and risks:**

None arising directly from this report

**Equalities implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

London Borough of Havering 12/13 Audit Plan – PricewaterhouseCoopers

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# *London Borough of Havering*

## Draft External Audit Plan 2012/13

Government and Public  
Sector

For the year ending 31  
March 2013

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

Ladies and Gentlemen,

We are pleased to present our Audit Plan, which shows how your key risks and issues drive our audit and summarises how we will deliver. We look forward to discussing it with you so that we can ensure we provide the highest level of service quality.

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

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Ciaran McLaughlin (Engagement Director) or Chris Hughes (Engagement Senior Manager).

Yours faithfully,

PricewaterhouseCoopers LLP

Encs



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

# Introduction

## *The purpose of this plan*

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2012/13 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Audit Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

## *Our work in 2012/13*

We will:

- audit the annual report and statutory accounts, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- consider whether the disclosures in the Annual Governance Statement (AGS) are complete;
- see whether the other information in the accounts is consistent with the financial statements;
- report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- tell you promptly when we find anything significant during the audit, directly to management and as soon as practicable to the Audit Committee throughout the year.

We are required to report information on your accounts to the National Audit Office (NAO) which is used as part of the assurance process for compiling the Whole of Government Accounts (WGA).

## *Local government pension fund*

We will prepare a separate audit plan for work on the pension fund in order that matters relating to the pension fund audit are presented to the Pension Committee.

## ***Risk assessment***

We considered the Council's operations and assessed:

- business and audit risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies.

## ***Responsibilities***

Officers and members of each local authority are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Chief Executive or the Audit Commission's website.

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

# Risk Assessment

## Risk Assessment

We have undertaken an audit risk assessment which guides our audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of your controls. Risks to the accounts and our true and fair audit opinion are categorised as follows:

●	Significant	Risk of material misstatement in the accounts due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
●	Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.
●	Normal	We perform standard audit procedures to address normal risks in any material financial statement line items.

Auditing Standards require us to include two fraud risks as Significant:

- **Management override of controls:**

*“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.”* ISA 240 paragraph 31; and

- **Revenue recognition:**

*“When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.”* ISA 240 paragraph 26.

Both are considered as part of our risk assessment, as detailed below.

# Key Risks

## Financial Statements risks

Risk	Accounts audit risk	Audit approach
<p><b>Management Override of Controls</b></p> <p>In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly.</p> <p>In your organisation, as the pressure to deliver savings increases, so does the risk of management override.</p>	<p>● Significant</p>	<p>We will focus our work on testing of journals and will utilise computer assisted audit techniques to do this. This will consider the level and appropriateness of manual and automated journals posted.</p>
<p><b>Revenue and Expenditure Recognition</b></p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported revenue and expenditure position.</p>	<p>● Significant</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• seek to place reliance on internal audit work on key income and expenditure controls;</li> <li>• evaluate the accounting policies for income and expenditure recognition;</li> <li>• test the appropriateness of journal entries and other adjustments;</li> <li>• review accounting estimates for income and expenditure, for example, provisions; and</li> <li>• reconcile your management information to the information presented in the accounts on a gross basis.</li> </ul>

Risk	Accounts audit risk	Audit approach
<p><b>Government and non-government grants</b></p> <p>In 2011/12 ISA 260 report, we reported to the Audit Committee a number of exceptions in the Council's treatment of Government and non-government grants per <i>ISA20 Accounting for Government Grants and Disclosure of Government Assistance</i>.</p> <p>The Council corrected those exceptions within the 2011/12 financial statements. However given the financial value and subjective complexity in relation to grant "conditions" this will require specific focus.</p>	<p style="text-align: center;">●</p> <p>Elevated</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• perform detailed testing of a sample of government and non-government grants to consider the Council's assessment as to whether the grants have conditions or restrictions in accordance with <i>IAS 20 Accounting for Government Grants and Disclosure of Government Assistance</i>;</li> <li>• Consider the accounting treatment within the financial statements.</li> </ul>

## Other Code responsibilities risks

Risk	Accounts audit risk	Audit approach
<p><b>Savings targets</b></p> <p>The Council is experiencing increased pressures on many of its budgets in the current economic climate and savings required to be made in the current and future years. Budget holders may feel under pressure to try and push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.</p> <p>There is a risk that saving plans may not be robust and the Council is unable to demonstrate that it has achieved value of money in its use of resources.</p>	<p style="text-align: center;">●</p> <p>Elevated</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• review the Council's budget monitoring process to identify any areas of concern. We will also bear these risks in mind when carrying out cut-off testing;</li> <li>• consider the accounting implications of any saving plans and would welcome early discussion of any new and unusual proposals. In particular, we will consider the impact of the efficiency challenge on the recognition of both income and expenditure; and</li> <li>• consider the impact of the Local Government Finance Settlement (LGFS) on the Council's budget and future service provision.</li> </ul>

# Audit approach

## *Code of Audit Practice*

Under the Audit Commission's Code there are two aspects to our work:

- Accounts, including a review of the Annual Governance Statement; and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

## *Accounts*

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We are required to comply with them for the audit of your 2012/13 accounts.

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

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

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

## *Materiality*

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

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

Materiality is another factor which helps us to determine our audit approach. Materiality is more than just a quantitative concept. Judgements about materiality are subjective and may change during the course of the engagement. The judgements about materiality are often implicit, and will be reflected in our assessments of risk and our decisions about which business units or locations, account balances, disclosures and other items are of greater or lesser significance.

We identify and assess the risks of material misstatement at two levels: the overall financial statement level; and in relation to financial statement assertions for classes of transactions, account balances and disclosures. Specifically, under our integrated audit methodology, we are required to identify three quantitative materiality thresholds as set out in the table below.

These help us to plan the nature, timing and extent of our work and to evaluate the significance of any unadjusted differences identified from our audit procedures.

<i>Type of materiality</i>	<i>What is it used for?</i>
Overall materiality	Overall materiality represents the level at which we would consider qualifying our audit opinion.
Planning materiality	This is the level to which we plan our audit work and identify significant accounts.
De minimis threshold	<p>ISA (UK&amp;I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial”. Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.</p> <p>We propose to treat misstatements less than £500,000 as being clearly trivial. We will include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&amp;I) 260 report.</p>

### ***Use of Resources***

Our Use of Resources Code responsibility requires 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 recent guidance issued by the Audit Commission, in 2012/13 our conclusion will be 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 will be carrying out sufficient work to allow us to reach a conclusion on your arrangements based on your circumstances.

### ***Internal Audit***

We also aim to rely on the work done by internal audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.



# Risk of fraud

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

## Auditors’ responsibility

Our objectives are:

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

## Management’s responsibility

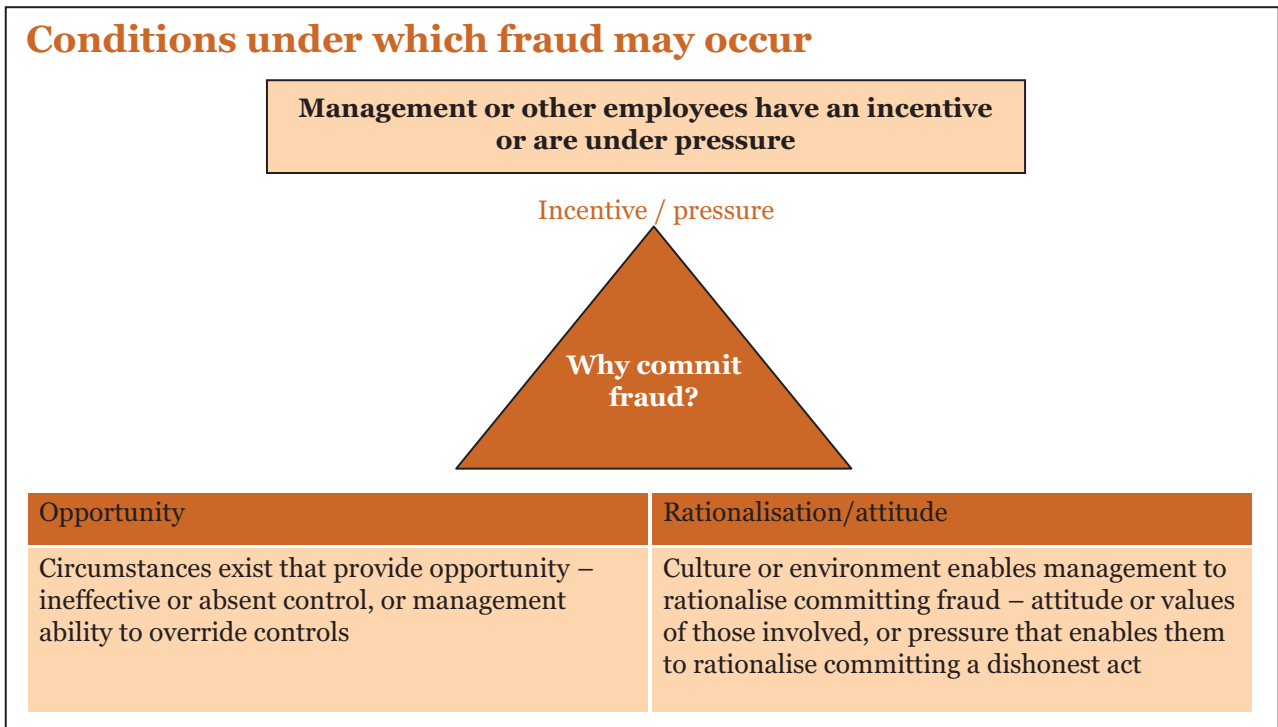
Management’s responsibilities in relation to fraud are:

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

## Responsibility of the Audit committee

Your responsibility as part of your governance role is:

- to evaluate management’s identification of fraud risk, implementation of antifraud measures and creation of appropriate “tone at the top”; and
- to investigate any alleged or suspected instances of fraud brought to your attention.



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## ***Your views on fraud***

We enquire of the Audit Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

# Audit engagement team and independence

The audit team has been drawn from our government and public sector team. The audit team consists of the key members listed below, but is further supported by our specialists both in the sector, and across other services:

Audit Team	Responsibilities
<p><b>Engagement Leader</b> Julian Rickett 3rd year on the audit 020 7804 0436 Julian.c.rickett@uk.pwc.com</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&amp;I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members as appropriate.</p>
<p><b>Engagement Director</b> Ciaran McLaughlin 5th year on the audit 020 7213 5253 Ciaran.t.mclaughlin@uk.pwc.com</p>	<p>Responsible for independently delivering the audit in line with the Code of Practice, including agreeing the Audit Plan, ISA (UK&amp;I) 260 report, Annual Audit Letter and the quality of outputs. Also responsible for liaison with the Chief Executive and Members as appropriate.</p>
<p><b>Engagement Senior Manager: Accounts and Use of Resources</b> Chris Hughes 3rd year on the audit 020 7804 3392 Chris.hughes@uk.pwc.com</p>	<p>Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&amp;I) 260 report and Annual Audit Letter.</p>
<p><b>Engagement Manager: Accounts and Use of Resources</b> Amit Patel 2nd year on the audit Mobile: 0771521 1544 amit.m.patel@uk.pwc.com</p>	<p>Manager responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the VFM conclusion work. Preparation of the Audit Plan, ISA (UK&amp;I) 260 report and Annual Audit Letter. The Engagement Manager will be the first point of call during the interim and final audit.</p>

## Our team members

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

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

## Independence and objectivity

As external auditors of the Authority we are required to be independent of the Authority in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

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

### ***Relationships and Investments***

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

### ***Independence conclusion***

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

# Communicating with you

## Communications Plan and timetable

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

Stage of the audit	Output	Date
<b>Audit planning</b>	Audit Planning Letter	February 2013
	Audit Plan	February 2013
<b>Audit Findings</b>	<p><b>ISA (UK&amp;I) 260 report incorporating specific reporting requirements, including:</b></p> <ul style="list-style-type: none"> <li>• Any expected modifications to the audit report;</li> <li>• Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust;</li> <li>• Material weaknesses in the accounting and internal control systems identified as part of the audit;</li> <li>• Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures;</li> <li>• Any significant difficulties encountered by us during the audit;</li> <li>• Any significant matters discussed, or subject to correspondence with, Management;</li> <li>• Any other significant matters relevant to the financial reporting process; and</li> <li>• Summary of findings from our use of resources audit work to support our value for money conclusion</li> </ul>	September 2013
<b>Audit reports</b>	Financial Statements including Use of Resources	September 2013
	Pension Fund Annual Report	September 2013
<b>Other public reports</b>	<p><b>Annual Audit Letter</b></p> <p>A brief summary report of our work, produced for Members and to be available to the public.</p>	October 2013
	<p><b>Annual certification report to those charged with governance</b></p> <p>Report detailing the value of each certified claim, details of any amendments and qualifications, certification fees charged and a discussion of issues arising, including recommendations for improvement where necessary.</p>	January 2014

# Timetable

<i>Month/Deadline</i>	<i>Audit activity</i>
28 February 2013	Review of Draft External Audit Plan by the Audit Committee
28 February 2013	Interim audit begins
July to August 2013	Statement of Accounts audit
30 September 2013	Deadline for issue of: <ul style="list-style-type: none"> <li>• Audit Opinion on the Statement of Accounts;</li> <li>• Value for Money Conclusion; and</li> <li>• Opinion on the Whole of Government Accounts return</li> </ul>
September 2013 (date to be confirmed)	Planned date for issue of final version of ISA (UK&I) 260 Report to those Charged with Governance
30 November 2013	Deadline for issue of Annual Audit Letter

# Audit fees

The Audit Commission has provided indicative audit fee levels for the 2012/13 financial year. The base fee scale for your audit is £199,859 (excluding VAT) compared to the outturn fee of £343,099 for 2011/12. The base scale fee does not include the fee for the audit of the pension fund which is subject to a separate plan. The fee for 2011/12 is not directly comparable with the 2012/13 fee as it included a mandatory recharge payable to the Audit Commission that is no longer required to be made.

The fee is broken down as follows:

	Planned 2012/13 £	Outturn fee 2011/12 £
Financial statements, local value for money conclusion (including risk based audit work), and Whole of Government Accounts	202,359	343,099
Pension fund audit	21,000	35,000
Certification of claims and returns	34,000	70,000
<b>Total fee</b>	<b>257,359</b>	<b>448,099</b>

We reported to the Audit Committee in our 2011/12 Audit Report;

- the Council was unable to separately identify accrual estimates from routine transactions. We understand the Council is still unable to separately identify accrual balances in 2012/13 financial year. As such this will require us to perform additional audit procedures to gain sufficient comfort in this area. The costs of additional procedures are estimated to be £2500 which has been included in the total fee.
- Additionally we reported the Council was unable to perform monthly payroll reconciliations between the payroll system and the main accounting Oracle R12 system. From discussion with management we understand the control deficiency has not yet been resolved and a year-end payroll reconciliation will be produced for the purpose of the 2012/13 audit. Large reconciling items in the year end payroll reconciliation would require the audit team to perform additional audit procedures to gain comfort around the completeness and accuracy of the reconciliation, this would result in additional fees which have not been included in the total fee above. Where PwC will be required to perform additional audit procedures this will be discussed with the Council officers.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, where planned, upon the work of internal audit;
- Agreeing the availability of staff whilst we are on site. Ensuring that staff are briefed so that they can pick up queries on work done by team members when the team members are not available;
- Discussing any unusual, new or complex transactions with us as they occur so that we can understand the detail and agree the necessary accounting treatment. Bringing unusual or potentially contentious items in the accounts to our attention as soon as possible;
- Providing us with named contacts for audit queries and for responding within an agreed timescale; Transaction listings are sufficiently detailed and are available to allow early sample testing to be carried out by the audit team;
- Evidence provided in relation to audit sample requests and answers provided to audit queries have been reviewed internally reviewed by the Council;

- Delays in producing the financial statements or missing and incomplete working papers are communicated to us two weeks before the start of the final audit;
- We are able to draw comfort from your management controls;
- Our use of resources conclusion and accounts opinion being unqualified;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Should PwC be required to answer a formal question or objection raised by a local elector, the costs associated with that work would be additional to the fee quoted above.

### ***Certification of grant claims***

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree this with the Group Director of Finance and Commerce and his team.



# *Other engagement information*

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

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

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

## *Electronic communication*

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

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

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

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

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

## *Access to audit working papers*

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

## *Quality arrangements*

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or James Chalmers, UK Head of Assurance, at our office at 7 More London, Riverside, London, SE1 2RT.

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In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

***Events arising between signature of accounts and their publication***

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

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



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

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

# AUDIT COMMITTEE

**DATE: 28 February 2013**

**Subject Heading:**

**2011/2012 AUDIT REPORT OF GRANT  
CLAIMS AND RETURNS**

**Report Author and contact details:**

Lilian Thomas, Senior Accountant

Tel: 01708 431057

[Lillian.thomas@havering.gov.uk](mailto:Lillian.thomas@havering.gov.uk)

Ian Buckmaster, Committee Administration  
Manager

Tel: 01708 432431

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**Policy context:**

The Audit Committee are required to review the outcome of the Authority's grant claims process for audited grant claims relating to the financial year 2011/2012.

**Financial summary:**

No direct financial implications to report.

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

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

## SUMMARY

The 2011/2012 audit process was completed by the Audit Commission's representative, PricewaterhouseCoopers.

This report updates the Committee of the position regarding the final version of the 2011/2012 audit report of grant claims and returns and subsequent Action Plan for the 2012/2013 process.

The 2012/2013 Action Plan can be found at Appendix 1. The 2011/2012 Action Plan and progress made can be found at Appendix 2 and the certification report from PricewaterhouseCoopers can be found at Appendix 3.

## RECOMMENDATIONS

The Committee is recommended to:

1. review the outcomes of the 2011/2012 grant claims process
2. raise any issues of concern with officers on specific grant claims
3. note the year-on-year grant claims performance
4. otherwise note the report.

## REPORT DETAIL

### **Overall summary of the 2011/2012 audited grant claims compared to 2010/2011.**

#### **1. Performance**

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

There were 6 grants over £125k that required audit certification, in 2011/2012, compared to 10 in 2010/2011.

- 1.2 All 6 claims due for 2011/2012 have now been certified.
- 1.3 There were 3 (50%) amended claims for 2011/2012, compared to 1 (10%) amended in 2010/2011.

- 1.4 1 (17%) claim was qualified for 2011/2012, as there was in 2010/2011 (10%).

The qualified grant claim is PEN 05 – Teachers Pensions. This grant claim had not been subject to a qualification in previous years.

The agreed recommendation regarding the above can be found in the 2012/2013 Action Plan (see Appendix 1).

- 1.5 All 6 (100%) claims for 2011/2012 achieved their Audit Commission certification deadlines as did all 10 for 2010/2011.

	2010/2011		2011/2012	
	No.	%	No.	%
Submitted by due date	10	100	6	100
<b>Total claims</b>	<b>10</b>	<b>100</b>	<b>6</b>	<b>100</b>

Amended claims	1	10	3	50
Claims not amended	9	90	3	50
<b>Total claims</b>	<b>10</b>	<b>100</b>	<b>6</b>	<b>100</b>

Qualified claims	1	10	1	17
Unqualified claims	9	90	5	83
<b>Total claims</b>	<b>10</b>	<b>100</b>	<b>6</b>	<b>100</b>

Certified by deadline	10	100	6	100
Uncertified by deadline	0	0	0	0
<b>Total claims</b>	<b>10</b>	<b>100</b>	<b>6</b>	<b>100</b>

## 2. Recommendations

- 2.1 PricewaterhouseCoopers identified 2 recommendations to address in the 2011/2012 Action Plan. Both recommendations were implemented during 2011/2012. (see Appendix 2)

- 2.2 The 2012/2013 Recommendations/Action Plan is attached as appendix 1 and contains 3 issues identified during the 2011/2012 audit process for implementation during 2012/2013.

### 3. Audit Fees

3.1 The following table records audit fees paid each year:

Paid in 2009/2010 re 2008/2009 audits	Paid in 2010/2011 re 2009/2010 audits	Paid in 2011/2012 re 2010/2011 audits	Paid in 20112/2013 re 2011/2012 audits
£89,000	£81,000	£77,000	£67,105
No of Grant Claims Audited 10	No of Claims Audited 10	No of Claims Audited 10	No of Claims Audited 6

3.2 PwC have been the Council's appointed auditor for grant claims since 2008/2009. The number of grants requiring audit for 2011/2012 decreased by 40% to 6. The audit fees decreased by 14% however the total cost is within the 2011/12 grants audit fees budget.

The audit of the RG31 - Public Realm grant incurred additional audit fees due to the requirement for Part A & Part B audit testing as the 2011/12 value of the grant was over the deminimis of £500k.

The PEN05 – Teachers Pensions audit was subject to additional audit fees due to the extra testing required since the implementation of the new Oracle 12 system.

The good standard of working papers continues to contribute to the grants audit process.

3.3 The annual Audit Commission index for 2012/2013 has not yet been received although it is anticipated that 6 grants shall require Audit Commission certification for the period.

3.4. In Year Achievements

- During 2012/2013 both service and finance staff are being supported by one to one grants training upon request.



### 3.5. Future Planned Developments

- Further training, where required shall be delivered prior to the start of the 2012/2013 audit process.

## IMPLICATIONS AND RISKS

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

For 2011/2012 specific grant claims that require External Audit provided £194m in funding for the Council and poor performance in submitting claims puts income at risk and can affect the Council's reputation with funding bodies. Additional audit fees may also be incurred where working papers or procedures fail to meet the required standards.

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

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

Mike Board, Corporate Finance Manager

### **Legal implications and risks**

There are no Legal implications or risks arising directly from this report.

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

There are no HR implications or risks arising directly from this report.

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

There are no Equalities and Social Inclusion implications arising directly from this report.

## BACKGROUND PAPERS

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

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*Annual Certification Report  
to those charged with governance  
2011/12*  
London Borough of Havering

Page 4

Government and  
Public Sector –  
Annual  
Certification  
Report to those  
charged with  
governance

January 2013



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

January 2013

Our Reference: LBH 2012

Ladies and Gentlemen

### **Annual Certification Report (2011/12)**

We are pleased to present our Annual Certification Report which provides members of the Audit Committee with a high level overview of the results of certification work we have undertaken at London Borough of Havering Council in 2011/12.

We have also summarised our fees for 2011/12 certification work in Appendix A.

### **Results of Certification work**

For the period ended 31 March 2012 we certified six claims and returns worth a final net total of £194m. Of these, three claims were amended following certification work undertaken and one claim (Teachers Pensions return) required a qualification letter to set out matters arising from the certification of the return. We set out further details in the attached report.

We identified a number of matters relating to the Council's arrangements for preparation of claims and returns during the course of our work, some of which were of a minor nature. The most important of these matters have been brought to your attention in this report.

We ask the Audit Committee to consider:

- the adequacy of the proposed management action plan for 2012/13 set out in Appendix B, and;
  - the adequacy of progress made in implementing the prior year action plan in Appendix C.
- Yours faithfully,

PricewaterhouseCoopers LLP

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# Introduction

## *Scope of work*

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

The Audit Commission is required by law to make certification arrangements for grant-paying bodies when requested to do so and sets thresholds for claim and return certification, as well as the prescribed tests which we as local government appointed auditors must undertake. We certify claims and returns as they arise throughout the year to meet the certified claim/return submission deadlines set by grant-paying bodies. Our role is to act as ‘agents’ of the Audit Commission when undertaking certification work; certification work is not an audit but a different form of assurance engagement, the precise nature of which will vary according to the claim or return; we are required to carry out work and complete the auditor certificate in accordance with the arrangements and requirements set by the Commission.

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

## *Statement of Responsibilities of Grant-Paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns*

In November 2010 the Audit Commission updated the ‘Statement of Responsibilities of Grant-Paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns’. This is available from the Audit Commission’s website. The purpose of this Statement is to summarise the Audit Commission’s framework for making certification arrangements and to assist grant-paying bodies, authorities, and the Audit Commission’s appointed auditors by summarising their respective responsibilities and explaining where their different responsibilities begin and end.

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

In March 2010 the Audit Commission issued a revised version of the ‘Statement of Responsibilities of Auditors and of Audited Bodies’. It is available from the Chief Executive of each audited body and on the Audit Commission’s website. The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. 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.



## Results of Certification Work

### Claims and returns certified

A summary of the claims and returns certified during the year is set out in the table below. In only one case a qualification letter was required to set out matters arising from the certification of the claim/return. Three claims/returns were amended following the certification work undertaken. All deadlines for submission of certified claims/returns were met. Fee information for the claims and returns is summarised in Appendix A.

#### Claims and returns certified in 2011/12

CI Reference	Title	Form No.	Original Value (£)	Final Value (£)	Amendment value (£)	Subject to qualification
BEN01	Housing and Council Tax Benefits	MPF720A 00035240	102,639,003	102,639,003	Nil	No
CFBo6	Pooling of Capital Receipts	Audit 2010-11	1,700,267.03	1,700,267.03	Nil	No
HOU01	HRA Subsidy	1104	9,870,771	9,827,017	- 43,754	No
LA01	National Non Domestic Rates Return	NNDR3 E5040	65,652,158	66,398,957	746,800	No
PEN05	Teachers Pensions Return	TR17	11,707,853	12,638,850	930,997	Yes
RG31	Rainham Public Realm	25619	699,800	699,800	Nil	No

### Matters arising

The most important matters we identified through our certification work are detailed in Appendix B.

### Prior year recommendations

Overall the Council has made good progress in implementing the certification action plan for 2010/11. Details can be found in Appendix C.

# Appendix A

## Certification Fees

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

CI Ref	Claim/Return Title	2011/12	2010/11 (£)	Comment
BEN01	Housing and Council Tax Benefits	38,120	38,000	N/A
CFBo6	Pooling of Capital Receipts	4100	3,995	N/A
HOU01	HRA Subsidy	6285	6,280	N/A
LA01	National Non Domestic Rates Return	7100	6,025	The value of the current year return was higher than the prior year. In addition, following our risk assessment of the control environment we undertook additional sample testing to provide comfort that the claim was fairly stated in accordance with the Certification Instructions.
PEN05	Teachers Pensions Return	7200	2,545	A significant number of issues were found during the testing of the claim as detailed in Appendix B of this report. The issues largely arose from the new financial ledger system (Oracle R12) implemented in April 2011. This required additional time from PwC staff to finalise the field work. PwC worked with the Authority to meet the deadline. PwC kept the Authority aware of the issues and costs throughout the process.
RG31	2011/12 Rainham Public Realm	4300	2,290	Last year the claim was just below the de-minimus value, and only part A testing was undertaken. The claim in 2011/12 is above the de-minimus of £500k and based on our risk assessment of the control environment we were required to undertake part B substantive testing. This has resulted in a high fee compared to the prior year.
Total		<b>67,105</b>	<b>59,136</b>	

These fees reflect the Council's current performance and arrangements for certification. It may be possible to reduce fees should the Authority improve its performance by addressing the recommendations made in this report.

# Appendix B

## 2012/13 Management Action Plan

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
<b>Teachers Pension (Pen 05)</b>	<p>From our work, a number of significant issues were found that lead to qualification of the claim. From discussion with Management we understand the issues are primarily due to the new Oracle system upgrade in 2011-12 financial year.</p> <p>1. Contributory salary figures were calculated by 'grossing up' other entries on the TR17 return and not fully derived from payroll records.</p> <p>The Authority started using a new payroll system during 11/12 and at the time the TR17 return was compiled, reports to show the contributory salary for each employee could not be extracted. Therefore to calculate the Total Actual Contributory Salary per line 1 of the form, the Teachers Contributions shown in cell 2(b)(iii) had been grossed up.</p> <p>2. A complete population could not be obtained to test contributions in relation to teachers employed in LA maintained establishments, as the payroll reports included contributions in relation to teachers employed in academy schools which should be excluded from the TR17 return.</p> <p>Similarly we could not ensure contributions had been correctly calculated and deducted as we did not have a complete population of contributions from which to pick our sample from.</p>	<p><b>High</b></p> <p>The Authority should develop reports to ensure a complete population can be produced from the new system allowing;</p> <ul style="list-style-type: none"> <li>• Separation of contributory salary (reckonable pay) from the payroll system</li> <li>• Separation of LA maintained schools payroll from academies payroll administered by the Authority</li> </ul>	<p><b>Agreed</b></p> <p>Separation of contributory salary (reckonable pay) from the payroll system has been achieved from November 12</p> <ul style="list-style-type: none"> <li>• Reports are to be produced before year end to extract actual contributory salary April 12 to October 12.</li> <li>• Academies moved on to own payrolls in March 2012.</li> </ul>	<p><b>Head of Internal Shared Service</b></p> <p>Implemented December 2012</p> <p>March 2013</p> <p>Implemented December 2012</p>

From our testing an admin error led to £368.68 being refunded to the teacher. The Authority chose not to amend the claim based on the low value of the error.

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**Housing and council tax benefits subsidy**  
(BEN 01)

From our initial testing of 80 cases, we found one error as detailed below;

One case was incorrectly classified as a regulated tenancy (i.e tenancy commenced pre 1989). From our work performed the case was a de-regulated case as the tenancy commenced post 1989. No impact on the claim in terms of subsidy claimed by the Authority.

However additional work was required to be performed to check no further cases were found to be incorrectly misclassified.

The error was concluded to be isolated.

**Low**

We recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.

**Agreed**

**Benefits Manager/Head of Exchequer Services**

Timescale:  
March 2013

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# Appendix C

## 2011/12 Management Action Plan – Progress made

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

## Glossary

### Audit Commission Definitions for Certification work

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#### Abbreviations used in certification work are:-

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**‘appointed auditor’** is the auditor appointed by the Audit Commission under section 3 of the Audit Commission Act 1998 to audit an authority’s accounts who, for the purpose of certifying claims and returns under section 28 of the Act, acts as an agent of the Commission. In this capacity, whilst qualified to act as an independent external auditor, the appointed auditor acts as a professional accountant undertaking an assurance engagement governed by the Commission’s certification instruction arrangements;

**‘assurance engagement’** is an engagement performed by a professional accountant in which a subject matter that is the responsibility of another party is evaluated or measured against identified suitable criteria, with the objective of expressing a conclusion that provides the intended user with reasonable assurance about that subject matter;

**‘auditor’** is a person carrying out the detailed checking of claims and returns on behalf of the appointed auditor, in accordance with the Commission’s and appointed auditor’s scheme of delegation;

**‘authorities’** means all bodies whose auditors are appointed under the Audit Commission Act 1998, which have requested the certification of claims and returns under section 28(1) of that Act;

**‘certification instructions’** (‘CIs’) are written instructions from the Commission to appointed auditors on the certification of claims and returns;

**‘certify’** means the completion of the certificate on a claim or return by the appointed auditor in accordance with arrangements made by the Commission;

**‘claims’** includes claims for grant or subsidies and for contractual payments due under agency agreements, co-financing schemes or otherwise;

**‘Commission’** refers to either the Audit Commission or the Grants Team of the Audit Policy and Regulation Directorate of the Commission which is responsible for making certification arrangements and for all liaison with grant-paying bodies and auditors on certification issues;

**‘grant-paying bodies’** includes government departments, public authorities, directorates and related agencies, requiring authorities to complete claims and returns;

**‘returns’** are either:

- returns in respect of grant which do not constitute a claim, for example, statements of expenditure from which the grant-paying body may determine grant entitlement; or
- returns other than those in respect of grant, which must or may be certified by the appointed auditor, or under arrangements made by the Commission;

**‘Statement’** is the *Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns*, available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk);

**‘underlying records’** are the accounts, data and other working papers supporting entries on a claim or return.



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## AUDIT COMMITTEE

28 February 2013

**Subject Heading:**

Children's Centres Follow Up

**Report Author and contact details:**

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

**Policy context:**

E-mail : Vanessa.bateman@havering.gov.uk  
To advise the Committee on progress to implement the recommendations from the Children's Centres audit.

**Financial summary:**

N/A

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

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

### SUMMARY

Some progress has been made to address the issues and implement recommendations raised by the Children's Centres audit reports.

Of the three high, four medium and two low priority recommendations raised in the report; two high and two low priority recommendations have been implemented at the time of the follow up.

Progress has been made towards the remaining five

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

Internal Audit are working with the service to assist in making sure the remaining risks identified by the original audit are mitigated by efficient and effective controls.

## RECOMMENDATIONS

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

## REPORT DETAIL

In July 2012 final reports were issued to management following audits at three of the borough's Children's Centres, in accordance with the 2012/13 Internal Audit Plan.

Centres were assessed against a risk based audit programme, developed to provide assurance regarding the internal controls within each of the following areas:

- Strategy & Compliance;
- Financial Control inc Budgets, Procurement, Income & Petty Cash;
- Access to Data / Data Protection;
- Assets and Inventories;
- Premises Management;
- Safeguarding;
- Partnership Working; and
- Management Information.

Where findings related to a policy, procedure or process, and would therefore be the same in all centres, recommendations were raised for implementation across all centres. These recommendations were set out within only one of the three reports, to avoid duplication.

As a result of the audit three high, four medium and two low priority recommendations (relevant to all centres) were raised and a 'Limited Assurance' was provided to management. All recommendations were agreed at the time of issuing the final report and deadlines for all were prior to 31<sup>st</sup> October 2012.

The management summary for this audit was presented to Audit Committee in December 2012 as part of the Internal Audit progress report. Members requested an update regarding this report due to the number of establishments affected by these findings.

Appendix 1 details that outcome of the follow up work.

The results are also summarised below:

- Four recommendations had been completed at the time of the follow up (1, 5, 6 and 8); and
- Five recommendations were being progressed at the time of the audit visit (2, 3, 4, 7 and 9).

The follow up indicates that some progress has been made in implementing recommendations and therefore addressing some of the risks identified by the original audit. However, for some of the outstanding recommendations the action taken has not completely mitigated the original risk and therefore as a result of the follow up further work, and possible actions, has been discussed with management to increase the effectiveness and efficiency of these controls.

As a result of the progress made the assurance provided from the audit work has been amended to a 'Substantial Assurance'.

## **IMPLICATIONS AND RISKS**

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

None directly arising from this report, managers have the opportunity of commenting on audit recommendations before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Resources to follow up audit work are included within the annual audit plan and provided within existing budgets.

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

None arising directly from this report

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

None arising directly from this report

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

None arising directly from this report

## **BACKGROUND PAPERS**

Ingrebourne Children's Centre Final Audit Report 2012/13  
Elm Park Children's Centre Final Audit Report 2012/13  
South Hornchurch Children's Centre Final Audit Report 2012/13

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**Childrens Centres  
Follow Up**

Original 2012/13 Audit Report							
Rec no	Recommendation	Priority	Responsible Officer	Implementation Date	Status (Complete/In Progress/Not Started)	Follow Up Finding	Revised Implementation Date (where applicable)
1	A reminder to be issued to staff informing them that all attendance information should be entered onto E-Start in a timely manner.	L	Centre Manager, Ingrebourne Children's Centre.	31/07/2012	Completed	Centre Managers were reminded of the need to ensure staff keep E-Start up to date, during a meeting on the 20th September 2012. Six Centres were visited. Five sessions for each Centre were selected and checked to E-Start to ensure attendance information was being appropriately recorded. In all cases the system was up to date. This is also a fixed agenda item on monthly supervision sessions.	N/A
2	Annual Declarations of Interest should be completed and submitted to the PA to the Group Director Children's Services.	M	Interim Service & Deputy Service Managers Prevention & Intervention & Children's Centres	31/07/2012	In progress	A total of 60 staff across the six centres were checked for Declarations of Interests within the last year. In 42 cases an up to date DOI was located. In the remaining cases, 14 could not be located centrally and 4 were not applicable. Of the four not applicable cases it was noted that in one case the individual was an agency worker and in three cases the individuals are on maternity leave. Work is underway to ensure all individuals have made a declaration.	Mar-13
3	Procedures should be produced and disseminated to all Children's Centres setting out process for administration of Section 17 monies from existing petty cash imprests.	M	Interim Service & Deputy Service Managers Prevention & Intervention & Children's Centres	31/08/2012	In progress	Procedures and a form to be completed in the event of the need to make a payment under Section 17 have been produced and distributed to all Centres, however, on one occasion at payment was made on the understanding that this could be reimbursed through these funds. The lack of communication with other SC&L departments resulted in this payment not being approved (outside of the centres). The funds must now be absorbed into the centres budget. The process and the forms have been completed, but the process needs further clarification.	Mar-13
4	A process should be established to ensure all access to Council Systems / networks are removed for agency staff upon leaving the employment of the Council / service.	H	Interim Service & Deputy Service Managers Prevention & Intervention & Children's Centres	31/07/2012	In progress	A leavers checklist is in place and has been issued to all of the centres. A review of leavers found 1 Agency and 1 non Agency Workers who had moved to another SC&L team, but retained access to the Children's Centre files. Access has now been removed as a result of this audit.	Mar-13
5	Management should decide, in consultation with the Head of Asset Management, whether cleaners used at the Children's Centres should be CRB checked to ensure that safeguarding requirements are met.	H	Service Manager, Prevention & Intervention	31/08/2012	Completed	Agreements have now been reached that cleaners will not be subject to CRB checks.	N/A

**Childrens Centres  
Follow Up**

Original 2012/13 Audit Report							
Rec no	Recommendation	Priority	Responsible Officer	Implementation Date	Status (Complete/In Progress/Not Started)	Follow Up Finding	Revised Implementation Date (where applicable)
6	A standard inventory template should be developed and disseminated for use across all Children's Centres.	L	Interim Service & Deputy Service Managers Prevention & Intervention & Children's Centres	31/10/2012	Completed	A new inventory template has been produced and issued to all centres.	N/A
7	Annual inventory checks should be undertaken and evidenced through the signatory of the completing member of staff and the manager to show that results of the check have been reported.	M	Centre Manager, Ingrebourne Children's Centre.	31/10/2012	In progress	A review of six centres found that in three cases the inventories had been transferred onto the new template. In the remaining three cases, this was under way at the time of the audit visit, therefore no checks were undertaken.	Mar-13
8	A meeting should be arranged between Senior Manager's for Children's Centres, Facilities Management and Corporate Health & Safety to discuss the current arrangements for supporting Children's Centre Managers with their statutory requirements in relation to the management of buildings.	H	Interim Service & Deputy Service Managers Prevention & Intervention & Children's Centres	31/10/2012	Completed	Discussions have taken place and a decision has been made to remain outside of the Facilities Management responsibility for property checks.	N/A
9	Guidance should be distributed to all Centre Managers to clearly set out the requirements around Business Use insurance and then ensuring that all members of staff are appropriately covered.	M	Interim Service & Deputy Service Managers Prevention & Intervention & Children's Centres	01/08/2012	In progress	A total of 60 staff across the six centres were checked for Business Use Car Insurance checklists. In 20 cases an up to date checklist had been completed. 4 were not checked as the form was located off site. 3 were not checked as the form was not completed as the individuals did not have business use insurance. 14 were not applicable based on 5 being on maternity leave, 2 being on long term sick, 4 being non drivers and 3 starting after the checks were done). In the 19 cases where no form was located, 17 cases it was stated the forms had been sent in to the Policy and Projects Officer for Social Care and Learning but it is understood that these forms were not received.	Mar-13

# AUDIT COMMITTEE

28 February 2013

**Subject Heading:**

Closure of Accounts Timetable 2012/13

**Policy context:**

Contact: Mike Board  
 Designation: Corporate Finance & Strategy Manager  
 Telephone: (01708) 432217  
 E-mail address:  
 mike.board@havering.gov.uk  
 This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2012/13

**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 2012/13.

**RECOMMENDATIONS**

The Committee is asked to note the report and the actions taken to date to prepare for the 2012/13 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 second time in 2011/12. Planning for the 2012/13 closedown began in November 2012.

There are a number of technical changes required under The Code of Practice in 2012/13 which will be dealt with during the preparation phase. The closure timetable and guidance for officers have now been issued and progress will continue to be monitored throughout the process.

Many of the risks associated with closure relate to the increasing call on staff time for other project work during the closedown process. These matters are discussed below.

**2. Key Issues**

The key issues to be addressed during the 2012/13 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 (WGA) guidance includes a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis in 2012/13. Guidance on the completion of the WGA return 2012/13 for Central Government is awaited. However, the IFRS code of practice remains silent on the integration of infrastructure accounting although it is expected that it will be included in 2014/15. If that is the case prior year re-statements will be required for 2012/13 and 2013/14. In order to comply with the code 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.

Initial discussions between Finance and Technical staff indicate that the valuation data held for internal management purposes does not in many cases match the



data requirements for accounting disclosure. It will in some cases require additional survey and valuation work to be carried out to provide the necessary information.

## **2.2. Homes in Havering**

The re-integration of the Arms Length Management Organisation requires a number of additional accounting disclosures in the single entity and group accounts. However, group accounts will no longer be required for 2013/14

## **2.3. Oracle - I-Procurement**

Implementation of Oracle, i-proc took place on 1<sup>st</sup> January. The systems closedown will need to be carried out on 31<sup>st</sup> March and cut off arrangements handled in accordance with our accounting policies. Other internal processes have been amended to reflect the introduction of this system. (e.g. creditor's closedown arrangements)

## **2.4. Public Health Transfer**

Public Health services in Havering are being transferred to the Council in April 2013. The timing of this merger will affect closedown between 1<sup>st</sup> April and 30<sup>th</sup> June as staff involved in normal closedown activities may be diverted to the project.

## **2.5. Council Tax Benefit System reform**

The Welfare Reform Act 2012 will abolish the national Council Tax Benefit scheme from April 2013 and the Local Government Finance Act 2012 enables Local Authorities to design their own local council tax support schemes. Preparation and implementation of the new scheme may impact upon the ability to deliver a successful closedown programme.

## **2.6 Local Government Financial Settlement**

Major changes in Local Government Funding were announced in the Government's autumn statement including the localisation of Business Rates. Staff time has since been directed towards understanding the implications of the proposals for budget setting purposes, public consultation and the implementation of new systems and processes. These matters inevitably impact upon the ability to plan and resource the closure timetable.

## **2.7. One Oracle Project**

At the time of preparing this report no decision had been reached on the future participation in the "One Oracle" project. The resource requirements and timescales for the project may overlap with key closure deadlines and will need to be considered at the earliest opportunity.

### **3. Progress to Date**

The final year end closure of accounts timetable has been issued and is being monitored. Regular meetings have been scheduled until the end of June 2013.

The guidance notes have been consulted upon and the final documentation issued in early January 2013.

Reports will be made to both Corporate Management Team and Audit Committee on both the progress and outcome for 2012/13.

### **4. Progress against matters raised by the external auditors in the Report to Management (ISA 260)**

#### **a) Listing of creditor and accruals from the Oracle system**

As part of Auditors' testing of the Accounts Payable balance, they requested a list of the creditors making up the balance in the accounts split by trade payables and accruals. A report has been prepared and will be discussed with PWC shortly.

#### **b) Monthly payroll reconciliations did not operate as intended throughout the financial year**

During the 2011/12 financial year the Authority was unable to perform monthly payroll reconciliations between the payroll system and the main accounting Oracle R12 system.

This control deficiency is due to an Oracle report issue which has yet to be resolved in 2012/13. The matter is still being investigated in order to resolve the matter before year end. Separate year end payroll reconciliation was produced for the purpose of the 2011/12 audit in order to satisfy year end reconciliation requirements.

#### **c) Separation of the Pension Fund Bank Account**

The Council's auditors recommended that the Pension Fund operate its own bank account in order to comply with regulation 6 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. At present the Pension Fund's banking arrangements are met by the Council and the net debtor/creditor is recorded in each set of accounts. The current cash surplus is invested by the Council on behalf of the Fund in accordance with a Service Level Agreement. As such the Pension Fund Accounts were not adversely affected by these arrangements and properly reflected the transactions relating to the Fund.

It is still intended to regularise arrangements during 2012/13 in order to pass receipts and payments relating to the Pension Fund through its own bank account. However, progress has been slow due to technical difficulties. A number of sub ledger systems need to be amended in order to recognise and post Pensions

transactions to the relevant bank account and ledger. Progress has been slow and at this stage cannot be guaranteed to be implemented by 31 March 2013.

**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 1<sup>st</sup> April 2011.

There are no apparent legal implications in noting the content of the Report.

**Human Resources Implications and risks:**

None arising directly.

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

None arising directly

Staff Contact: Mike Board  
Designation: Corporate Finance & Strategy Manager  
Telephone No: 01708 432217  
E-mail address:mike.board@haverling.gov.uk

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

Background Papers List

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## AUDIT COMMITTEE

28 February 2013

**Subject Heading:**

**INTERNAL AUDIT DRAFT STRATEGY  
AND PLAN FOR 2013/14**

**Report Author and contact details:**

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

**Policy context:**

To propose the 2013/14 Internal Audit  
Strategy and 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

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

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

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

The individual audits shown in the plan and the assurance gained by completing them will feed into the Head of Internal Audit Opinion which is a key assurance for the Annual Governance Statement.

### **RECOMMENDATIONS**

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

### **REPORT DETAIL**

- 1. Internal Audit Strategy 2013/14**
  - 1.1 Appendix A contains the proposed Audit Strategy for 2013/14.
  - 1.2 The Strategy sets out how Internal Audit intends to meet its objectives for the coming year.
- 2. Audit Plan 2013/14**
  - 2.1 The audit plan has been derived by considering:
    - Audit issues identified during 2012/13;
    - Request from Management; and
    - Risk Registers.
  - 2.2 The draft plan has been circulated to Senior Management for comment.

### **IMPLICATIONS AND RISKS**

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

The costs of both directly employed and externally provided services to carry out the agreed plan will be met from within the 2013/14 budget for the Audit Service. The 1435 days of resource available are sufficient to review all the high risk areas

identified in the planning process as well as allowing the team to undertake a small percentage of probity type audits.

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

Risk	Mitigation factors
<p>That the plan will not address the key risk areas within the council</p>	<p>The plan has been prepared taking into account the council's risk registers. The auditable areas have been identified and subjected to a risk evaluation to determine if and when they should be reviewed.</p> <p>The plan has been formulated and assessed by the Internal Audit &amp; Corporate Risk Manager using prescribed methodologies, including discussion with Heads of Service.</p> <p>The plan has been circulated to Senior Management for comment and will be reviewed periodically throughout the year with any required changes being reported to Audit Committee. Any changes necessitated by new legislation or changing financial circumstances will be reflected in the plan and advised to the Committee.</p>
<p>That the plan does not provide assurance for the external auditor</p>	<p>The plan ensures that key areas of the financial procedures which feed the financial statements are reviewed annually.</p> <p>There is regular liaison between the internal and external auditors during the year to ensure adequate assurance is provided.</p>
<p>That the plan is not flexible enough to meet the needs of the council during the year</p>	<p>There is a contingency within the year to allow for unforeseen systems based audit work and if necessary decisions may need to be made to replace one audit with another.</p> <p>As the level of fraud investigation work cannot be determined with any certainty the same practice will operate as in previous years in that should there be more fraud investigation work than was planned then the pro-active audits would be reduced and if there is not as much as anticipated then further pro-active audits would be undertaken.</p> <p>Should additional work be required above these two factors then resources may be seconded from the systems team or additional funding may need to be identified before work could commence.</p> <p>As indicated, there is a higher risk than normal of changing circumstances for the coming year, and this will therefore need to be managed accordingly.</p>

<p>That there are not sufficient staffing resources both in number and to the required skill level to carry out the work identified</p>	<p>The structure of the team is appropriate to deliver the draft audit plan. Training needs are assessed at least annually via the PDR process. If additional or specialised resources were required to deliver the plan these could be engaged within the allocated budget. Continuous training is provided to ensure that staff have sufficient skills to carry out their duties and deliver the audit plan and strategy.</p>
<p>That there is insufficient understanding and coverage of other risks (not purely operational and strategic)</p>	<p>Involvement with projects systems development and change. Reliability and integrity of management databases and information. Stewardship of financial and non financial assets. Reviews to ensure that the authority complies with new legislation.</p>
<p>Not addressing risks in areas where there control deficiencies and weaknesses have been identified</p>	<p>The audit planning process will review the significant issues on the Annual Governance Statement and ensure that relevant audits are included within the plan. Recommendations to address significant control weaknesses are reviewed in the following financial year to ensure that they have been fully implemented by agreed dates.</p>

**Legal implications and risks:**

None arising directly from this report

**Human Resources implications and risks:**

None arising directly from this report

**Equalities implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

None





# AUDIT STRATEGY

Version: February 2013

## 1. Internal Audit Strategy

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

## 2. Strategy Statement

- 2.1 The overall Strategy of Internal Audit is:

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

## 3. Definition

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

***“An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.”***

## 4. Objectives of Internal Audit

- 4.1 The objectives for the Audit Service are:

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

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

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

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

- 6.1 The Internal Audit & Corporate Risk Manager is responsible for delivering the audit service in accordance with its Terms of Reference. To ensure that this can be achieved, there are appropriate arrangements for:
  - Determining and planning the work to be carried out (i.e. an audit plan based on an assessment of the risk).
  - Providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes).
- 6.2 The Internal Audit Team has an complement of eight full time equivalents.
- 6.3 Due to the specialist skills required to carry out computer audits and the convergence and planned merger of business systems activities with the LB Newham the Computer Audit Plan is currently delivered by resources provided by LB Newham.
- 6.4 The Internal Audit service will be delivered on the basis of a detailed Plan for 2013/14. The plan sets out the number of person-days required for Internal Audit to adequately review the areas involved.
- 6.5 Where resources available are not considered, by the Internal Audit & Corporate Risk Manager, to be adequate for the Head of Internal Audit opinion to be provided, this will be reported to the Audit Committee.
- 6.6 The annual risk assessment process takes account of a range of strategic, corporate, service and operational risks (including those identified through the Risk Management process and by the external auditor) and the views of senior management on these issues.

6.7 The 2013/14 Plan balances the following requirements:

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

6.8 In order to ensure the Internal Audit Service continues to meet the needs of the organisation the skills and experience available are annually reviewed and there are a number of initiatives working with other Boroughs to identify how collaboration can benefit the service, this work will continue in 2013/14. In addition the Council's PDR process identifies training needs for staff.

## **7. Relationships**

7.1 A joint working arrangement with External Audit will be operated such that Internal Audit resources are used as effectively as possible.

7.2 Periodic reports relating to audit issues will be provided to Corporate Management Team and where necessary direction regarding specific policy or risk issues will be sought. Corporate Management Team therefore has a part to play in the successful achievement of strategy outcomes in particular the achievement of the Internal Audit objectives.

7.3 Internal Audit manages an annual programme of presentations and training designed to raise the profile of the audit team and raise awareness of audit issues.

## **8. Quality**

8.1 Internal Audit will comply with the CIPFA *Code of Practice for Internal Audit in Local Government in the UK*, and auditors are expected to comply with any other relevant professional standards.

8.2 The Internal Audit & Corporate Risk Manager will ensure that there is an Audit Manual in place setting out expected standards for the service, and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments. Relevant training will be provided to ensure auditors have the level of skills necessary to undertake their roles.

8.3 Where necessary to ensure an adequate, effective and professional audit service is provided, the Internal Audit & Corporate Risk Manager will buy in resources from external providers to supplement internal resources.

## **9. Performance Management**

9.1 Progress against the audit plan, and the content of the plan itself, will be kept under review by the Internal Audit & Corporate Risk Manager in liaison with the Head of Finance & Procurement and the Group Director Finance & Commerce, and through monitoring corporate and service developments.

9.2 Audit Committee are advised of changes to the audit plan.

9.3 Audit Committee will also be advised of performance against the audit plan, and on other relevant key performance indicators, on a quarterly basis.

## **10. Strategy Review**

10.1 This strategy will be reviewed annually and presented for approval by the Audit Committee.

10.2 The next review will be completed in February 2014.

## **11. Key Contacts**

11.1 Internal Audit & Corporate Risk Manager – Vanessa Bateman ext 3733

11.2 Head of Finance & Procurement– Mike Stringer ext 2101

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Service Area - CORPORATE	Audit Area	Budget
ALL	Partnership/Shared Working Governance	20
ALL	Project Management	15
ALL	Grants	15
ALL	Information Governance	20
ALL	Petty Cash/Pre Paid Cards	15
ALL	Use of Consultants	20
ALL	Use of Volunteers	15
ALL	Compliance with Constitution / Corporate Policy	20
ALL	Safeguarding	10
ALL	Risk Management	20
ALL	Fees & Charges	15
<b>185</b>		<b>185</b>

Service Area - CULTURE & COMMUNITY	Audit Area	Budget
Customer Services	Council Tax	10
Customer Services	Housing Benefits	15
Culture & Leisure	Youth Service	15
Customer Services	Council Tax Support Administration	15
Customer Services	Business Rates Administration	15
TBC	Income Management inc Cash	15
TBC	Budget Monitoring	15
TBC	Debt Recovery	15
Housing & Public Protection	Housing Allocations	20
Housing & Public Protection	Housing Capital	20
<b>155</b>		<b>155</b>

Service Area - SOCIAL CARE & LEARNING	Audit Area	Budget
Children's	Children's Centres - probity programme	15
Children's	Troubled Families Programme	15
Public Health	Public Health	20
Adult's	Self Directed Support	20
Learning & Achievement	Schools	100
Commissioning	Local Welfare Assistance	20
Commissioning	Contracts and Procurement	15
TBC	Budget Monitoring	15
TBC	Income Management inc Cash	15
TBC	Debt Recovery	15
<b>250</b>		<b>250</b>

Service Area - FINANCE & COMMERCE	Audit Area	Budget
Finance & Proc	Budgetary Control incl CP	10
Finance & Proc	Main Accounting	10

Finance & Proc	Agency Worker Contract	20
TBC	Income Management inc Cash	15
TBC	Debt Recovery	15
ISS	AP (Creditors)	15
ISS	AR (Debtors)	15
ISS	Payroll	15
ISS	Pensions	10
Business Systems	IT Performance	10
ISS/IT	Bankers Automated Clearing System	10
	<b>145</b>	<b>145</b>



<b>COMPUTER AUDIT</b>	<b>Audit Area</b>	<b>Budget</b>
TBC		
<b>100</b>		<b>100</b>
<b>FRAUD</b>	<b>Audit Area</b>	<b>Budget</b>
All	Reactive Fraud & Special Investigations	275
	Proactive Fraud	180
<b>455</b>		<b>455</b>

<b>OTHER WORK</b>	<b>Audit Area</b>	<b>Budget</b>
	Advice to Directorates	10
	Governance	25
	Risk Management	50
	Sign off of Grant Claims	10
	Follow Ups	25
	Contingency	25
<b>145</b>		<b>145</b>
<b>1435</b>		<b>1435</b>



## AUDIT COMMITTEE

28 February 2013

<b>Subject Heading:</b>	Internal Audit Progress Report
<b>Report Author and contact details:</b>	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext 3733
<b>Policy context:</b>	To inform the Committee of progress to deliver the approved audit plan in quarter three of 2012/13.
<b>Financial summary:</b>	N/a

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

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

### SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 1<sup>st</sup> October 2012 to 28<sup>th</sup> December 2012.

### 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 resources is included for information.

**Section 2 Audit Work 1<sup>st</sup> October to 28<sup>th</sup> December 2012**

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

**Section 3 Management Summaries**

Summaries of all final reports issued in the period.

**Section 4 Schools Audit Work**

A summary of schools final reports issued in the period.

**Section 5 Key Performance Indicators**

The actual performance against target for key indicators is included.

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

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

**Section 7 Outstanding Audit Recommendations**

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

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work.

**Legal implications and risks:**

None arising directly from this report

**Human Resources implications and risks:**

None arising directly from this report

**Equalities implications and risks:**

None arising directly from this report

**BACKGROUND PAPERS**

None

**Section 1 Background and Resources**

- 1.1 During quarter three all posts in the establishment have had a permanent post holder in place.
- 1.2 At the end of December £48,328 of the £50k income target relating to the systems audit team has been achieved.
- 1.3 The forecast outturn for 2012/13 is currently within the allocated budget.

**Section 2 Audit Work 1<sup>st</sup> October to 28<sup>th</sup> December 2012**

- 2.1 At the end of December 62% of the audit plan had been delivered. This was against a target for the period of 70%.
- 2.2 At the end of December nineteen assignments had been completed and twenty one were in progress but had not reached the final report stage.
- 2.3 One report for Post Grading/Establishment Control for staff within Homes and Housing was issued this quarter. One audit area identified as being beneficial to Homes and Housing around Tenancy Management and will be undertaken during quarter four.
- 2.4 At the request of the Group Director Finance & Commerce resources have also been provided to support an ad hoc review regarding realisation of savings.
- 2.5 Schedule 1 details the final reports issued in quarter three. Details are listed in the table below and management summaries under Section 3 starting on the next page.

**2.6 SCHEDULE 1: 2012/2013 – Systems Audits Completed**

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
Agency Worker Contract	Substantial	1	0	0	1	3 (1)
Traded Services	Limited	1	0	0	1	3 (2)
Telecoms	Substantial	0	6	0	6	3 (3)
Appointeeships & Deputyships Follow Up	Substantial	6	5	0	11	3 (4)

**2.7** Work in progress includes:

- Risk Based Systems Audits – Contracts & Procurement, i-Expenses, Debt Management, Information Governance – Service Area Control & Compliance, Information Governance – Provider Compliance, Council Tax, Housing Benefits, Parking, Transport, i-Recruitment, i-Procurement, Accounts Payable, Accounts Receivable, Payroll, Pensions, Looked After Children – Performance Information & Data Quality, Looked After Children – Placements, Network Permissions, Release of Software, Oracle eBusiness and Information Governance - Electronic Docs & Records Management
- School Audit – Clockhouse Primary, Hacton Primary, Harold Wood Primary, Langtons Junior, Pyrgo Primary and Ravensbourne School.

### Section 3 Management Summaries

Agency Worker Contract	Ref 3 (1)
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#### 3.1 Background

3.1.1 The Council currently has a 'Vendor Neutral Managed Service' (VNMS) for procuring agency workers. The current supplier of this service is Commensura. At any time there are approximately 550 agency workers recruited via this system. From January 2013 the Council's supplier will be Adecco and a 'Managed Service' (MS) will be in place. MS as opposed to VNMS means all agency workers will be provided by Adecco direct.

3.1.1 In October 2011 the Agency Worker Regulations were amended to include greater rights for agency workers.

#### 3.1.2 Summary of Audit Findings

3.1.3 The guidance available to management to aid them in understanding and managing risk around using agency workers could be improved.

3.1.4 The implementation of a new system offers a good opportunity to ensure accurate data is held in the system.

3.1.5 Management information in the current system was an area where it was recognised improvements could be made; this must be addressed as part of the implementation of the new system. A longer term goal could be to link this to Self Service dashboards used to monitor other management information.

3.1.6 Approvals and authorisations within the Comensura system do not conform to a corporate standard. The approvals could align to the expectations of the i-Recruitment system or be determined by the assignment length i.e. approval of extension or the value being committed by the order.

3.1.7 Currently the organisation is reliant on managers to ensure all assets are returned at the end of an assignment.

3.1.8 In the old system it was possible to procure an agency worker against a post that was not part of the approved formal establishment however there are plans to rectify this in the new system.

3.1.9 Agency timesheets do not record start, break and end times for each working day. To aid management of resources an alternative record is currently required.

3.1.10 The system does not flag an unapproved timesheet to the order owner. Chasing by the agency is not always in a timely fashion.



3.1.11 The audit highlighted that declaration of interests forms are not being signed by agency workers at the start of their assignment and therefore corporate expectations are not being met.

**3.1.12 Audit Opinion**

3.1.13 As a result of this audit one high priority recommendation has been raised relating to areas for consideration as part of the planned Adecco/Beeline implementation.

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

<b>Traded Services</b>	<b>Ref 3 (2)</b>
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## **3.2 Background**

3.2.1 The Council offers a range of traded services to schools. Available services are publicised in the annual Services for Schools brochure.

3.2.2 The Schools Health & Safety (SHS) team are responsible for the administrative side of the process of traded services

3.2.3 In 2010/2011 a total of £2.7m was billed by Schools Health & Safety for those traded services being billed centrally by this team. In 2011/12 this figure was £3.2m. This figure relates to 21 of the 32 traded services. In the remaining 11 cases, SHS are not responsible for billing.

### **3.2.4 Summary of Audit Findings**

3.2.5 This report aims to highlight weaknesses solely in relation to the administration of traded services. Details in relation to these findings will be reported to the relevant service directly.

3.2.6 Ownership of the Council's traded services provision has not been allocated. As a result, there remains no strategy setting out the aim and objectives of the traded services on offer. No recommendation has been raised regarding this as a separate project is underway around the future of traded services, which will resolve this issue.

3.2.7 The Services for Schools brochure produced and distributed annually to schools is not inclusive of all traded services available from the Council. Additionally, different methods of administering / billing traded services are in operation, depending of the service area.

3.2.8 The administration of traded services has become an overly complicated process that as well as duplicating the resource needs, increases the risk of errors being made. Whilst management spot checks are undertaken to minimise errors there remains a risk of early errors impacting on the Council's reputation.

3.2.9 A Council policy to charge schools for services brought into the previous year, if not cancelled by the 31<sup>st</sup> March, is not being consistently / accurately enforced. The complexity of the administrative process has impacted on the accuracy of the audit trail.

3.2.10 Testing identified issues of over / undercharging and inconsistencies in the audit trails which have been caused by the weaknesses identified above.

**3.2.11 Audit Opinion**

3.2.12 As a result of this audit one high priority recommendation has been raised relating to areas for consideration as part of the separate review being undertaken around traded services.

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

<b>Telecoms</b>	<b>Ref 3 (3)</b>
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### **3.3 Background**

- 3.3.1 The 2012/2013 Internal Audit Plan includes an audit of the telecommunications system which is currently being implemented at the Council. At the time of the audit the Council was in the process of implementing an IP telephony solution using the Microsoft Lync Enterprise 2010 Server.
- 3.3.2 Microsoft Lync is the Voice over Internet Protocol (VoIP) and Unified Communications (UC) solution which has been implemented at the Council by a specialist provider, Digital IP. The Lync deployment is being undertaken in two phases with phase 1 recently completed with go-live in September 2012 to 1500 users across the main Council sites which include the Town Hall and Mercury House. Phase 2 will be undertaken shortly to deploy Lync to remote Council sites across the borough.
- 3.3.3 Microsoft Lync integrates with the Microsoft Exchange Server and Office Communications Server (OCS) to provide a seamless telephony, email and messaging service to users across the Council with the benefits of flexibility and remote working for staff, in addition to cost efficiencies to be gained by the Council in the long-term.
- 3.3.4 The Microsoft Lync deployment is supported by Business Systems with teams established which include the ICT Service Desk, ICT Project Delivery, Networks and Server responsible for Business as Usual technical and operational support. Furthermore, there is an End User Device team established at the Council with responsibility for performing Lync administration functions, such as the management of users and provisioning of telephony extensions. The Council's hardware infrastructure is contractually hosted and managed by partners, ACS with a primary and secondary data centre in Telford and Newport, respectively.
- 3.3.5 **Summary of Audit Findings**
- 3.3.6 There was a clearly defined ICT Enterprise Technology Road Map for 2009-2012 which includes the development of VoIP and UC project work streams; however, the ICT Strategy was in need of a formal review, refresh and update.
- 3.3.7 There is a dedicated team of in-house ICT operational staff for support of the voice and data network and servers; however, there is currently limited experience, specialist skills and knowledge focussing on VoIP and UC.
- 3.3.8 There is currently no asset inventory developed of the Polycom CX300 desktop phones which have been procured and rolled out to staff across the Council for the Microsoft Lync VoIP deployment.

3.3.9 The Lync VoIP solution implemented at the Council incorporates resilience and DR Failover across primary and secondary data centres in Telford and Newport, which is managed by ACS. However, a DR Failover test has yet to commence for the Lync servers.

3.3.10 Microsoft have performed a specific health check on the Microsoft Lync Server 2010 environment and its dependencies that includes SQL server, client configurations, Lync server pools and roles, Windows Operating System, the network infrastructure and the physical hardware and is compared against Microsoft Lync best practice guidelines. However, the issues identified from the Microsoft Lync Health Check require an action plan and resolution schedule to be developed to facilitate the review, evaluation and remediation of all Lync VoIP issues.

3.3.11 There is no Call Logging Management solution implemented for voice call analysis and reporting.

### **3.3.12 Audit Opinion**

3.3.13 As a result of this audit, we have raised six medium priority recommendations.

3.3.14 Recommendations related to the need for:

- The ICT Strategy should be updated and revised which includes coverage on future business requirements, technical developments, initiatives and solutions in relation to the VoIP and Unified Communications infrastructure at the Council. *(Medium Priority)*
- A review and evaluation should be performed including a cost benefits analysis of developing and establishing a skilled in-house team to provide cover for the support of the VoIP and Unified Communications technology at the Council. *(Medium Priority)*
- An asset inventory of the Polycom VoIP CX300 desktop phones for the Microsoft Lync deployment should be developed and maintained up-to-date. *(Medium Priority)*
- ICT Management in conjunction with data centre hosting and management partners, ACS should perform a Disaster Recovery (DR) Failover test for the Microsoft Lync Server. *(Medium Priority)*
- ICT Management should perform a review and clearly define an action plan and schedule to address and resolve the configuration and operational issues identified from the Microsoft Lync Server Health Check Report in May 2012. *(Medium Priority)*
- A review and evaluation exercise should be performed for the procurement and implementation of an appropriate Call Logging Management solution for the Microsoft Lync telephony deployment. *(Medium Priority)*.

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

<b>Appointeeships &amp; Deputyships Follow Up</b>	<b>Ref 3 (4)</b>
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### **3.4 Background**

3.4.1 In November 2011 an audit of the Appointeeship and Deputyship commenced. The objective of the audit was to provide assurance regarding the internal controls around the administration of Appointeeships and Deputyships.

3.4.2 The audit reviewed the following key risk areas:

- Quality and Efficiency;
- Financial and value for money;
- Income, fees and charges;
- Management information and reporting; and
- Fraud.

3.4.3 As a result of the audit six high and five medium priority recommendations were raised and a 'Limited Assurance' was provided to management. All of the recommendations were agreed at the time of issuing the final report and deadlines for all were prior to the 31<sup>st</sup> March 2012, although one recommendation had the implementation date extended to the 31<sup>st</sup> July 2012.

#### **3.4.4 Progress on Implementation**

3.4.5 A formal follow up has just been completed and progress against all actions was reviewed. Where actions had been completed by management evidence to support this was gathered. Appendix 1 details that outcome of the follow up work.

3.4.6 The results are also summarised below:

- Eight recommendations had been completed at the time of the follow up (1, 2, 3, 4, 5, 6, 8 and 9);
- Two recommendations were completed immediately after the follow up (10 & 11); and
- One recommendation is in progress with an extended implementation date (7).

#### **3.4.7 Conclusion**

3.4.8 The follow up indicates that substantial progress has been made in implementing recommendations and therefore addressing the risks identified by the original audit.

3.4.9 As a result of the progress made the assurance provided from the audit work has been amended to a 'Substantial Assurance'.

**Section 4 Schools Audit Work**

- 4.1** During quarter three the team have continued to review the schools audit programme to ensure it focuses appropriately on risk areas and taking into account the new Schools Financial Value Standard (SFVS) which has to be completed by each school by the end of March 2013.
- 4.2** Four Schools audits were finalised by the end of September. Results of the audits are included in Schedule 2 below.
- 4.3** Management summaries will only be included in the quarterly progress reports when we have given limited or no assurance.

**Schedule 2: 2012/13 – School Audits Completed**

Report	Opinion	Recommendations				Ref Below
		High	Med	Low	Total	
Newtons Primary School	Substantial	2	8	1	11	N/A
Pinewood Primary	Substantial	0	3	0	3	N/A
St. Ursulas RC Junior School	Substantial	1	4	2	7	N/A
Bower Park	Substantial	2	3	3	8	N/A

## **Section 5 – Key Performance Indicators**

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

<b>5.2 Audit Plan Delivered (%)</b>										
	<b>Q1</b>	<b>Jul</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>
Actual	16	22	30	37	46	54	62			
Cumulative Target	20	30	37	45	53	63	70	80	90	99

**5.3** At the end of December 2012 the team is just behind target. This is due to one post being vacant for quarter one and the computer audit plan being profiled later in the year than usual.

<b>5.4 KPI 01 - Briefs issued</b>										
	<b>Q1</b>	<b>Jul</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>
Actual	16	17	19	31	35	45	48			
Cumulative Target	12	19	25	32	40	46	50	51	51	51

**5.5** At the end of December the team were two briefs behind target. The estimated target of deliverables for the year is now 51.

<b>5.6 KPI 02 – Draft Reports</b>										
	<b>Q1</b>	<b>Jul</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>
Actual	7	7	8	15	15	18	22			
Cumulative Target	8	15	21	26	32	38	40	45	48	51

**5.7** At the end of December the team were 18 draft reports behind target. This is due to more demand to support by services when implementing new systems and because a number of larger audits are programmed at the start of the year. Resources were also diverted into a special review.

<b>5.8 KPI 03 – Final Reports</b>											
	<b>Q1</b>	<b>Jul</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>
Actual	3	6	8	13	14	18	19				
Cumulative Target	5	10	15	21	26	32	34	37	43	47	51

**5.9** At the end of December the team were fifteen final reports behind target. There are no concerns regarding completion of the plan at this time.



**Section 6 – Changes to the Approved 2012/13 Audit Plan**

- 6.1** In April 2012 the Audit Committee approved an Annual Audit Plan for the 2012/13 financial year totalling 1576 days.
- 6.2** The table below provides a summary of the audits removed from, and added to, the 2012/13 approved audit plan and the reason for the change. It also reflects where there has been a change in budget.
- 6.3** The plan has been reduced to 1514 due to the reduction in computer audits being undertaken this year and days diverted to a special non audit plan project.

**6.4 Plan Changes**

<b>Audit Title</b>	<b>Days</b>	<b>Revised Days</b>	<b>Directorate</b>	<b>Reason</b>
Partnership / Shared Working Governance	25	0	Corporate	Audit cancelled as this is now included on the Operational Risk Management Groups agenda.
PDR Assurance	15	12	Corporate	Work completed in less than budgeted.
Income Management including Cash	25	0	Corporate	Undertaken as Pro-Active review this year, therefore transferred to next year's Audit Plan.
Change Management	20	0	Corporate	Audit cancelled as this is now included on the Operational Risk Management Groups agenda.
Equality Analyses	0	3	Corporate	Added to 2012/13 plan.
Sick Assurance	0	10	Corporate	Added to 2012/13 plan.
Mayrise	15	0	Culture & Community	Systems review to be included in Computer Audit of Mayrise.
Fixed Assets	10	0	Finance & Commerce	Audit cancelled as this work is undertaken by PWC.
Personalisation	25	1.5	Adults &	Pro Active work identified

**Audit Committee 28 February 2013**

<b>Audit Title</b>	<b>Days</b>	<b>Revised Days</b>	<b>Directorate</b>	<b>Reason</b>
			Health	issues for service to resolve. Strategy side being picked up by corporate reviews so nothing to do that will add value currently. Added to 2013/14 plan.
Appointeeships - Residential Homes	15	1	Adults & Health	Following discussions with team managers this audit is not required.
Self Directed Support	20	0	Adults & Health	Pro Active work has identified issues for service to resolve initially. Strategy side being picked up by corporate reviews so nothing to do that will add value currently. Added to 2013/14 plan.
Northgate Paris	15	0	Computer	Audit cancelled as there are plans to replace this application.
Mayrise	0	15	Computer	Added to 2012/13 plan as replacement for Northgate Paris

## Section 7 – Outstanding Recommendations Summary Table

### 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

### 7.1 Outstanding Internal Audit Recommendations

Review in	Area Reviewed	HoS Responsible	Outstanding			Position as at end December 12		
			High	Medium	Low	In Progress	Not Started	Position Unknown
2008/09	IT Security & Data Management	ACE – Legal & Democratic Services	1			1		
2008/09	Cemeteries & Crematorium	Housing & Public Protection		1		1		
<b>2008/09 Total</b>			<b>1</b>	<b>1</b>		<b>2</b>	<b>0</b>	<b>0</b>
2009/10	Climate Change	Culture & Community		1		1		
2009/10	Government Connect GCSx	ACE – Legal & Democratic Services		1		1		
<b>2009/10 Total</b>				<b>2</b>		<b>2</b>	<b>0</b>	<b>0</b>
2010/11	Corporate Support Team	Asset Management			1	1		
2010/11	Payroll	Business Systems			1	1		
2010/11	Pensions	Shared Services			1	1		
2010/11	IT Security	Business Systems		1		1		
2010/11	IT Security	ACE – Legal & Democratic Services		3				3
<b>2010/2011 Total</b>				<b>4</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>3</b>

Review in	Area Reviewed	HoS Responsible	Outstanding			Position as at end December 12		
			High	Medium	Low	In Progress	Not Started	Position Unknown
2011/12	Public Protection	Housing & Public Health			1	1		
2011/12	Remote Working	Business Systems		1		1		
2011/12	Oracle Financials	Business Systems		3		3		
2011/12	Crematorium – Grave Allocations & Record Keeping	Housing & Public Protection		4		4		
2011/12	Education Computer Centre	Business Systems	3	4		7		
2011/12	Appointeeship & Deputyship	Adult Social Care	1			1		
2011/12	Network Infrastructure	Business Systems	1			1		
2011/12	Pensions	Shared Services		1		1		
2011/12	i-Expenses & Purchase Cards	Group Director – F&C	1			1		
2011/12	i-Expenses & Purchase Cards	Shared Services	1	1	1	3		
2011/12	Main Accounting	Shared Services		1		1		
2011/12	Contracts & Procurement	Finance & Commerce		2		2		
		<b>2011/12 Total</b>	<b>7</b>	<b>17</b>	<b>2</b>	<b>26</b>	<b>0</b>	<b>0</b>
2012/13	Information Governance	ACE – Legal & Democratic Services	1	1				2
2012/13	Ingrebourne Children’s Centre	Children’s Services	1			1		
		<b>2012/13 Total</b>	<b>2</b>	<b>2</b>		<b>1</b>	<b>0</b>	<b>2</b>

# AUDIT COMMITTEE

28 February 2013

**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:**

This report details information relating to fraud investigations.

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

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

**SUMMARY**

This report advises the Committee of the work of the Investigations Team and the Internal Audit Fraud Team from 1<sup>st</sup> October 2012 to 31<sup>st</sup> December 2012.

**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 two sections; the content of each section is outlined below:

Section 1. Resources & Direction of Travel

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

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

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

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

**Legal implications and risks:**

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

**Human Resources implications and risks:**

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

**Equalities implications and risks:**

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

**BACKGROUND PAPERS**

None.

**Section 1**    **Resources & Direction of Travel**

- 1.1 The recruitment process to appoint a permanent Senior Investigator to the Investigations Team commenced in December, the expected start date is 01 March 2013. All other posts are filled.
- 1.2 The level of resources available in the teams has been reviewed and four unfunded posts have been added to increase the flexibility of the structure to deal with peaks in work and also to provide opportunities for development and multi-skilling of resources. These posts will be utilised when budget is available to fund them.
- 1.3 The forecast outturn for 2012/13 for the investigations team is currently forecast to exceed the allocated budget. This overspend will be offset against an under spend in the internal audit budget and budget held in reserve for fraud. The overspend is caused by increased legal fees from pursuing proceeds of crime cases; increased resources and use of agency workers whilst restructuring the team.
- 1.4 The Investigations Team has an income target of £51,740 at the end of December and £28,941 had been achieved from payments of administrative penalties. There is income due from proceeds of crime cases but this is likely to be received next financial year.

**Section 2     Fraud Cases October to December**

**A) Case Load**

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

2.2

<b>Caseload Quarter 3 2012/13</b>						
<b>Team</b>	<b>Cases At start of period</b>	<b>Referrals received</b>	<b>Referrals rejected/ overloaded</b>	<b>Cases Fraud not Proven</b>	<b>Cases Successful</b>	<b>Cases at end of period</b>
HB/CTB	428	127	3	43	28	481
HT	84	23	6	13	5	83
Corporate	18	10	1	1	6	20
<b>TOTAL</b>	<b>530</b>	<b>160</b>	<b>10</b>	<b>57</b>	<b>59</b>	<b>584</b>

**B) Referrals & Fraud Reports**

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

2.4

<b>Source of Referrals &amp; Fraud Reports Quarter 3 2012/13</b>				
<b>Number of Referrals/ Type</b>	<b>HB/CTB Referrals</b>	<b>HT Referrals</b>	<b>IA Fraud Reports</b>	<b>Overall Total</b>
Anonymous	42	-	-	42
External Organisations / Members of the Public	16	4	0	20
Internal Departments Whistleblowers	56	14	10	80
Social Landlords (inc HiH)	10	5	-	15
Data Matching / Proactive initiative	3	-	-	3
<b>Total</b>	<b>127</b>	<b>23</b>	<b>10</b>	<b>160</b>



2.5 The table at para. 2.6 shows the categories of the potential Housing Benefit/Council Tax Benefit fraud referrals from October to December.

2.6

<b>Referrals by Category</b>	
<b>Potential Fraud</b>	<b>Quarter 3 12/13</b>
Capital	7
Contrived Tenancy	7
Income from Other Sources	5
Living Together	50
Non-Dependant	4
Non-Resident/vacated	15
Other welfare benefits	-
Working	27
Non Commercial Tenancy	-
Other	-
Single Person Discount	-
Tenancy Fraud	12
<b>Total</b>	<b>127</b>

2.7 The table at para. 2.8 shows the categories of the potential Corporate Fraud reports from October to December.

2.8

<b>Reports by Category</b>	
<b>Potential Fraud</b>	<b>Quarter 3 12/13</b>
PC – misuse and Abuse	2
Misuse of Council Time	-
Misuse of Council Asset	1
Misuse of Council Vehicle	-
Breach of Code of Conduct	3
Breach of Council Procedures	1
Falsification of Records	-
Theft	3
Receipt of Bribe	-
Direct Payment Fraud	-
Safeguarding	-
Overcharging by Supplier	-
Fraudulent use of Credit Card	-
Overpayment Recovery	-
<b>Total</b>	<b>10</b>

2.9 The table at para. 2.10 shows the categories of the potential Housing Fraud reports from October to December.

2.10

<b>Referrals by Category</b>	
<b>Potential Fraud</b>	<b>Quarter 3 12/13</b>
Subletting	11
Not main/principal home	12
Obtained tenancy by deception	-
False claim for Succession	-
Fraudulent assignment	-
Fraudulent RTB	-
Unlawful Mutual Exchange	-
Fraudulent Housing Register Application	-
Fraudulent Homeless Application	-
<b>Total</b>	<b>23</b>

**C) Current Caseload**

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

2.12

<b>Current Cases by Category</b>	
<b>Potential Fraud</b>	<b>As at end of Dec 2012</b>
Capital	35
Contrived Tenancy	17
Income from Other Sources	24
Living Together	193
Non-Dependant	19
Non-Resident/vacated	60
Other welfare benefits	-
Working	57
Non Commercial Tenancy	5
Other	7
Single Person Discount	16
Tenancy Fraud	48
<b>Total</b>	<b>481</b>

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

2.14

<b>Current Cases by Category (non benefit)</b>	
<b>Potential Fraud</b>	<b>As at end of Dec 2012</b>
PC – misuse and Abuse	4
Misuse of Council Time	2
Misuse of Council Asset	2
Breach of Code of Conduct	2
Breach of Council Procedures	4
Misuse of Blue Badge	1
Accepting Bribe	-
Theft	3
Safeguarding	1
Direct Payments	-
Overpayment Recovery	1
<b>Total</b>	<b>20</b>

**D) Outcomes**

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

2.16

<b>Successful Outcomes</b>			
<b>Sanction/ Offence Type</b>	<b>Administrative Penalties</b>	<b>Cautions</b>	<b>Prosecutions</b>
Capital	2	-	3
Working and Claiming	2	-	-
Contrived Tenancy	-	-	4
Living Together	2	-	3
Income from other sources	1	-	-
Vacated	-	-	-
Other	-	-	2
<b>Total</b>	<b>7</b>	<b>-</b>	<b>12</b>

2.17 The following are cases prosecuted this quarter where proceeds of crime legislation has been used to assist in recovering the overpayment of benefits.

2.18 On her claim for benefit, Mrs C stated that she had just one bank account. An investigation established that she had several accounts and a bond holding capital in excess of £16,000. She admitted that she had acted dishonestly and her accounts were restrained. Mrs C was prosecuted and received a 6 month custodial sentence suspended for 18 months. In addition she received a confiscation order of £35,240.14 and the London Borough of Havering was awarded £14,068.97 compensation.

Mr O was investigated for failing to declare bank accounts which held capital and details of his employment. Once again the accounts were restrained. At Court, Mr O pleaded guilty and received a 12 month community order and 3 month curfew. He was also issued with a confiscation order of £18,243.52 and LBH were awarded compensation of £12, 446.22.

Mr & Mrs M were prosecuted separately for their part in a £80,000 fraudulent Housing & Council Tax benefit claim. Mrs M claimed benefit as a lone parent when she was actually residing with her husband who owned other properties. These properties were restrained under proceeds of crime legislation. Following the threat of prosecution under the Criminal Justice Act Mr M agreed to repay LBH £92,000.00. Mr & Mrs M each received a 2 year conditional discharge and, in addition, Mr M was ordered to pay £20,000.00 costs.

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

2.20

<b>Case Outcomes</b>	
<b>Outcome</b>	<b>Qtr 3</b>
Management Action Plan	3
Contract ended	1
Disciplinary	1
Insufficient Evidence	1
Prosecution	1
No case to answer	-
Refund received	-
Property Recovered	-
<b>Total</b>	<b>7</b>

2.21 The case outcomes for the Housing investigations from October to December are detailed in table 2.22 below.

2.22

<b>Successful Outcomes</b> (Note: Cases may have multiple outcomes)	
<b>Outcome Type</b>	<b>Q3 12-13</b>
Tenancy Relinquished voluntarily (keys handed in)	4
Property recovered via court action	-
Succession / assignment / Mutual Exchange prevented	-
RTB stopped	-
Homeless Duty discharged	-
Housing Register application withdrawn	-
Temporary accommodation withdrawn	-
Prosecution	1
<b>Total</b>	<b>5</b>

#### **E) Case Studies and Proactive Work**

2.23 A tenancy audit was carried out on council tenants in New Plymouth House, Napier House, Cherry Tree Lane and Dunedin Road in October. One flat in Napier House was recovered almost immediately when the officer became suspicious after noticing that the property was very sparsely furnished. The tenant was interviewed and advised that she had just moved back to her parents. The audit has resulted in a further 6 properties under investigation.

#### 2.24 Successful cases

Mrs O was found to have made a false housing application when she failed to declare her true circumstances. An investigation established that she was never actually homeless and had actually been residing with her husband. The property was recovered and Mrs O was prosecuted under the fraud act for her false application. She pleaded guilty at Crown Court in October and received a 2 year conditional discharge. She was also ordered to pay £1500 costs.

It was suspected that Mr D had been subletting his council flat for a while and residents had complained about the anti- social activities taking place. The Investigation Officer was able to trace a previous sub-tenant of the property who was willing to make a statement. Bank account statements belonging to the legal tenant were obtained. Transactions on these accounts linked him to a female who is the mother of his 3 children. These links also indicated that the tenant was residing with this woman, while she claimed benefit as a lone parent. The couple were both interviewed and admitted that they were living together. The tenant was served a NTQ and the flat recovered. The tenant will also face prosecution for subletting the flat and for claiming benefit at a property where he did not reside.

Mr R was investigated for failing to disclose capital in relation to his benefit claim. During the course of the investigation it was suspected that he did not reside in his council property.

Utility checks showed very little gas and electricity usage at his address. Also the contact number that he provided to other agencies belonged to his mother and whenever officers tried to see him, he refused to be visited at his home. Mr R was prosecuted for benefit fraud offences in November and his council property recovered.

**F) HB/CTB Fraud Overpayments**

2.25 The value of fraudulent housing benefit overpayments generated by the team for the third quarter of the 2012/13 year are contained in table 2.26. Year to date values are contained in 2.27.

2.26

<b>Fraudulent Overpayment</b>	
<b>Type</b>	<b>Qtr 3</b>
Rent Rebate	50,554.40
Rent Allowance	189,640.87
Council Tax Benefit	32,387.60
<b>Total</b>	<b>272,582.87</b>

2.27

<b>Fraudulent Overpayment</b>	
<b>Type</b>	<b>Year to date</b>
Rent Rebate	229,432.03
Rent Allowance	307,294.30
Council Tax Benefit	100,705.60
<b>Total</b>	<b>637,431.39</b>

**G) Savings and Losses**

2.28 When a fraud is committed there may be two elements to the financial consequences. The table below details the savings and losses identified in the period October to December.

Definitions of terms in table:

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

**Savings** - refer to the amounts of money that the detection of the fraud has prevented being lost. A prime example of this would be the discount on a right to buy. If we prevent the sale then we prevent the discount being given and thereby we save the Council money.

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

2.28

Case details	Savings identified	Losses Identified	Management to recover	Details
Banking anomalies	6,403	-	6,403	Theft from cash banked via external company.
Banking anomalies	2,530	-	2,530	Theft from cash banked via external company.

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# AUDIT COMMITTEE

28 February 2013

**Subject Heading:**

Annual Review of Fraud &  
Corruption Arrangements

**Report Author and contact details:**

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

**Policy context:**

E-mail : Vanessa.bateman@havering.gov.uk  
To inform the Audit Committee of the  
results of the annual review.

**Financial summary:**

N/A

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

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

## SUMMARY

This report provides Members with details of the annual review of fraud and corruption arrangements as well as providing an update on developments during the last year and new initiatives going forward.

## RECOMMENDATIONS

1. To note the work continuing to take place on Anti Fraud & Corruption.
2. To approve the Anti Fraud & Corruption Strategy, Appendix A, in particular the Council's zero tolerance to Fraud and Corruption.

**REPORT DETAIL**

1. The arrangements in place are constantly considered and reviewed during the year to ensure we adapt to deal with changing threats, we are aware of the latest best practice within Local Government and that resources are equipped to fulfil their roles. The formal annual review of arrangements took place in January 2013 and was reported to Corporate Management Team in February 2013.
2. A key part of this review is to consider the Councils Anti Fraud & Corruption Strategy to ensure it remains current and fit for purpose. As part of this years review it was decided to align the Strategy to the National Local Government Fraud Strategy which promotes Acknowledge, Prevent and Pursue as the three steps to a robust approach.
3. The updated Anti Fraud & Corruption Strategy is attached as Appendix A of this report.
4. Other key policy and procedural documents are also reviewed at least annually and where applicable are agreed by Group Director or Corporate Management Team, these include:
  - Council's Fraud Risk Assessment;
  - Prosecution and Sanctions Policy;
  - Bribery Policy;
  - Fraud Manual;
  - Fraud Awareness Campaign; and
  - Declarations of Interest Policy.
5. The outcome of the Councils involvement in the most recent National Fraud Initiative has also been reviewed and reported to Corporate Management Team.
6. A review of our arrangements with regards Money Laundering was completed in 2012 and the results of this have been fed into the risk assessment mentioned above.
7. The results of a self assessment tool in Fighting Fraud Locally have also been considered during 2012 along with the outputs of other seminars and publications.
8. The Councils Whistleblowing policy has also been reviewed and is scheduled to be presented to Governance Committee in March with a report on activity.
9. The structures of teams with dedicated fraud resources have both been reviewed in the last two years. Currently one of the eleven posts is filled by an agency worker, however from March all permanent established fraud posts will

be filled by employees. There are currently four unfunded posts within the approved establishments to allow flexibility in dealing with peaks in work. The resources required to implement this strategy will be monitored on an on-going basis. Any issues will be reported to Committee as part of the quarterly fraud progress report.

10. Any areas for improvement or development of our approach identified as a result of this review will be implemented during 2013.

## **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 Investigation teams often identifies losses which may be recouped by the Council. There are no financial implications or risks arising directly from this report.

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

There are no direct implications or risks from consideration of the Report.

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

None arising directly from this report. Guidance is provided with regards Anti Fraud & Corruption Arrangements and a campaign to raise and maintain awareness is on-going. Any breaches in compliance with the procedures will be dealt with in accordance with the Council's disciplinary procedures.

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

An Equality Impact Assessment was completed during the review of the strategy. There were no issues identified.

## **BACKGROUND PAPERS**

Audit Commission's - Protecting the Public Purse  
Fighting Fraud Locally Anti Fraud and Corruption Strategy 2011  
The Red Book 2  
Fraud Act 2006  
Equalities Analysis Fraud Strategy February 2013

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# Anti-Fraud and Corruption Strategy

February 2013

Date Last Reviewed:	February 2012
Approved by:	Audit Committee
Date Approved:	February 2013 (to be)
Version Number:	2.0
Review Date:	February 2014
Document Owner:	Director of Finance and Commerce
Post Holder:	Andrew Blake-Herbert
EQIA Assessed:	YES
Reference No:	13/14

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## The Council's commitment to the Anti Fraud and Corruption Strategy

This Council requires Members, employees and contractors working on its behalf to act with honesty and integrity at all times, when dealing with resources owned by the Council or those for which it is responsible. This includes the responsibility for ensuring that assets are safeguarded and that procedures exist within areas of their responsibility to prevent and detect fraud.

Fraud is an ever-present threat to resources and hence must be of concern to everyone. The Council will rigorously enforce sanctions laid down in its "Disciplinary Procedures" and will seek prosecutions where necessary in order to deter fraudulent activity. The Council is unequivocal in its support of the Police and other external agencies fighting fraud and corruption within the public sector. We have already established arrangements for cooperation and joint working with outside bodies. In addition we actively foster relationships with external organisations for the purpose of introducing new initiatives to help combat fraud.

We recognise the important part our employees play in countering the damage that fraud can do if unchecked. We actively encourage the reporting of concerns about fraud and corruption and a "Confidential Reporting (Whistle Blowing) Policy" is available to address this.

All Council employees must comply with the Council's anti-fraud and corruption policies.

**Cheryl Coppell**  
**Chief Executive**

## What are the aims and requirements of the strategy?

The strategy aims to communicate the Council's zero tolerance to Fraud and Corruption and its commitment to the fight against Fraud and Corruption in the public sector. It requires that where Fraud or Corruption is found to occur, in any form, it will be dealt with rigorously in a consistent and controlled manner in accordance with the principles outlined.

## Who is governed by this document?

The Anti-Fraud and Corruption Strategy applies to all people resources including but not limited to employees, agency workers, consultants and contractors. It also covers Members, suppliers and those providing services under a contract with the Council in their own premises, for example, care homes and sheltered accommodation. Our strategy will also affect any resident or non resident of the Borough who seeks to defraud the Council or other public bodies.

# Anti-Fraud & Corruption Strategy

## What are Fraud & Corruption ?

There are numerous definitions to the term 'fraud' but the Audit Commission in their annual publication 'Protecting the Public Purse' state it to be ...."An intentional false representation, including failure to declare information or abuse of position, that is carried out to make gain, cause loss or expose another to the risk of loss."

Corruption is:

'The offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person.'

In addition, the Fraud Act 2006 introduces the offence of fraud as follows:

- Fraud by false representation (section 2)
- Fraud by failing to disclose information (section 3)
- Fraud by abuse of position (section 4)

And the Bribery Act 2010 has created new bribery offences:

- Bribery of another person (section 1)
- Accepting a bribe (section 2)
- Bribing a foreign official (section 6)
- Failing to prevent bribery (section 7)

Fraud & Corruption is an ever present threat to the resources available in the public sector. The current economic climate means that the likelihood of fraud is increased. The impact of fraud and corruption on the Council is on the honest residents and service users in the communities we serve.

In adopting this strategy the Council seeks to demonstrate clearly that it is firmly committed to dealing with fraud and corruption and will deal equally with perpetrators from inside and outside the Council.

This strategy document sets out the Council's arrangements to fight Fraud and Corruption and is aligned to the Local Government Strategy – Fighting Fraud Locally.

The Strategy is set out under three headings:

- **Acknowledge**
- **Prevent**
- **Pursue**



## Acknowledge

To implement robust arrangements in this area it is important to first acknowledge and then understand the risks faced by the organisation.

The Council has recognised these risks and has dedicated resources in place to support Management and the organisation in achieving their shared objectives.

A fraud risk assessment is in place and is regularly updated it is used to review the level of resources and the priorities of these resources. The fraud risk assessment is discussed with the Group Director Finance & Commerce at least quarterly and presented to Corporate Management Team at least annually.

The dedicated resources within the organisation review relevant publications and attend seminars to ensure they are aware of emerging and changing risks and participate in London wide groups that seek to increase collaboration and share best practice

## Prevent

Having acknowledged the risks the organisation faces action is continuously being taken to prevent and detect fraudulent or corrupt activity.

### **Roles and Responsibilities / Accountability**

Roles and responsibilities around fraud are clearly outlined within the Council's constitution and Financial Framework. Other documents such as the Employees Code of Conduct further communicate the expectations of the organisation.

The Group Director Finance & Commerce is responsible for ensuring an annual review is undertaken of the Anti-Fraud & Corruption Policy and Strategy and for advising the Audit Committee and Responsible Officers on its implementation.

As elected representatives, all members of the Council have a duty to citizens to protect the Council from all forms of abuse.

Elected members sign to confirm that they have read and understood the national code of conduct when they take office. These conduct and ethical matters are specifically brought to the attention of members during induction and include the declaration and registration of interests. The Chief Executive reminds Members annually of important points in relation to their role as a Councillor in relation to prevention and detection of fraud and corruption. The Assistant Chief Executive, Legal and Democratic Services advises members of new legislative or procedural requirements.

The monitoring of the Council's arrangements with regards fraud and corruption is delegated to the Audit Committee and the Internal Audit & Corporate Risk Manager has direct access to the Chief Executive, the s151 Officer and Members.

The Internal Audit Team support management in considering risks within their areas, including the risk of fraud, and ensuring that appropriate controls are applied to prevent and detect fraud.

Managers at all levels are responsible for the communication and implementation of this strategy in their work area. They are also responsible for ensuring that their employees are aware of the Council's policies, procedure rules, and that the requirements of each are being met in their everyday business activities. In addition, managers must make their employees aware of the requirements of the code of conduct through the induction process.

Managers are expected to strive to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities.

The Council recognises that a key preventative measure in dealing with fraud and corruption is for managers to take effective steps at the recruitment stage to establish, as far as possible, the honesty and integrity of potential employees, whether for permanent, temporary or casual posts.

Each employee is governed in their work by the Council's procedure rules, Financial Framework, Procurement and Contract Rules and other codes of conduct and policies. They are also governed by the code of conduct. Included in these are guidelines on gifts and hospitality and codes of conduct associated with professional and personal conduct and conflicts of interest. These are all available on the intranet and are highlighted to new starters, by their manager as part of their induction, when they join the Council.

Concerns must be raised when members or employees reasonably believe that one or more of the following has occurred, is in the process of occurring; or is likely to occur:

- A criminal offence;
- A failure to comply with a statutory or legal obligation;
- Improper unauthorised use of public or other funds;
- A miscarriage of justice;
- Maladministration, misconduct or malpractice;
- Endangering of an individual's health and safety;
- Damage to the environment; and/or
- Deliberate concealment of any of the above.

### **Policy and Procedure**

The Council has in place various other relevant policies regarding fraud and corruption:

- Prosecution & Sanctions Policy
- Disciplinary Policy
- Anti-Bribery Policy
- Whistleblowing Policy
- Declarations of Interest Policy
- Business Systems Policy

### **Culture of Zero Tolerance**

The culture of the Council has always been one of openness and the core values of accountability and probity support this. The Council's culture therefore supports its opposition to fraud and corruption.

The organisations culture is critical in the fight against fraud. This strategy communicates a strategic approach of zero tolerance to Fraud and Corruption.

## **Training and Awareness**

Based on the Fraud Risk Assessment an on-going programme of training and awareness has been devised. Annually there is an Anti-Fraud campaign to publicise our on-going fight against fraud and corruption and we seek to prevent fraud by offering fraud awareness training to staff and managers. There is currently an E learning on fraud and corruption available to Members and staff.

All members are invited to at least one briefing on Fraud and Corruption annually.

## **Publicity**

The Council actively seeks to publicise both internally and externally successes of its Anti-Fraud and Corruption Strategy in order to deter potential future fraudsters.

## **Detection**

The Internal Audit Team undertake a programme of systems and proactive fraud audits as part of the Annual Audit Plan, incidences of fraud and recommendations to improve the system of internal control are highlighted to management.

The Council participates in the National Fraud Initiative (NFI) which matches data from across public sector organisations to detect fraud. Although service areas are responsible for dealing with the results of the data match the process is overseen by the Corporate Fraud Manager. The results of the NFI are reported to Corporate Management Team. Other data matching exercises to look at specific areas of risk are also conducted most recently for Single Person Discounts and Housing Tenancy Fraud.

The use of technology is an essential tool for Internal Audit in detecting and identifying misuse and abuse of IT systems. Blue Coat is a web-based reporting tool that enables Internal Audit and Business Systems to run reports to investigate and identify Internet use of staff. A protocol is in place to ensure forensic examinations, either planned or random, are performed to a high level of confidentiality and securely. Users of the Councils IT network have to periodically confirm they have read agree to the Council's Business Systems Policy when logging in.

The Corporate Fraud Team works in partnership with other organisations such as Dept. of Works and Pensions, UK Border Agency and the Metropolitan Police.

The Council will continue to subscribe to the work with the National Anti Fraud Network (NAFN) to ensure access to all intelligence sources.

The Council has a Confidential Reporting or 'Whistleblowing Policy' to enable all individuals internal to the organisation or those working within organisations working in partnership or on our behalf the opportunity to report concerns. Annual campaigns are carried out to continuously focus staff awareness of the whistleblowing policy.

Independent external audit is an essential safeguard in the stewardship of public money. This role is delivered through the carrying out of specific reviews that are designed to test (amongst other things) the adequacy of the Council's financial systems, and arrangements for preventing and detecting fraud and corruption.

### Investigation

There are two specialist teams investigating fraud and corruption, both report to the Internal Audit & Corporate Risk Manager. The Investigations Team is responsible for the investigation of: welfare benefit fraud and social housing fraud, in accordance with the requirements of relevant legislation.

All other suspected irregularities are required to be reported (verbally or in writing) to the Internal Audit and Corporate Risk Manager.

Investigations undertaken by Internal Audit (Corporate Fraud Team), or other appropriate Officers, must comply with codes of practice and other regulated powers. All interviews and gathering of evidence must be conducted in accordance with the Police and Criminal Evidence Act 1984 and the Regulation of Investigatory Powers Act 2000.

This process will apply to all the following areas:

- Fraud/corruption by elected members acting in their official capacity
- Internal fraud/corruption by Council employees, Agency Workers, Temporary employees on fixed term contracts
- Fraud by contractors or consultants and their employees
- External fraud (the public)

All allegations of fraud will be investigated by the Corporate Fraud Team to ensure total independence and use of relevant expertise.

Depending on the nature of an allegation the Internal Audit and Corporate Risk Manager or the Corporate Fraud Manager, will normally work closely with the Director concerned and Human Resources to ensure that all allegations are thoroughly investigated and reported upon. The Council's disciplinary procedures will be used where necessary to facilitate a thorough investigation of any allegations of improper behaviour by employees.

When fraud or corruption has occurred because of a breakdown or weakness in the Council's systems or procedures, Managers will ensure that appropriate improvements in systems of control are implemented to prevent a reoccurrence.

### Prosecution

The Council has adopted a Prosecution & Sanctions Policy and the Council's general prosecution policy is included within the Fraud Manual. This ensures consistency, whilst recognising that it may not always be in the public interest to refer cases for criminal proceedings.

Any decision to prosecute or to refer a matter to the police will be taken, in accordance with the relevant policy, by the Internal Audit and Corporate Risk Manager and where appropriate following consultation with the Finance and Commerce Group Director and the Council's Monitoring Officer.

In appropriate cases formal cautions will be issued and in cases involving Benefit fraud where applicable an Administration Penalty will be issued.

## Disciplinary Action

Fraud and corruption are serious offences against the Council and employees will face disciplinary action if there is evidence that they have been involved in these activities. Disciplinary action will be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case, but in a consistent manner.

Members will face appropriate action under this strategy if they are found to have been involved in fraud or corruption against the Council. Action will be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case, but in a consistent manner. Such cases, if not referred to the police, will be referred to the Council's Monitoring Officer; Governance Committee or Group Leader, as appropriate.

## Conclusion

The Council sets and maintains high ethical standards and a culture of openness, with core values of accountability and transparency. This strategy fully supports the Council's desire to maintain an honest Council, free from fraud and corruption.

The Council has in place a network of rules, policies, systems and procedures to assist it in the fight against fraud and corruption. These arrangements will be subject to continuous review to ensure they continue to be fit for purpose and adapt as required as risks change.

In addition the Council will seek assurance from External and Internal Audit to ensure best practice is followed and sufficient resources are available to manage the Council's risk.

## Strategy Review

This strategy will be reviewed annually and presented for approval by the Audit Committee.

The next review will be completed in February 2014.

## Further Support, Tools and Guidance

The latest version of the Anti Fraud and Corruption Strategy and all of our documents can be obtained from either contacting the Corporate Fraud Manager – Chris Nower EXT. 2617, Internal Audit & Corporate Risk Manager – Vanessa Bateman EXT. 3733 or by visiting our intranet pages: <https://intranet.havering.gov.uk/index.aspx?articleid=11676>

If you have any comments or feedback to do with this document, we would like to hear from you, so please get in touch and email us at the following address:

[Vanessa.bateman@havering.gov.uk](mailto:Vanessa.bateman@havering.gov.uk)

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# AUDIT COMMITTEE

28 February 2013

**Subject Heading:**

Annual Review of Audit Committee Effectiveness

**Report Author and contact details:**

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

**Policy context:**

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

**Financial summary:**

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

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

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

**SUMMARY**

Best practice guidance suggests the effectiveness of the Audit Committee is considered on an annual basis. A self assessment against best practice guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) has been completed, with the assistance of the Chair of the Committee, and an improvement plan drawn up.

**RECOMMENDATIONS**

1. To note and comment on the contents of the report.

## REPORT DETAIL

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

As a result of the self assessment two areas were highlighted for improvement. These were included in an improvement plan.

The membership of the Committee is generally stable and current members are experienced. Each party has nominated substitute members for Audit Committee and the substitutes are offered the same opportunities for support and training. The programme of briefings on relevant topics have continued and are timetabled going forward.

The outcome of the self assessment is reported in Appendix A.

The improvement plan is reported in Appendix B.

## IMPLICATIONS AND RISKS

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

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

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

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

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

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

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

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

## BACKGROUND PAPERS

Audit Committee Handbook, HM Treasury, 2007

CIPFA Toolkit for Local Authority Audit Committees, 2006.



**Audit Committee Self Assessment**

**CIPFA TOOLKIT**

<b>ESTABLISHMENT, OPERATION AND DUTIES</b>					
<b>Role and remit</b>					
<b>Priority</b>	<b>Issue</b>	<b>Yes</b>	<b>No</b>	<b>N/a</b>	<b>Comments/action</b>
1	Does the audit committee have written terms of reference?	X			The terms of reference for each Committee is contained within the constitution.
1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	X			
1	Are the terms of reference approved by the council and reviewed periodically?	X			Constitution last reviewed January 2013
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	X			6 members, mix of experience. Quorum 3  Each party has identified substitute members. The constitution requires these identified substitutes members to attend relevant training to ensure they have appropriate skills and experience.
1	Can the audit committee access other committees and full council as necessary?	X			
2	Does the audit committee periodically assess its own effectiveness?	X			Annually.

2	Does the audit committee make a formal annual report on its work and performance during the year to full council?	X			
<b>Membership, induction and training</b>					
1	Has the membership of the audit committee been formally agreed and a quorum set?	X			Quorum 3
1	Is the chair independent of the executive function?	X			
1	Has the audit committee chair either previous knowledge of, or received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	X			Committee members have a four year term. A skills analysis is completed and a rolling programme of training devised and reviewed annually.
1	Are new audit committee members provided with an appropriate induction?	X			
1	Have all members' skills and experiences been assessed and training given for identified gaps?		X		Skills assessment completed for all members. To be extended to substitute members – ACTION.
1	Has each member declared his or her business	X			

	interests?				
2	Are members sufficiently independent of the other key committees of the council?	X			
<b>Meetings</b>					
1	Does the audit committee meet regularly?	X			5-6 per year
1	Do the terms of reference set out the frequency of meetings?		X		Agreed at beginning of the year by officers and committee based on need.
1	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	X			
1	Are members attending meetings on a regular basis and if not, is appropriate action taken?	X			
1	Are meetings free and open without political influences being displayed?	X			
1	Does the authority's S151 officer or deputy attend all meetings?	X			
1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	X			

**INTERNAL CONTROL**

1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review of the effectiveness of the system of internal audit?	X			
1	Does the audit committee have responsibility for review and approval of the AGS and does it consider it separately from the accounts?	X			
1	Does the audit committee consider how meaningful the AGS is?	X			
1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	X			
1	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	X			Members sit on other committees that also have overlapping responsibility for risk.

1	Has the audit committee (with delegated responsibility) or the full council adopted “Managing the Risk of Fraud – Actions to Counter Fraud and Corruption?”	X			The Council’s fraud strategy is annually reviewed by Committee following the annual review of arrangements. The Committee has received three fraud briefings in the last 12 months.
1	Does the audit committee ensure that the “Actions to Counter Fraud and Corruption” are being implemented?	X			
2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	X			
2	Does the audit committee review the authority’s strategic risk register at least annually?	X			
2	Does the audit committee monitor how the authority assesses its risk?	X			Head of Audit reports on this and an annual review of risk management is completed and reported to Committee.
2	Do the audit committee’s terms of reference include oversight of the risk management process?	X			

**FINANCIAL REPORTING AND REGULATORY MATTERS**

1	Is the audit committee's role in the consideration and/or approval of the annual accounts clearly defined?	X			
1	Does the audit committee consider specifically: <ul style="list-style-type: none"><li>• the suitability of accounting policies and treatments</li><li>• major judgements</li><li>• changes in accounting treatment</li><li>• the reasonableness of accounting estimates made</li><li>• large write-offs</li></ul>	X			
1	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	X			
1	Does the audit committee review management's letter of representation?	X			
1	Does the audit committee annually review the accounting policies of the authority?	X			

1	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	X			
1	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?		X		Regular training/briefings.  The committee may benefit from relevant circulars being shared - ACTION
<b>INTERNAL AUDIT</b>					
1	Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	X			
1	Does internal audit have an appropriate reporting line to the audit committee?	X			
1	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?	X			

1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	X			
1	Does the audit committee hold periodic private discussions with the Head of Internal Audit?	X			Internal Audit & Corporate Risk Manager meets periodically with the Chair which is adequate.
1	Is there appropriate cooperation between the internal and external auditors?	X			
1	Does the audit committee review the adequacy of internal audit staffing and other resources?	X			Data is provided within progress reports.
1	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal audit in Local Government in the United Kingdom?	X			Peer reviews have been completed in the past. New standards come into force in April 2013 and compliance with these will need to be reported to Committee.
2	Are internal audit performance measures monitored by the audit committee?	X			
2	Has the audit committee considered the information it wishes to receive from internal audit?	X			



**EXTERNAL AUDIT**

1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognizing the statutory duties of external audit)?	X			
1	Does the audit committee hold periodic private discussions with the external auditor?	X			
1	Does the audit committee review the external auditor's annual report to those charged with governance?	X			
1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	X			
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit and inspection letter?	X			
1	Does the audit committee assess the performance of external audit?	X			
1	Does the audit committee consider and approve the external audit fee?	X			

<b>ADMINISTRATION</b>					
<b>Agenda management</b>					
1	Does the audit committee have a designated secretary from Committee/Member Services?	X			
1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	X			
2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	X			
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?	X			
<b>Papers</b>					
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	X			
2	Does the audit committee issue guidelines and/or a pro forma concerning the format and content of the papers to be presented?	X			There is a corporate standard and all reports are cleared before publication.

Actions arising					
1	Are minutes prepared and circulated promptly to the appropriate people?	X			
1	Is a report on matters arising made and minuted at the audit committee's next meeting?	X			Not separate report, dealt with in the minutes.
1	Do action points indicate who is to perform what and by when?	X			

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## Appendix 2

### Audit Committee effectiveness improvement plan 2013

Issue	Compliance			Action
	Yes	Partial	No	
<b>Membership, induction and training</b>				
Have all members' skills and experiences been assessed and training given for identified gaps?		<b>x</b>		Internal Audit & Corporate Risk Manager to extend the skills analysis information held to cover all substitute members of the committee – March 2013.
<b>FINANCIAL REPORTING AND REGULATORY MATTERS</b>				
Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?		<b>x</b>		Internal Audit & Corporate Risk Manager to provide relevant circulars to audit committee members and substitutes in between meetings and planned briefings – On-going.

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