



Haverling

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

AUDIT COMMITTEE AGENDA

7.30 pm	Tuesday 2 December 2014	Town Hall, Main Road, Romford
----------------	------------------------------------	--

Members 6: Quorum 3

COUNCILLORS:

Conservative (2)	Residents' (1)	East Haverling Residents' (1)	UKIP (1)	Independent Residents' (1)
Frederick Thompson (Chairman) Viddy Persaud	Julie Wilkes	Clarence Barrett	Philip Hyde	Graham Williamson

A Vice Chairman is to be appointed at Council on 26 November 2014.

**For information about the meeting please contact:
James Goodwin 01708 432432
james.goodwin@OneSource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

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 - 4)

To approve as correct the minutes of the meeting held on 25 September 2014 and authorise the Chairman to sign them.

5 ANNUAL AUDIT LETTER (Pages 5 - 18)

To receive the attached report.

6 CLOSURE OF ACCOUNTS TIMETABLE 2014/15 (Pages 19 - 24)

To receive the attached report.

7 INTERNAL AUDIT PROGRESS REPORT - 30TH JUNE 2014 TO 28TH SEPTEMBER 2014 (Pages 25 - 60)

To receive the report.

8 GOVERNANCE UPDATE (Pages 61 - 70)

To receive the attached report

9 FRAUD PROGRESS REPORT - 1ST JULY TO 30TH SEPTEMBER 2014

To receive the attached report.

10 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.

11 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.

12 TREASURY MANAGEMENT UPDATE QUARTER 2

**Andrew Beesley
Committee Administration
Manager**

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 3A - Town Hall
25 September 2014 (7.30 - 8.10 pm)**

Present:

COUNCILLORS:

Conservative Frederick Thompson (in the Chair) and Viddy Persaud

Residents' Ray Morgon (Vice-Chair) and Julie Wilkes

Independent Residents Graham Williamson

Apologies were received for the absence of Councillor Philip Hyde.

The Chairman reminded Members of the action to be taken in an emergency.

12 MINUTES OF THE MEETING

The minutes of the meeting held on 25 June 2014 were agreed as a correct record and signed by the Chairman.

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

The Council's external auditors PricewaterhouseCoopers (PWC) had submitted their draft report summarising their findings. Officers had included their responses in the report.

Since the audit plan had been prepared PWC had made the following changes to their risk assessment:

- A significant risk had been noted for the financial resilience of the authority as part of their consideration of the Value for Money criteria after considering the Authority's medium term financial strategy, which identified a significant budget gap due to cost pressures and funding reductions;
- They had added a new risk in relation to OneSource, the joint committee between the Council and the London Borough of Newham.

PWC had identified a number of issues which they were obliged to raise with the Authority. These had included an issue with 'Property, Plant and Equipment'. According to IAS 16 expenditure should be capitalised if it was for the purchase of tangible fixed assets or enhanced the economic benefits of the asset in excess of its previously assessed standard of performance. In testing they had found several instances in which capital expenditure for Council's schools and highway maintenance service had been incorrectly expensed. PWC had recommended that management should review the controls around capitalisation of expenditure and ensure that clear instructions were provided to schools and other business units outside finance.

In response management had made the following comments:

'Under Shared Service arrangements, Cost Centre Managers were responsible for ensuring their expenditure was correctly classified. As this capital expenditure would have been financed by revenue contributions, there was no impact on revenue outturn from these errors, but the accounting treatment was incorrect.

Corporate Finance, in conjunction with Operational Finance, would consider training needs and review communication with Services to ensure clear guidance on closure of accounts was disseminated to Cost Centre Managers.

Education Finance would monitor schools building maintenance costs to ensure costs were capitalised as appropriate.'

Having considered the report from PWC and the response of management the Committee have **noted** the contents and the wording of the letter of representation.

The Committee confirmed that their view of fraud risk had not changed nor where there any additional matters which they needed to raise with PWC.

14 **ANNUAL STATEMENT OF ACCOUNTS 2013/2014**

The Committee were advised that the Council's Statement of Accounts was required to be published after the conclusion of the external audit of accounts: no later than 30 September 2014. Our auditors, PricewaterhouseCoopers had completed their audit and had issued an unqualified opinion.

The Committee **approved** the Statement of Accounts, without amendment.

15 **FRAUD PROGRESS REPORT**

Officers had submitted the Fraud Progress report for the period 1 April to 30 June 2014.

The Committee were advised that an approach had been made to the Department of Works and Pensions, on behalf of both the London Boroughs of Newham and Havering to defer the transfer date of officers primarily working on Housing Benefit Fraud work until 31 March 2015. This would enable the oneSource Service Review and restructure to be completed before the transfer.

The Service Review Team had completed the 'As Is' stage of the review. This meant the current arrangements in both Havering and Newham, for Fraud, Audit, Insurance and Risk Services, had been captured and extensive analysis completed. The outcome of this stage would be reported to management and used as a basis for the 'To Be' phase of the process which looked at the future needs of both organisations. It was still anticipated that this phase would conclude in October at which point options for a new structure would have been designed and costed, and presented to management for consideration. Once approved the LB Havering's change management procedures would commence. It was envisaged that the implementation of changes following this review would lead to the delivery of savings which contributed towards the achievement of oneSource business case.

Work on Reactive Fraud cases had continued with 13 fresh referrals being received during quarter 1. In 3 cases fraud was not proven but 4 were successful.

This left the team with 19 active cases. The result of the successful cases concluded in quarter 1 showed savings of £51,120, with losses of £24,170.

At the start of Quarter 1 the team had 396 Housing Benefit (HB) and Council Tax (CTS) cases under investigation and 56 Housing Tenancy (HT) cases. An additional 98 cases were referred during the period and 35 were rejected. In 70 cases fraud was not proven with 41 cases being successfully concluded. At the end of the period the caseload stood at 344 HB & CTS and 60 HT.

5 of the Housing Benefit and Council Tax cases had been successfully prosecuted and the three successfully concluded housing investigations had resulted in 2 tenancies being voluntarily relinquished and 1 property recovered via court action.

The Committee **asked** for details of the costs associated with the work of the Fraud teams.

The Committee **noted** the report.

16 **EXCLUSION OF THE PUBLIC**

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.

17 **ANNUAL TREASURY MANAGEMENT REPORT 2013/14**

CIPFA'S Code of Practice on Treasury Management required authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity.

The Committee **approved** the final 2013/14 prudential and treasury indicators in the report; and

Recommended the annual treasury management report for 2013/14 to full council.

18 **TREASURY MANAGEMENT UPDATE - QUARTER 1, 2014/15**

The Committee have received an update on the position of Treasury Management for the first quarter 2014/15. The Committee have noted that the Council still have ample cash flow available but that this position would change towards the end of the financial year.

The Committee have **noted** the report.

Chairman

AUDIT COMMITTEE

2 December 2014

REPORT

Subject Heading:

Annual Audit Letter

Report Author and contact details:

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

Policy context:

Financial summary:

N/A

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

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

SUMMARY

Our external auditors PricewaterhouseCoopers will present their annual audit letter to the committee summarising the results of their 2013/14 audit.

RECOMMENDATIONS

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

REPORT DETAIL

The purpose of the letter is to provide a high level summary of the results of the 2013/14 audit. The letter is included at appendix A.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. There are no financial consequences arising from the outcome of the audit of accounts. The issues raised in the letter are consistent with the matters raised in their earlier "Report to those charged with Governance" (ISA260) and have been addressed as part of 2013/14 closure planning.

Legal Implications and risks:

There are no apparent legal implications in noting the content of the audit letter. The matters highlighted by the letter clearly identify areas of legal and financial risk but the management responses set out how these can be managed.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

London Borough of Havering

Annual Audit Letter

2013/14

Government and
Public Sector
Page 7
October 2014

Contents

<i>Introduction</i>	<i>1</i>
<i>Audit Findings</i>	<i>3</i>
<i>Other matters reported to those charged with governance</i>	<i>5</i>
<i>Final Fees</i>	<i>8</i>

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

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

Introduction

The purpose of this letter

This letter summarises the results of our 2013/14 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Annual Certification Report for 2012/13 grant claims.
- Audit opinion for the 2013/14 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources.
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are the most significant for the Authority.

Scope of Work

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

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the London Borough of Havering Pension Fund.

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in February 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

We met our responsibilities as follows:

Audit Responsibility	Results	Audit Responsibility	Results
<i>Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</i>	We issued an unqualified opinion.	<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	We did not identify any matters where we needed to take action in relation to our responsibilities under the Audit Commission Act.
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i>	We issued an unqualified assurance statement.	<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	We will issue our completion certificate after we have issued our opinion on the Pension Fund Annual Report.
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	We issued an unqualified conclusion.	<i>Issue a report noting whether or not the pension fund financial statements in the pension fund annual report and accounts are consistent with those in the authority's statement of accounts.</i>	We will issue an opinion on the Pension Fund Annual Report after we have completed our assurance procedures on it.
<i>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	We did not identify any matters to bring to the attention of those charged with governance.		
<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	We did not issue any reports in the public interest.		

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2014.

We noted the following significant issues arising from our audit within our report to those charged with governance (ISA (UK&I) 260):

- Capital expenditure incorrectly recognised as revenue expenditure.
- Incorrect accruals of income and expenditure.

These matters were reported in detail in our report to those charged with governance, presented to the Audit Committee on 25 September 2014 and are summarised on pages 5 and 6 below.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Authority had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 30 September 2014. We found no areas of concern to report in this context.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2012/13 to those charged with governance in February 2014. We certified 4 claims worth £188.3 million. In 2 case(s) a qualification letter was required to set out the issues arising from the certification of the claim. These details were also set out in our Annual Certification Report for 2012/13. We will issue the Annual Certification Report for 2013/14 in the first quarter of 2015.

Other matters reported to those charged with governance

These are the matters we consider to be **most significant** for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been brought to the attention of the Director of Finance.

As part of our audit work in 2014/15, we will follow up all recommendations we have made and report the status of these in future reports.

Recommendation

Payroll reconciliation

The payroll reconciliation was not completed for the year end on a timely basis. We understand from the payroll team that payroll reconciliations have been produced throughout the year, but with issues needing to be resolved.

This matter was raised in our 2012/13 Annual Audit Letter and was not fully addressed.

We recommend the payroll reconciliation is performed monthly.

During the 2013/14 audit, the reconciliations provided at the start of the audit were not reconciled. The reconciliations were then revised and provided with trivial reconciling items.

We expect the payroll reconciliation to be provided at the start of the audit next year.

Accruals of income and expenditure

We have identified various instances from different testing (including income and expenditure cut-off testing, recorded liabilities, and accruals testing) in which accruals were either not raised or raised incorrectly.

We recommend that management should review the controls around the accruals of income and expenditure to ensure that income and expenditure is recorded in the correct period.

Management Response

A monthly reconciliation format has been agreed with the auditors and is in place for monthly payroll reconciliations to ensure the reconciliation is available at the start of the audit for 2014/15.

Under Shared Service arrangements, accruals are identified and raised by the Service concerned. Corporate Finance, in conjunction with Operational Finance, will consider training needs and review communication with Services to ensure clear guidance on closure of accounts is disseminated to Cost Centre Managers.

Recommendation

Capital expenditure

In testing operating expenditure, we found several instances in which capital expenditure for Council's schools and highway maintenance service was incorrectly expensed.

We recommend that management should review the controls around the capitalisation of expenditure and ensure that clear instructions are provided to schools and other business units outside finance.

Bank reconciliations

We recommend that monthly bank reconciliations should be performed and reviewed in line with the policy for each of the bank accounts.

There should be clear evidence of review, for example, electronic signature and date of review. The review should make sure that the list of reconciling items is complete and valid.

Bank reconciliations should be prepared based on the statement as at 31/03/14. The reviewer checklist should include checking the date of the bank statement.

Pension contributions paid into Council's main bank account

We found that in three instances, the contributions have been paid into the Council's main bank account and not the special-purposed bank account set up for separating contributions payments from other Council payments as per the LGPS laws and regulations.

We recommend that Pension Fund Management ensure these contribution payments, especially the contribution from admitted or scheduled bodies, are made into the separate Pension Fund bank account.

Pension benefit payment

We have identified two occasions where payroll processed payments for people who had already terminated their employment with the Council.

We recommend that management should process the paperwork relating to the terminated employee in a timely manner to ensure no payment is made to leavers after their termination date.

Management Response

Under Shared Service arrangements, Cost Centre Managers are responsible for ensuring their expenditure is correctly classified. As this capital expenditure would have been financed by revenue contributions, there was no impact on revenue outturn from these errors, but the accounting treatment was incorrect.

Corporate Finance, in conjunction with Operational Finance, will consider training needs and review communication with Services to ensure clear guidance on closure of accounts is disseminated to Cost Centre Managers.

Education Finance will monitor schools building maintenance costs to ensure costs are capitalised as appropriate.

The incorrect reconciliation files were initially provided to the auditors, and this was corrected when identified. The Number 1 account had a balance of £29k relating to un-presented cheques. A new form is being introduced to improve control of reconciliations on a daily basis, included un-presented cheques.

Reconciliations are reviewed by the relevant senior officer and a date of review inserted into the file to show the date approved or reviewed.

Housing & General Account reconciliations will be reviewed to identify whether it is practical to have separate reconciliations for these two areas.

Bank Account reconciliations identify when contributions are paid into the wrong bank account. Schedules of expected contributions identify late payment, and a Charging Policy is to be taken to the Pensions Committee to allow the Pension Administration team to impose charges on scheme employers for failing to comply with administrative requirements.

The Transactional services Manager is investigating the issues giving rise to the auditor's recommendation and will implement any necessary change in procedures in liaison with them.

Recommendation

Issues with admission agreements

We have identified that the Pension Fund Manager did not have bond values for 6 out of 9 admitted bodies. Bonds have only been valued for admitted bodies as at admission and these are assessed every three years.

- 1 We recommend that a formal protocol is established for admission of admitted bodies, including monitoring and the pensions accounting team being given a full schedule of admission agreements so that the accounts can be kept up to date in this respect.*
- 2 We recommend that management have more frequent revaluations of bonds. Although the regulations do not stipulate how frequently this is needed, it would be reasonable to do this at least annually.*

Lack of pensions specific risk register

We recommend the Pensions Committee consider drawing up a pensions specific risk register.

Management Response

A TUPE manual and Admission Policy is currently being consulted upon and will be presented to the Pension Committee before March 2015. CMT have been briefed on the issues with Admission Agreements to disseminate clear responsibilities to their directorate service managers. Regular meetings are held with Legal Services to monitor progress on finalising Bond and Admission Agreements. Regular briefings are provided to external scheme employers, such as Academies, to remind them of their duties regarding Admission and Bond terms for contractors to be admitted to the Pension Fund. Where there is failure to comply it is reported to members of the Pension Panel.

The TUPE manual and Admission Policy will set out the timescales for reviewing bonds, with annual bond review put in place for the latter years of a contract that is coming to the end of the contract period. Who meets the costs for the bond revaluations has been addressed in the Charging Policy, which is being presented to the Pension Committee in September 2014.

Risks and how they are controlled are already covered in the appropriate individual statutory policies. Officers are currently compiling a register to pull together all the identified pension risks for members to consider later in the year.

Final Fees

Final Fees for 2013/14

We reported our fee proposals in our audit plan.

We reported in our report to those charged with governance, issued to the Audit Committee on 25 September 2014, a number of factors causing variances to our proposed fees.

These were:

- Overruns incurred during the final audit (£8,063).
- Additional targeted work undertaken in respect of oneSource to inform our value for money conclusion (£6,666).
- Changes in the Audit Commission certification regime, which required us to obtain audit comfort over Council Tax Support awarded and Business Rates income in the statement of accounts from additional audit procedures over these items, rather than by relying on certification work undertaken over the respective grant claims (£1,300 for Business Rates, Council Tax Support figure to be determined).
- Additional audit work in relation to the additional risk in relation to pooled investment vehicles and the Pension Fund Annual Report (£3,645).

(i) We are currently in the process of agreeing the fees described above, that are in addition to the scale element, with the Audit Commission, and will report the final position in due course.

(ii) Our fee for certification of claims and returns is yet to be finalised for 2013/14 and will be reported to those charged with governance at a later date within the 2013/14 Annual Certification Report.

London Borough of Havering

Our fees charged to date, which are subject to change following approval of additional fees by the Audit Commission, are therefore:

	2013/14 charged to date	2013/14 fee proposal	2012/13 final outturn
Audit work performed under the Code of Audit Practice	220,859 (i)	220,859	222,359
<ul style="list-style-type: none"> • Statement of Accounts • Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources • Whole of Government Accounts 			
Certification of Claims and Returns	22,565 (ii)	22,565	41,390
Non Audit Work	0	0	25,000
TOTAL	243,424	243,424	288,749



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

This document has been prepared only for the London Borough of Havering and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2014 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

This page is intentionally left blank

AUDIT COMMITTEE

REPORT

2 December 2014

Subject Heading:	Closure of Accounts Timetable 2014/15
	Contact: Mike Board Designation: Corporate Finance & Strategy Manager Telephone: (01708) 432217 E-mail address: mike.board@oneSource.co.uk
Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2014/15
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	[x]

SUMMARY

This report advises the Audit Committee of the progress to date in preparing for the closure of Accounts 2014/15.

RECOMMENDATIONS

The Committee is asked to note the report and the actions taken to date to prepare for the 2014/15 closure of accounts.

REPORT DETAIL

1. Background

The Council successfully closed its accounts and prepared its Financial Statements for 2013/14.

There are a number of technical changes required under The Code of Practice and for local reasons in 2014/15. The priority for the closure programme is to ensure that all key activities have been captured in the timetable and roles and responsibilities identified and understood.

2. Key Issues

The key issues to be addressed during the 2014/15 closedown are as follows:

2.1. Voluntary Aided and Foundation Schools

In October 2012, the Chartered Institute of Finance and Accountancy (CIPFA) published a Financial Reporting Advisory Board Paper on the Exposure Draft of the Updated Code of Practice on Local Authority Accounting 2011/12 and the 2012/13 Code. This recommended that Foundation and voluntary aided schools should not normally be recognised on the balance sheets of local authorities as their assets are not usually deemed as being owned by the authority. Arising from this, and on the direction of the Council's auditors PricewaterhouseCoopers, the Council removed these schools from its balance sheet.

However, following adoption of IFRS 10 Consolidation of Financial Statements, CIPFA is now of the view that "*the single entity financial statements are also defined as including the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools in England and Wales within the control of the local authority*". Local authority maintained schools are defined as community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools; accordingly, voluntary aided and Foundation schools will need to be brought back on to the Council's balance sheet for 2014/15.

We are considering with the auditors the presentation of prior year figures with the auditors, and liaising with the valuers over current values of the assets involved.

2.2. Infrastructure Assets

Infrastructure assets include roads, highways, bridges and street furniture. These assets are currently recorded on the Balance Sheet on a Depreciated Historic Cost (DHC) basis. The Whole of Government Accounts guidance has included a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis since 2012/13. 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.

Recognition of infrastructure within the Council's accounts has now been deferred to 2016/17. But it will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 1 *Presentation of Financial Statements* as adopted by The Code.

We are therefore establishing information collection arrangements to apply full retrospective restatement resulting from the measurement of transport infrastructure to enable us to establish opening balances of the assets for 1 April 2015 and comparative information on transactions in the preceding year, i.e. 2015/16.

The Council will also need to disclose in the 2015/16 financial statements

- i) narrative explaining that transport infrastructure assets are to be recognised as a separate class of property, plant and equipment and measured at depreciated replacement cost for the first time in the 2016/17 financial statements
- ii) the carrying amount of assets expected to be reclassified as transport infrastructure assets, i.e. the original 1 April 2015 measurement at depreciated historical cost
- iii) the expected amount of any revaluation gains and losses to be recognised on reclassification and re-measurement, and
- iv) the expected change in depreciation, impairment, revaluation gains and losses, gains and losses for disposals or decommissioned assets to be recognised (or derecognised) in 2015/16 comparatives in the 2016/17 financial statements.

2.3. One Oracle

Havering implemented the One Oracle self-service package from August 2014 in conjunction with five other London authorities. The new coding structure has been incorporated into updated working papers for preparing the accounts, and work is ongoing in resolving other balance sheet issues from mapping from the previous Havering system.

There will also be implications on the audit in that the auditors will need to verify the balance sheet has been mapped correctly and will need to select their transactions for sample testing from two systems.

2.4 oneSource

The Council entered a joint arrangement with Newham from April 2014 for the provision of back office services. Development of this is ongoing, but there will be additional disclosures required in the notes to the accounts and the recharging process between the two Councils needs to be included in the closedown timetable.

However, oneSource poses risks to closedown in that key staff are supporting Newham in implementing One Oracle. Additionally, the implementation of new structures in oneSource services means that closedown duties of individual staff may be changing.

The implications of this are that

- i) critical parts of the accounts may not be completed in accordance with the timetable, with consequential impact on subsequent deadlines;
- ii) there is a potential need for additional audit work, and an increased risk of adverse audit findings in the auditors' ISA260 report.

3. Progress to Date

The finalised year end closure of accounts timetable will be issued shortly and monitored. Regular meetings have been scheduled until June 2015. The timetable will be aligned with Newham's timetable where possible, but scope for harmonisation of procedures is limited until Newham adopt One Oracle from 2015/16.

The guidance notes are being consulted upon and will be issued in early January 2015.

The closedown planning process began in earnest in November 2014. The process will be monitored routinely by Corporate Finance. Regular reports will be made to both Corporate Management Team and Audit Committee.

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

4.1 Bank A/c

All five bank accounts were reconciled by the due date, but the wrong documentation was initially supplied to the auditors. These accounts are reconciled on a daily basis and have a monthly summary/reconciliation at the end of each month and at the end of year. Receipts are cleared on a daily basis, and any items not allocated at the end of each day are dealt with as information comes to light to enable them to be identified.

There was a balance of £29k on the Number 1 account due to some un-presented cheques not being reconciled at the start of the audit due to a reporting issue/error. However, the account had been reconciled on a daily and summarised on a monthly basis throughout the year. This was resolved and cleared with the auditors.

During the last quarter of 2013/14 and the first quarter of 2014/15, staffing secondments and the parallel introduction on One Oracle contributed to temporary under resourcing in the Team, although it continued to fully cover the bank reconciliation workload.

4.2 Payroll Rec

The payroll reconciliation was handed over to Payroll during 2013/14, but support was required at the year end from the Systems Team. This function is now undertaken by Payroll, who are completing it on a monthly basis.

4.3 Accruals

4.4 Revenue Financing for Capital

In the 2013/14 accounts, the auditors identified errors in accruals that should or should not have been raised. Similarly, the auditors identified two instances of expenditure being charged to revenue that should have been capitalised. The latter had no impact on the revenue bottom line as this expenditure would have been funded as a revenue contribution to capital, but the accounting treatment was wrong.

The amounts from these issues were not material to the Statement of Accounts, but for 2014/15 Corporate Finance will be liaising with Operational Finance to ensure cost centre managers are aware of the accounting requirements relating to the raising of accruals and to capital expenditure.

IMPLICATIONS AND RISKS

5. Financial Implications and risks:

5.1 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 schools and 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).

5.2 The new coding structure for One Oracle will impact on the carrying out of reconciliations at the year end. This could impact on the closedown timetable and will be subject to additional scrutiny by the auditors.

There is a planned downtime of the four days of the Easter weekend plus two additional days due to Newham on-boarding on to One Oracle in April 2015. This will have minimal impact, but any overruns will impact on the closedown timetable.

5.3 Secondments arising from oneSource and Newham's implementation of One Oracle, and the embedding of new structures from the staffing reviews, could again impact on the closedown timetable.

6. 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 2014/15 (based upon International Financial Reporting Standards) which sets out the proper practices applicable with effect from 1st April 2014.

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

7. Human Resources Implications and risks:

None arising directly.

8. Equalities and Social Inclusion Implications and risks:

None arising directly



AUDIT COMMITTEE

2 December 2014

Subject Heading:	Internal Audit Progress Report 30 th June 2014 to 28 th September 2014
Report Author and contact details:	Vanessa Bateman, Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of progress to deliver the approved audit plan in quarter two of 2014/15.
Financial summary:	N/a

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

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

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 30th June 2014 to 28th September 2014.

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 five sections.

Section 1 Background and Resources

Some information about resources is included for information.

Section 2 Audit Work 30th June 2014 to 28th September 2014

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

Section 3 Key Performance Indicators

The actual performance against target for key indicators is included.

Section 4 Changes to the Approved Audit Plan

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

Section 5 Outstanding Audit Recommendations

The details regarding status of all outstanding recommendations are included within tables for information.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

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, any implications or risks of the planned restructure of the service will be picked up under the change management procedures and identified within the restructure report.

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

Appendix A: Risk Based Systems Audit Management Summaries

Section 1: Background and Resources

- 1.1 Excluding the Internal Audit & Corporate Risk Manager the established structure for the team delivering this work is five full time equivalent posts. The structure of the team is used to determine the number of days in the audit plan. Currently the team has one vacancy as an auditor has been seconded to undertake fraud work. A second member of the team, in post for the period to which this report relates, commenced maternity leave in October 2014.
- 1.2 The team undertake, risk based systems audits, review grant claims, provide consultancy advice for new and developing systems, provide assurance with regards compliance with policy and procedure, undertake school probity audits and for 2014/15 they are also undertaking financial health checks on schools on behalf of the Head of Learning and Achievement. The schools work generates an income for the team.
- 1.3 Vacancies within the team are being held as the audit service is currently undergoing an oneSource service review. At the end of September a shortfall of 100 days was estimated to deliver the 2014/15 plan. Due to the restructure there are no plans to address this with agency workers, the shortfall will be closely monitored and other options to reduce the shortfall will be considered and implemented.
- 1.4 At the end of September the service review was still underway. It is hoped that a restructure forming a shared audit service will be launched in November 2014 and fully implemented by March 2015.
- 1.5 The table below shows the budgetary information for the systems audit resources within Internal Audit (including 1/3 of Internal Audit & Corporate Risk Manager).

REVENUE BUDGET FOR 2014/15	
Expenditure	
Salaries	£221,676
Other Costs (incl. recharges)	£44,985
Income	(£40,000)
Net cost of team	£226,661

- 1.6 The forecast outturn for 2014/15 is currently within the allocated budget.

Section 2: Audit Work 30th June 2014 to 28th September 2014.

- 2.1 At the end of September 12 assignments had been completed and eight were in progress but had not reached final report stage.
- 2.2 Work was also undertaken to review Public Health expenditure in order to give the chief executive an assurance for the sign off of the Public Health Grant for 2013/2014.

- 2.3 At the request of the Strategic Procurement Business Partner work was undertaken with regards to the NEPRO Consultants Framework implementation. 'NEPRO' is a 'neutral vendor service' set up by the North East Procurement Organisation designed for Local Government which sources and manages all ranges of suppliers aligned to the provision of interim, specialist professional and consultancy services.
- 2.4 The table below details the final reports issued in quarter two. Details are listed in the table and management summaries for the 12 system reports are included under Appendix A: Risk Based Systems Audit Report Summaries. There are no schools audit summaries included in this quarters report.

Report	Assurance	Recommendations				Ref
		High	Med	Low	Total	
Systems Audit						
Pre-Paid Cards	Substantial	0	3	0	3	A (1)
Youth Services	Substantial	0	3	1	4	A (2)
Accounts Payable (Pre One Oracle Implementation)	Substantial	0	1	0	1	A (3)
Accounts Receivable (Pre One Oracle Implementation)	Substantial	0	1	0	1	A (4)
Payroll (Pre One Oracle Implementation)	Substantial	0	0	0	0	A (5)
BACS	Limited	1	2	0	3	A (6)
Gas Safety Regulations – Building Services	Substantial	1	4	3	8	A (7)
Gas Safety Regulations – Home Ownership	Limited	3	2	0	5	A (8)
Information Governance Follow Up	Substantial	0	0	0	0	A (9)
Tenancy Management Follow Up	Substantial	0	1	0	1	A (10)
LAC Placements Follow Up	Substantial	0	1	0	1	A (11)
Emergency Assistance Scheme Follow Up	Full	0	0	0	0	A (12)

- 2.7 Work nearing completion at the end of September includes:
- Risk Based Systems Audits: Main Accounting; Housing Capital; Housing Allocations; Housing Contracts & Procurement; Housing Rents; Tenancy Management Organisations; & Long Term Sickness.
 - School Audits: Parklands Junior.

Section 3: Key Performance Indicators

3.1 The table below details the profiled targets and the performance to date at the end of September 2014. The total planned number of audits, where there will be a standard approach to deliverables, for 2014/15 is 55.

Performance Indicator	Quarter 2 Target	Quarter 2 Actual
Percentage of Audit Plan Delivered	45	48
Number of Briefs Issued	35	32
Number of Draft Reports Issued	25	24
Number of Final Reports Issued	24	21

3.2 Although the number of reports is currently below target, there are several reviews at the last stage of fieldwork, and the fieldwork on several of the quarter 3 reviews has already commenced.

Section 4: Changes to the Approved 2014/15 Audit Plan

3.1 In June 2014 the Audit Committee approved a revised Annual Audit Plan for the 2014/15 financial year totalling 844 days.

3.2 The table below provides a summary of the audits removed from and added to the 2014/15 approved audit plan and the reason for the change. For some audits the budget is not required or is exceeded, this is closely monitored for performance monitoring purposes.

3.3 The impact on the total days in the plan has been managed by adjusting other budgets for the year. The totalled planned days remain at 844.

Audit Title	Orig. Days	Rev. Days	Directorate	Reason
NEPRO	0	2.50	Corporate	Added to 2014/2015 Audit Plan.
Public Protection	20	12	Culture, Community & Economic Dev.	Scope of work reduced following HoS meeting.
Payments to Contractors (Road & Pavement Defects)	0	15	Culture, Community & Economic Dev.	Added to 2014/2015 Audit Plan.
Public Health: Contracts & Procurement	20	0	Culture, Community & Economic Dev.	Audit cancelled due to Senior Procurement Advisor involvement with Public Health
VAT & CIS	15	10	Resources	Scope of work reduced to CIS at this stage.

Audit Title	Orig. Days	Rev. Days	Directorate	Reason
i-Procurement	0	15	Resources	Added to 2014/2015 Audit Plan.
Special Purpose Company To Deliver Housing	20	0	Children, Adults & Housing	Audit cancelled as Business Case not yet completed.
Out of Area Placements	15	0	Children, Adults & Housing	Audit cancelled as assurances obtained from external review.
Public Health Grant	0	3	Children, Adults & Housing	End of Year sign off required for CE.
Parklands Junior School	4	11.5	Children, Adults & Housing	Additional work identified during audit.
Information Governance - FOI Follow Up	5	2.5	Resources	Follow Up completed under budget.
Tenancy Management Follow Up	5	4	Children, Adults & Housing	Follow Up completed under budget.
LAC Placements Follow Op	5	3	Children, Adults & Housing	Follow Up completed under budget.
Emergency Assist. Scheme Follow Up	5	1	Resources	Follow Up completed under budget.
Contingency	0	5		Balance plan days
Follow Up Contingency	0	2		Balance plan days

Section 4: Outstanding Recommendations Update

- 4.1 Internal audit follows up all recommendations with management when the deadlines for implementation pass. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations in systems where limited assurance was given is verified through a follow up audit review.
- 4.2 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any High priority recommendations.
- 4.3 The current level of implementation is shown in table in paragraph 4.5 on the following page.

- 4.4 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:
- High: Fundamental control requirement needing implementation as soon as possible
 - Medium: Important Control that should be implemented
 - Low: Pertaining to Best Practice

4.5 Outstanding Audit Recommendations

4.5 Outstanding Audit Recommendations			No. of Recommendations in the Original Report				Position as at 30/09/14	
Audit Year	Area Reviewed	HoS Responsible	Assurance Level	H	M	L	Complete	In Progress
11/12	Oracle Financials	Internal Shared Services / ICT Services	Limited	0	24	0	23	1♦
11/12	Crematorium - Grave Allocations & Record Keeping	Regulatory Services	Substantial	0	6	0	5	1
11/12	i-Expenses & P Cards	Internal Shared Services	Limited	5	3	1	6	3♦
11/12	Main Accounting	Internal Shared Services	Substantial	0	1	0	0	1◇
11/12	Contracts & Procurement	Finance & Procurement	Substantial	0	3	0	2	1◇
2011/12 Totals				5	37	1	36	7
12/13	Information Governance - Compliance with IG Toolkit	Legal & Democratic Services	Substantial	1	2	0	2	1
12/13	Oracle Financials	Business Systems / Internal Shared Services	Limited	0	11	3	12	2♦
12/13	Electronic Document Management System	Business Systems	Substantial	0	7	0	6	1
12/13	i-Procurement	Internal Shared Services	Limited	0	2	1	0	3♦
12/13	i-Recruitment	Internal Shared Services	Limited	3	2	0	4	1♦
12/13	i-Expenses	Internal Shared Services	Limited	2	1	0	2	1♦
12/13	Transport	Asset Management	Substantial	1	4	2	5	2
12/13	Debt Management	Exchequer Services	Substantial	0	1	0	0	1
12/13	Accounts Payable	Group Director – Resources & Governance Group	Substantial	0	1	0	0	1♦
12/13	Contracts & Procurement	Finance & Procurement	Substantial	0	1	0	0	1♦

4.5 Outstanding Audit Recommendations

4.5 Outstanding Audit Recommendations			No. of Recommendations in the Original Report			Position as at 30/09/14		
Audit Year	Area Reviewed	HoS Responsible	Assurance Level	H	M	L	Complete	In Progress
12/13	Accounts Receivable	Group Director – Resources & Governance Group	Substantial	0	2	1	2	1◆
2012/13 Totals				7	34	7	33	15
13/14	Mayrise	Streetcare	Limited	5	9	0	13	1
13/14	Tenancy Management	Housing & Public Protection	Limited	0	14	0	7	7
13/14	Fees and Charges	Various	Limited	1	1	1	2	1
13/14	JCAD LACHS	Finance & Procurement	Substantial	10	12	0	-	-
13/14	Grants	Corporate	Substantial	0	2	0	1	1
13/14	Compliance with Corporate Policy: Fees and Charges	Corporate	N/A	0	2	0	0	2
13/14	Compliance with Corporate Policy - Sickness Absence	Corporate	Limited	1	3	0	2	2
13/14	LAC Placements	Children's Services	Limited	0	7	0	6	1
2013/14 Totals				17	50	1	31	15
Totals				29	121	9	100	37

◆ Implementation of these recommendations is dependent on the implementation of the One Oracle system. The One Oracle system went live in August 2014/2015. These are therefore scheduled to be picked up at the end of Quarter 3 of 2014/2015.

◇ Implementation of recommendations is dependent on outcomes of oneSource.

APPENDIX A: RISK BASED SYSTEMS AUDIT REPORT SUMMARIES

Pre-Paid Cards	Schedule A (1)
----------------	----------------

1.1 Introduction

- 1.1.1 The audit of prepaid cards was included in the 2013/14 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control in operation.
- 1.1.2 Prepaid cards are cards loaded with a pre agreed amount. The cards enable local purchasing and offer a number of benefits to the Council. Prepaid cards are a secure and cost-effective alternative to traditional paper-based payment systems and eliminate many of the time-consuming processes associated with administering and processing cash, cheques and vouchers.
- 1.1.3 A decision was made to replace petty cash accounts with pre-paid cards. This was agreed by CMT in December 2011. Following the process to procure a provider the rollout of prepaid cards and closure of petty cash imprests was started in March 2013. As at 11th April 2014, all petty cash accounts had been closed across the council.
- 1.1.4 The system used for the prepaid cards is Prepaid Financial Services. Data can be extracted from this system relating to all cards that are in issue.
- 1.1.5 As at 14th April 2014 there were 420 prepaid cards issued to various staff across the council. The funds available to all cards are split into three wallets. These are: Catering, Leaving Care and Corporate.
- 1.1.6 A wallet is a holding account that holds the money requested by card users. Only funds requested are transferred to the wallet and only users with access to the system have access to transfer money from the wallet to individual cards.

1.2 Objectives and Scope

- 1.2.1 The objective of the audit is to provide Authority's management and the Audit Committee with assurance on the effectiveness of the system of internal control in operation for prepaid cards. Assurance will also be provided on Directorates and Services compliance with corporate policies and procedures.
- 1.2.2 The system of internal control operates to:
- Policies and procedures are being adhered to by card holders and managers;
 - Use of the prepaid cards benefits the services that the Council provides; and
 - Management Information is available, fit for purpose and regularly reviewed.
- 1.2.3 The audit examined the internal control environment applied to mitigate the following potential key risks:
- Non-compliance with policies and procedures;

- Inappropriate use of the card for purchases that do not support the Council functions;
- Lack of effective audit trail;
- Incomplete, inaccurate or missing reconciliations;
- Financial implications of administering prepaid cards is not considered or monitored;
- Lack of information availability to view or extract information from Prepaid Financial Services; and
- Use of each card is not monitored by the card holder or manager.

1.3 Summary of Audit Findings

1.3.1 Corporate guidance and documented operational procedures have not been produced to support the process.

1.3.2 Instances of Services withdrawing cash from cards to be used as petty cash accounts were identified.

1.3.3 Over a third of the cards that have been issued have currently not been activated.

1.3.4 Multiple staff across various service areas has access to the corporate wallet.

1.4 Audit Opinion

1.4.1 Substantial Assurance has been given on the system of internal control.

1.4.2 The audit makes three medium priority recommendations that aim to mitigate the risks within the above audit findings:

- Prepaid card policy to be written and adopted that accurately reflects the current processes and expectations relating to corporate monitoring officers and prepaid card users;
- Services operating a petty cash account should be contacted regarding the expected use of the prepaid cards; and
- Access to wallets to be reviewed and amended in line with current ways of working.

2.1 Introduction

- 2.1.1 Section 507B of the Education Act 2006 gives local authorities a duty to secure, as far as is practicable, services and activities for young people. This duty was retained in the government's 'Positive for Youth' policy issued in 2011 which aims to improve the lives of young people, ensure they have a voice and improve the prospects of them succeeding in their adult lives.
- 2.1.2 LB Havering's 'Creating Brighter Futures' vision for the future delivery of services for young people in Havering was agreed by Cabinet in July 2012. 'Creating Brighter Futures' demonstrates how LB Havering will comply with its statutory responsibilities for young people.
- 2.1.3 The vision of 'Creating Brighter Futures' is to ensure that all young people in Havering have access to relevant activities and opportunities, to assist in the development of their abilities and to help them make a successful transition from childhood to adulthood and develop the assets that will enable them to become successful, social and safe.
- 2.1.4 The work of the Youth Facilitation Team is to support 'Creating Brighter Futures'. The Youth Facilitation Team operates the Robert Beard Youth and Community Centre and has a staff presence at MyPlace. These centres offer a range of services and information to young people in the community.
- 2.1.5 The Youth Facilitation Team became part of the Culture, Community and Economic Development directorate in 2013/14 following a move from the Children, Adults and Housing directorate.
- 2.1.6 The Youth Facilitation Service budget for 2014/15 is £1.025m. This budget is split across four geographical areas within the borough (Romford, Harold Hill, Rainham and Collier Row).

2.2 Objectives and Scope

- 2.2.1 The audit of Youth Service was included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effective of the system of internal control in operation
- 2.2.2 Following a restructure of the Youth Service a meeting was held with the Head of Service where it was decided to focus the audit on the Youth Facilitation Service to ensure that corporate policies and procedures were being adhered to.
- 2.2.3 Within the Youth Facilitation Teams, the system of internal control operates to ensure:
- Legal requirements and local procedures are followed; and
 - Youth Centre's are administered with financial awareness.

2.2.4 The audit examined the internal control environment applied to mitigate the following potential key risks:

- Incomplete collection and banking of income;
- Poor site security results in loss of cash or valuables, or damage to property;
- Purchasing provides poor value of money;
- Incorrect use of prepaid cards;
- Noncompliance with authorities HR and Payroll procedures;
- Inadequate safeguarding arrangements; and
- Insufficient management information to evidence compliance with statutory duties.

2.3 Summary of Audit Findings

2.3.1 Records of expected income are not being maintained due to all cash being collected and banked by centre staff. Income is transferred to the Youth Facilitation service via an internal transfer. It has therefore not been possible for reconciliations between income expected and received (via internal transfer) to be carried out (MyPlace).

2.3.2 The centre holds a large amount of equipment and instruments. A large amount of this equipment has had to be stored at the centre after other locations were closed. There is no up to date inventory that includes details for all equipment currently within the centre (Robert Beard).

2.3.3 Youth Facilitation uses multiple areas within MyPlace as locations for youth service sessions. Equipment used as part of each session is owned by either the Youth Facilitation service or MyPlace. There are currently no agreements in place over the maintenance, repair or replacement of items of equipment being used within MyPlace.

2.3.4 Staff training is monitored by individual manager through supervision, however there is no central record kept of staff training that would allow managers to ensure all training is up to date or to highlight training needs across the service as a whole.

2.3.5 Recommendations made in the Century Youth House Club reactive fraud report were followed up as part of this audit. It was found that all 11 of the recommendations raised had been implemented at the time of this audit.

2.4 Audit Opinion

2.4.1 Substantial Assurance has been given on the system of internal control.

2.4.2 The audit makes three medium and one low priority recommendation that aim to mitigate the risk within the above audit findings:

- MyPlace - Reconciliations to be carried out between expected income and received income (via internal transfer). This can be calculated using the attendance at sessions as a basis for the level of income expected (*Medium*).
- Robert Beard - An inventory to be created of all portable/ desirable equipment within the Centre, as well as any equipment over £250. The

inventory should include make, model, serial number and location at the time of the check. This should then be monitored and checked annually (*Medium*).

- MyPlace - An agreement to be made between the Youth Service and MyPlace regarding the use of equipment. This should include the equipment that can be used and clearly define who is responsible for the general upkeep and the possible repair of damaged equipment (*Medium*).
- Consideration to be given to collating all staff training information to highlight areas of training needs across the service and for ease of monitoring renewal dates for all staff (*Low*).

3.1 Introduction

- 3.1.1 The Accounts Payable function became part of Internal Shared Services in 2011. Accounts Payable is now due to be included in launch of One Oracle and will be one of the services included within One Source.
- 3.1.2 One Oracle was originally due to go live in October 2013 but had been delayed until August 2014. This has affected some of the processes currently in place within the Accounts Payable system.
- 3.1.3 Accounts Payable was last audited in March 2014 and resulted in substantial assurance being given. The audit found that that whilst the system of control was adequate, potential limitations were identified that may put system objectives at risk.

3.2 Objectives and Scope

- 3.2.1 The audit of Accounts Payable, pre One Oracle going live, was included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control.
- 3.2.2 The system of internal control operates to:
- Ensure compliance with relevant legislation, best practice and the organisation's policies and procedures;
 - Ensure that the scheme is administered in an effective manner and that payments are accurate and timely;
 - Reduce risk, including the risk of fraud; and
 - Produce accurate, relevant and timely management information.
- 3.2.3 The audit examined the internal control environment applied to mitigate the following potential key risks:
- Non-compliance with legislation and HMRC;
 - Duplicate payments occur through manual or system error;
 - Information entered onto the system does not match the invoice details;
 - Payments do not meet suppliers payment terms or the requirements of the EU Directive 2011/7/EU on combating late payment in commercial transactions;
 - Creditor details held on the system are incorrect or unauthorised, amendments to creditor information are made;
 - The system does not support the production of suitable management information;
 - Management information is not being utilised to monitor achievement of the service objectives and drive key decisions;
 - Mechanisms and indicators to allow performance to be measured and monitored have not been established, poor performance/ declines in performance are not detected; and
 - Data is not protected from loss, corruption or unauthorised disclosure.

3.3 Summary of Audit Findings

- 3.3.1 All staff are required to have completed Data Protection training via the e-learning portal. It was found during the audit that not all staff within the Accounts Payable team have completed this training.
- 3.3.2 One Oracle does not currently hold the function for managers to get automatic notifications when supplier's bank details are changed. Manual controls have been put in place to mitigate the risk. This involves running a daily report of all changed within the system and manually checking each supplier bank change is adequate. Previous controls within Oracle 12 would send manager notifications when supplier details were changed.
- 3.3.3 Monitoring to identify duplicate payments continues to be undertaken by one member of staff using a system generated report that includes specific parameters. The risk of duplicate payments occurring increases during the transition from one system to another and the service is mindful that increased checks will be necessary to ensure that this risk has not materialised.

3.4 Audit Opinion

- 3.4.1 Substantial Assurance has been given on the system of internal control.
- 3.4.2 The audit makes one medium priority recommendation that aims to mitigate the risks within the audit findings:
- All staff who have not yet completed Data Protection Training to undertake the online training course.

4.1 Introduction

4.1.1 The Accounts Receivable function became part of Internal Shared Services in 2011. Accounts Receivable is now due to be included in launch of One Oracle and will be one of the services included within One Source.

4.1.2 One Oracle was originally due to go live in October 2013 but has been delayed until August 2014. This has affected some of the processed currently in place within the Accounts Receivable system.

4.1.3 Accounts Receivable was last audited in March 2013 and resulted in substantial assurance being given. The audit found that whilst the system of control was adequate, potential limitations were identified that may put system objectives at risk.

4.2 Objectives and Scope

4.2.1 The audit of the Accounts Receivable was included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effective of the system of internal control.

4.2.2 The audit was undertaken to provide assurance on the effectiveness of the system of internal control operating over the Accounts Payable. The system of internal control operates to:

- Ensure compliance with relevant legislation, best practice and the organisation's policies and procedures;
- Ensure that the scheme is administered in an effective manner and that payments are accurate and timely;
- Reduce risk, including the risk of fraud; and
- Produce accurate, relevant and timely management information.

4.2.3 The audit examined the internal control environment applied to mitigate the following potential key risks:

- Noncompliance with legislation;
- Noncompliance with Data Protection Act;
- Inaccurate invoicing results in loss of income and charges being challenged by debtors;
- Lack of remittance information results in mis-posting of income;
- Invoices aren't raised in a timely manner;
- Income collection is untimely and/ or inadequate;
- Invoices are incorrectly amended;
- Debts are inappropriately written off;
- The system does not support the production of suitable management information;
- Management information is not being utilised to monitor achievement of the service objectives and drive key decisions;

- Mechanisms and indicators to allow performance to be measured and monitored have not been established, poor performance/ declines in performance are not detected; and
- Data is not protected from loss, corruption or unauthorised disclosure.

4.3 Summary of Audit Findings

- 4.3.1 All staff are required to have completed Data Protection training via the e-learning portal. It was found during the audit that not all staff within the Accounts Payable team have completed this training.
- 4.3.2 Spot checks are being undertaken by senior staff to reduce errors being made and reducing the effects that any errors may have. These checks are carried out every few days with a record of each check being maintained.
- 4.3.3 Reports are taken to each Debt Management Board meeting to show the current level of debt. These reports are split into service, with focus on debts that have exceeded 90 days. Work is undertaken both at these meetings and within Accounts Receivable to reduce these debts.

4.4 Audit Opinion

- 4.4.1 Substantial Assurance has been given on the system of internal control.
- 4.4.2 The audit makes one medium priority recommendation which aims to mitigate the risks highlighted during the audit:
- All staff who have not yet completed Data Protection Training to undertake the online training course.

5.1 Introduction

- 5.1.1 The Payroll function became part of Internal Shared Services (ISS) in 2011. Payroll was included in the launch of One Oracle on 4th August 2014 is also one of the services included within oneSource.
- 5.1.2 The 2014/15 Internal Audit plan includes two reviews of the payroll system. This first review was requested by the Council's external auditors – PwC in order to provide assurance for the system for the first four months of the year, prior to the move to One Oracle.
- 5.1.3 The 2013/14 internal audit report of Payroll gave the service substantial assurance with no recommendations raised. There remains one outstanding recommendation from the 2012/13 audit which is part of a wider governance issue.

5.2 Objectives and Scope

- 5.2.1 The aim of this review was to determine whether the key controls identified in the 2013/14 payroll audit had continued to operate as expected during the period from 1st April – 3rd August 2014, prior to the implementation of One Oracle.
- 5.2.2 Testing was carried out on a sample of ten starters, ten leavers and ten other amendments to payroll including honoraria's, secondments and maternity leave. The sample was selected from reports run covering the population from 1st April – 3rd August 2014.

5.3 Summary of Audit Findings

- 5.3.1 Discussions with management and a system walkthrough confirmed that Payroll has been operating using the same procedures as have been documented in the 2013/14 audit.
- 5.3.2 Testing of the samples detailed in 2.2 found no issues arising. Instances of missing documentation on Civica were resolved with Payroll and were either due to a small backlog in scanning (where samples were selected from a relatively recent period) or because the process does not require documentation to be scanned immediately (such as in the example of MATB1 forms when the individual is still on maternity leave). The required documents and / or explanations were provided for each of the instances where documentation was not immediately accessible, or located by the auditor, on the Civica system.
- 5.3.3 It is recognised that there may be some changes to payroll processes with the implementation of One Oracle, however, this will need some time to embed and decisions taken with regard changes to procedures will be made at a later date. It is anticipated that this will be considered as part of the annual internal audit of Payroll scheduled to take place in quarter four of 2014/15.

- 5.3.4 Analysis of the capture of data and measurement against agreed KPIs could not be carried out during the period reviewed for this audit as this had been stopped while the implementation of One Oracle was carried out. As it is expected that this will resume now that One Oracle is live this aspect will be covered in more detail in the annual internal audit of Payroll.
- 5.3.5 The Internal Shared Services (ISS) audit review undertaken in October 2011 and again in March 2012 highlighted some concerns over the lack of a division of duties between HR and Payroll for education payroll. This established that due to the hierarchies set in the system both HR and Payroll staff are able to carry out the same duties and may increase the risk of fraud. Because of the difficulties in amending the hierarchy access additional manual controls have been implemented to ensure that there are checks in place to detect fraud. While this cannot replace a preventative control that a separation of duties via system hierarchy would provide, steps have been taken to try to mitigate the risk of fraud.
- 5.3.6 Issues surrounding incomplete payroll reconciliations have been raised again this year by External Audit and noted in the Audit Committee papers. This is an issue previously raised by both External and Internal Audit as well as in the ISA 260.

5.4 Audit Opinion

- 5.4.1 Substantial Assurance has been given on the system of internal control.
- 5.4.2 The audit makes no recommendations based on the system of internal control in place during the period covered as part of this audit review.

6.1 Introduction

- 6.1.1 Bankers Automated Clearing Services, more commonly known as BACS is a method for electronically transferring financial transactions directly into the bank or building society.
- 6.1.2 Use of BACS as a method for making payments is often preferable as it provides the organisation with a simple and secure method of processing payments and ensures efficiency and reliability.
- 6.1.3 In 2013/14 52,546 BACS payments were processed totalling £389,150,194.60 compared to 3,521 cheques, including manual cheques, totalling £24,605,626.10.

6.2 Objectives and Scope

- 6.2.1 The audit of BACS was included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control in operation.
- 6.2.2 The audit was undertaken to provide assurance on the effectiveness of the system of internal control operating over the processing of BACS payments. The system of internal control operates to:
- Ensure compliance with best practice, the organisations Financial Framework and Financial procedure rules;
 - Ensure that payments are administered in an effective manner and that payments are accurate and timely; and
 - Reduce risk, including the risk of fraud.
- 6.2.3 The audit examined the internal control environment applied to mitigate the following potential key risks:
- BACS processing does not adhere to best practice, the Financial Framework and the Financial Procedure Rules;
 - Payments are incorrect;
 - Payments are not processed / processed in a timely manner;
 - Duplicate payments are processed; and
 - Unauthorised payments are processed.

6.3 Summary of Audit Findings

- 6.3.1 The administration of the BACS process is the responsibility of a small number of individuals within multiple departments. Departments produce the payment files which are submitted to Business Systems for transmission to the bank. The segregation of duties that the process provides allows files to be reconciled as they pass from one department to another and back again.
- 6.3.2 Demand on departments, such as Payroll and Business Systems will grow as the Council continues to trade services to other organisations.

- 6.3.3 The audit has found that the on-going provision of this process has become increasingly reliant on the knowledge and experience of a small number of staff within each service area. In some cases, only two people are involved in the process. Whilst assurances have been given that in these areas arrangements are in place to ensure continued provision of the service; i.e. members of staff not taking annual leave at the same time, there are no safeguards against unplanned absences. Ultimately, identifying that there aren't sufficient members of staff around to process BACS files, would be reliant on a member of staff highlighting the issue.
- 6.3.4 Payment files are created in ASCII or Txt format which allows the BACS software to extract the individual payments contained within the file. This format also allows data contained within the report to be amended. Whilst the lack of preventative controls is a concern, discussions have highlighted that there are occasions when Business Systems need to access files to amend reference numbers. Reference numbers are created based on the respective code for the source department and the date. Multiple files from the same department on the same day would create duplicate references which cannot be transmitted; therefore Business Systems must access the file and change the references in order to transmit the files successfully.
- 6.3.5 Any changes to the number or value of transactions would be clearly visible and should be picked up through the various reconciliations. If however the account number and sort code were to be changed, this would not be easily identifiable. The Council is solely reliant on the payee notifying the Council that the payment had not been received. Being dependent on payees to notify the Council is not a sound detective control as reliance cannot be placed on the capacity or financial understanding of all payees. However, once the council is aware of the missing payment controls are in place that would allow the person responsible and the amended account to be identified. The likelihood of this risk materialising is minimal given the limited number of people in Business Systems involved in the BACS process. However, the audit has also highlighted the need for additional resources to be made available to ensure continued service provision. The Council must be mindful that the potential consequence of this weakness is significant.
- 6.3.6 A review of those with access to the BACS website found that there are two types of access. The first is "main users" who have access to transmit files. The members of staff with access to this function match those members of staff from Business Systems that are permitted to transmit files. The second type of access allows reports to be run. There are also nine individuals that have access to BACS Submission Report. Of these nine, three have left the Council. As BACS is an external website and therefore password changes can be made from any internet connect device, leavers will retain access to confidential payment information even if all Council system access is removed.

6.4 Audit Opinion

- 6.4.1 Whilst there are adequate controls within the BACS process, the lack of business continuity arrangements in place is sufficient to put the system objectives at risk. Therefore only Limited Assurance can be placed on system of internal control.

6.4.2 The audit makes one high and two medium priority recommendations. The recommendations are designed to address weaknesses in the control environment and the implementation of the recommendations will enable the resulting risks to be mitigated. The recommendations comprise:

- The need for consultation of existing arrangements between key stakeholders (*High*);
- The need to remove access for those individuals identified as leavers (*Medium*); and
- The need for periodic reviews of those with access to BACS reporting (*Medium*).

7.1 Introduction

- 7.1.1 The Gas Safety (Installation and Use) Regulations 1998 control the installation and use of gas and place duties on landlords of properties to which a gas supply is available. The regulations aim to prevent injury to tenants from carbon monoxide (CO) poisoning and fire and explosion. Landlords have duties to ensure that the gas appliances and flues they provide for tenants' use are maintained in a safe condition at all times and checked for safety each year by a Gas Safe Registered Gas installer, and a copy of the check record is provided to the tenant.
- 7.1.2 The Regulations and their guidance are intended to make sure that landlords take all reasonable steps to undertake full safety checks of the appliances for which they have responsibility.
- 7.1.3 At the start of the review there were 9,958 council owned properties on the programme and 349 void properties and 2,315 leaseholder properties.
- 7.1.4 The contracts, to undertake gas inspections at council owned properties, are with S and F Services Limited, south of the borough, and Quality Heating Services, north of the borough commenced June 2012 for a duration of 5 years, with the option to extend for a further 2 years.
- 7.1.5 Leaseholders of council housing properties have to arrange their own gas inspections but are required to provide the Council with annual gas safety certificates proving that the gas installations and appliances within their properties have been inspected and certified as safe. A review of the leaseholder gas safety process has been undertaken as part of this audit but reported on separately.

7.2 Objectives and Scope

- 7.2.1 The audit of Gas Safety regulations is included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control in operation.
- 7.2.2 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance regarding:
- Compliance with Gas Safety Regulations (Installation and Use); and
 - The arrangements in place for contract monitoring.
- 7.2.3 The audit examined the internal control environment applied to mitigate the following potential key risks:
- Arrangements implemented do not meet and evidence compliance with regulatory requirements;
 - Non-compliance, poor quality work or inaccurate reporting by the contractors;
 - The service is disrupted or ceases due to failure of the contractor; and
 - Overpayments on contract values occur or value for money not achieved.

7.3 Summary of Audit Findings

- 7.3.1 A Homes in Havering Landlords Gas Safety Policy dated 8th November 2011 approved by Kevin Hazelwood, Property Services Manager is in existence, which states it should have been reviewed in November 2012. However, the policy has not been reviewed to take into account any changes in legislation or working practices or that Homes in Havering have been brought back into the council.
- 7.3.2 The council's gas policy should be available for members of the public. The gas policy could not be located on the council's internet although the Housing pages do inform tenants of the requirements that properties do have to be inspected on a yearly basis.
- 7.3.3 Processes / procedures should be documented to ensure that staff and contractors are aware of the requirement to have gas services and appliances inspected on a yearly basis and the process to follow. A Building Services Team Procedures document is in existence and is annotated as having the next full revision of April 2014. These procedures have yet to be reviewed.
- 7.3.4 Currently Building Services are reliant on the data held by the contractors and that their databases are correct. However, the Asset Management Officer is obtaining the property lists off the two contractors and this will be compared to Housing Services records. Data will then be loaded onto property services Keystone Asset Management System. Inspections / servicing will then be controlled from this system.
- 7.3.5 The contract doesn't specify what the contractor should do in the event of finding a property that is over occupied or in an uninhabitable state of repair or if they suspect a vulnerable person is subject to neglect or abuse. Therefore the contractor will be unaware of the procedures to follow in these circumstances.
- 7.3.6 The Building Services Team Procedures state that tenants are advised of an up and coming gas inspection 8 weeks in advance of the gas certificate expiring whereas the Course of Action documents states 10 weeks - This may cause some confusion depending on what document is referred to.
- 7.3.7 The auditor was informed that currently the final stage of enforcement; actually obtaining an injunction to allow forced access to the property action; is causing considerable delay. Building Services managers are therefore currently in dialogue with the Legal Manager (Litigation) to ascertain if they can obtain access using the Environmental Protection Act (EPA) as used by the London Borough of Newham.
- 7.3.8 To ensure that contracts are monitored in accordance with the Councils contract monitoring procedures it is recommended that all contract monitoring officers receive training. The Building Services Engineer is aware of the Councils Contract Monitoring procedures but has not received any training.
- 7.3.9 Both contractors have their own Quality Assessment Surveyors who undertake a sample of post inspections. Currently results of these post inspections are

not requested / reviewed by Building Services. However, it is planned to request them in the future.

7.3.10 Prior to the audit no post inspections were undertaken by Property Services; However Building Services Surveyors were appointed for each contract, and spot checks will be undertaken on completed work and work in progress inspections.

7.3.11 The use of Public Satisfaction Surveys would inform management of the tenants' satisfaction regarding the gas inspection process undertaken by the contractors. Public Satisfaction surveys are not used for gas safety / servicing.

7.3.12 A Loss of Contractor / Partner (Service) Mechanical Services Business Continuity Plan dated January 2012 is maintained but refers to 'supply an emergency in hours and out of hours for the repair of central heating breakdown' but not for the undertaking of the annual gas safety inspections. The responsible officers stated on the plan were no longer in the relevant post.

7.3.13 Checks on the contractors business continuity plans should be undertaken during the period of the contract to ensure they are up to date and show that they have prepared for minimising and recovering from the interruption to the service and provide the steps required to ensure an organised and effective return to 'business as usual'. No checks have been undertaken during the period of the contract.

7.3.14 To ensure that the contractors are not facing financial difficulty financial stability checks were undertaken as part of the tender process but have not been during the period of the contract. This was brought to the attention of the Building Services Manager during the audit who then instigated new financial stability checks.

7.4 **Audit Opinion**

7.24.1 A Substantial Assurance has been given on the system of internal control.

7.4.2 The audit makes one high, four medium and three low priority recommendations that aim to mitigate the risks within the above audit findings.

7.4.3 Recommendations relate to:

- The Landlords Gas Safety Policy to be reviewed, updated and approved by (*Medium*);
- The updated Landlords Gas Safety Policy to be included on the Councils / Homes and Housing internet page (*Low*);
- The Building Services Team Procedures to be reviewed and updated (*Medium*);
- Procedures to be documented so that contractors know what processes to follow in the event of them finding a property that is over occupied or in an uninhabitable state of repair or if they suspect a vulnerable person is subject to neglect or abuse (*High*);
- The Building Services Engineer undertakes Contract Monitoring Training (*Low*);

- Public Satisfaction Surveys to be implemented to monitor tenants' satisfaction regarding the gas safety inspection process (*Low*);
- The Loss of Contractor / Partner (service) Mechanical Services Business Continuity Plan to be updated to include the undertaking of the annual gas safety inspections and the removal of responsible officers no longer in the relevant post (*Medium*); and
- Checks on the Business Continuity Plans for the two contractors to be undertaken to ensure they are up to date (*Medium*).

8.1 Introduction

- 8.1.1 The Gas Safety (Installation and Use) Regulations 1998 control the installation and use of gas and place duties on landlords of properties to which a gas supply is available. The regulations aim to prevent injury to tenants from carbon monoxide (CO) poisoning and fire and explosion. Landlords have duties to ensure that the gas appliances and flues they provide for tenants' use are maintained in a safe condition at all times and checked for safety each year by a Gas Safe Registered Gas installer.
- 8.1.2 Whilst there has been this requirement that all tenanted council housing properties have an annual gas safety inspection there was no corresponding requirement for leaseholders. An executive decision was therefore made in November 2012 that leaseholders of council housing properties would be required to provide an annual gas safety certificate and this requirement would be added to their existing leases.
- 8.1.3 Leaseholders of council housing properties have to arrange their own gas inspections proving that the gas installations and appliances within their properties have been inspected and certified as safe.
- 8.1.4 At the start of the review there were 2,315 leaseholder properties.
- 8.1.5 A review has been undertaken to ensure that the council is compliant with the regulations and council requirements. This audit report is in respect of the control environment within Home Ownership with regards to leaseholder gas safety.

8.2 Objectives and Scope

- 8.2.1 The audit of Gas Safety regulations is included in the 2014/15 Internal Audit plan to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control in operation.
- 8.2.2 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance regarding compliance with the Gas Safety Regulations (Installation and Use).
- 8.2.3 The audit examined the internal control environment applied to mitigate the following potential key risks:
- Arrangements implemented do not meet and evidence compliance with regulatory and council requirements.

8.3 Summary of Audit Findings

- 8.3.1 On initial testing eight out of 40 gas safety certificates were not located on the computer file. A further two were located during the audit and four were to be retrieved from Iron Mountain. The remaining two could not be located at the time of the audit.

- 8.3.2 Leaseholders have only been enforced to have a gas safety check since June 2013. Currently there are no set escalation procedures documented that staff follow although letters have been sent out to chase.
- 8.3.3 The deadline for the receipt of all gas safety certificates was July 2014. At the end of July 2014, 1,194 gas certificates out of a possible 2,321 had been received with 1,092 still to be chased.
- 8.3.4 Homeownership do not have anyone that is technically qualified to inspect gas safety certificates, therefore originally any gas safety certificates that looked suspect were forwarded to Building Services for checking. However, due to workload Building Services are no longer able to provide this service.
- 8.3.5 A check of 70 properties that Home Ownership had recorded as being leased to PHS found that four had been handed back to the leaseholder without Home Ownership being notified. Discussions found that there are no procedures in place to ensure Home Ownership are not notified of leasehold properties leased back to the Council or of properties that have reverted back to the 'control' of leaseholders.

8.4 **Audit Opinion**

8.4.1 A Limited Assurance has been given on the system of internal control.

8.4.2 The audit makes three high and two medium priority recommendations that aim to mitigate the risks within the above audit findings.

8.4.3 Recommendations relate to:

- The two missing certificates to be locate and copies of all Gas Safety Certificates to be retained on file. Random spot checks should then be undertaken to ensure that certificates are retained on file (*Medium*);
- Procedures to be documented that show the processes to follow when a gas certificate is coming up to its expiry date or if a leaseholder has not had a gas safety check (*High*);
- Urgent action to be undertaken to ensure that gas safety inspections have been undertaken for the outstanding 1,092 leaseholders (*High*);
- Management to implement a check of gas safety certificates to ensure they are being completed correctly (*Medium*); and
- Procedures to be set up with PHS to ensure that Home Ownership are notified of all Leasehold properties that have been leased to the Council and then taken / given back to the leaseholders. The procedures should include an annual reconciliation process (*High*).

9.1 Background

- 9.1.1 The Freedom of Information (FOI) Act 2000 came into force in January 2005. Introduction of the legislation allowed the public the right to access various types of recorded information held by public authorities.
- 9.1.2 The 2013/14 Internal Audit Plan included a review of FOI. The purpose of the review was to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control in operation.
- 9.1.3 Limitations in the system of control were identified that may put the system objectives at risk and resulted in limited assurance being given. In order to strengthen the control environment four high and one medium priority recommendations were raised. All recommendations were accepted by management and were due to be implemented by the end of June 2014.
- 9.1.4 A change in management of the service occurred in January 2014, after the original audit reported on the weaknesses within the control environment. The new management team has been driving significant changes within the service.

9.2 Progress on Implementation

- 9.2.1 A follow up review has now been completed to assess progress made to implement the recommendations raised in the original audit report. The follow up found that all recommendations have now been implemented.
- 9.2.2 Appendix A of this report sets out the detailed findings against each recommendation that have been summarised in this section.

9.3 Conclusion

- 9.3.1 Extensive work has now been undertaken to embed new processes across the organisation in relation to the FOI process. Whilst it is accepted that these processes will need to be closely monitored and adapted to ensure that they deliver as expected, the foundations for a more robust process and increased performance reporting have now been implemented. On the basis of the work already completed and after discussions regarding further work planned, a substantial assurance opinion is now being given.

10.1 Background

10.1.1 The 2013/14 Internal Audit Plan included a review of Tenancy Management. The audit found that only a limited assurance level could be provided as a result of the findings and so a follow up audit was scheduled into the 2014/15 audit plan. The purpose of this review was to provide the Authority's management and the Audit Committee with assurance the recommendations raised from the original Tenancy Management audit had been implemented or to provide a progress update for any that remain outstanding.

10.1.2 Limitations in the system of control were identified in the original audit that may put the system objectives at risk. In order to strengthen the control environment fourteen medium priority recommendations were raised. All recommendations were accepted by management and were due to be implemented by the end of March 2014.

10.2 Progress on Implementation

10.2.1 A follow up review has now been completed to assess progress made to implement the recommendations raised in the original audit report.

10.2.2 The follow up found that six recommendations have been implemented with another seven still outstanding. Two of the recommendations that remain outstanding have been picked up as part of the Tenancy Management Organisations (TMO) audit that is currently taking place. A further medium priority recommendation has been proposed to replace a recommendation that was considered not possible to implement after the final report was issued (Recommendation 10).

10.2.3 Appendix A of this report sets out the detailed findings against each recommendation that have been summarised in this section.

10.3 Conclusion

10.3.1 As a result of the findings of this follow up review the assurance level has been raised from Limited to Substantial Assurance which means that while there is a basically sound system, there are limitations that may put some of the system 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.

10.4 Recommendations Arising

10.4.1 As a result of this review one additional medium priority recommendation has been raised. This recommendation replaces Recommendation 10 from the original report which stated that 'Consideration should be made of the risks/benefits regarding the placement in the structure of the Tenancy Sign up procedure'. The restructure has taken place and the Empty Homes Team remains in place with the same responsibilities.

- 10.4.2 The audit makes one additional medium recommendation which aims to mitigate some of the risks raised in the original Tenancy Management audit;
- Discussions should take place between the Neighbourhood Services Manager and the Empty Homes Manager should take place to ensure that the procedures for tenant sign-up, which are currently being reviewed by the Performance and Policy Team, are adequate to ensure efficient service delivery for both teams.

11.1 Background

- 11.1.1 An Ofsted inspection of safeguarding and the Looked after Children's (LAC) services undertaken in October 2011 resulted in the achievement of only an 'adequate' score. This inspection identified areas for improvement which included N162 Stability of LAC: number of placements. A service review of Placement Stability was carried out in September 2012, producing a plan for improvement and it was agreed that an audit would take place in the following financial year.
- 11.1.2 The 2013/14 Internal Audit Plan included a review of LAC Placements. The purpose of this review was to provide the Authority's management and the Audit Committee with assurance the recommendations raised from the Placement Stability Audit Report had been implemented and that the new CCM system was being successfully utilised.
- 11.1.3 Limitations in the system of control were identified that may put the system objectives at risk. In order to strengthen the control environment seven medium priority recommendations were raised. All recommendations were accepted by management and were due to be implemented by the end of June 2014.

11.2 Progress on Implementation

- 11.2.1 A follow up review has now been completed to assess progress made to implement the recommendations raised in the original audit report.
- 11.2.2 The follow up found that six medium priority recommendations have been implemented with an extended deadline suggested for the remaining recommendation. A further medium priority recommendation has been proposed as a result of this follow up audit.
- 11.2.3 The additional recommendation relates to a need to ensure that there is visible version control on documents such as the Supervision Policy in order to determine that the correct and most up-to-date version is in use.
- 11.2.4 A further issue was identified relating to the lack of specific detail regarding how handover arrangements are managed when there is a change in Social worker. This issue has also been raised in another recent external review and is an item on the wider Services Action Plan. As a result no further recommendation will be raised as part of this follow up review.
- 11.2.5 Appendix A of this report sets out the detailed findings against each recommendation that have been summarised in this section.

11.3 Conclusion

- 11.3.1 As a result of the findings of this follow up review the assurance level has been raised from Limited to Substantial Assurance which means that while there is a basically sound system, there are limitations that may put some of

the system 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.

11.4 Recommendations Arising

11.4.1 As a result of this review there is one additional medium recommendation which aims to mitigate some of the risks raised in the original LAC Placements audit:

- Visible version control should be added to the Supervision Policy.

12.1 Background

12.1.1 In April 2013 responsibility for the administration of the Department for Work & Pensions Social Fund was transferred to Local Authorities under the new name, Local Welfare Assistance Scheme as part of the Welfare Reform Act 2012.

12.1.2 In response to these changes, the Council introduced the Emergency Assistance Scheme. Delivery of the scheme was initially contracted to a company called Disablement Association of Barking & Dagenham (DABD) on a 15 month contract totalling approximately £130k.

12.1.3 In June 2014 the Council entered into a new contract with DABD for administration of the scheme. The value of the new contract is approximately £99k. Grant funding for the provision of the scheme will cease in March 2015. A feasibility study will be undertaken to consider alternative options for administering the scheme.

12.1.4 The 2013/14 Internal Audit Plan included a review of the Emergency Assistance Scheme. The purpose of the review was to provide the Authority's management and the Audit Committee with an opinion on the effectiveness of the system of internal control operating in this new operational area.

12.1.5 The audit review focused on the control environment in place in both the Council and DABD.

12.1.6 Limitations in the system of control were identified that may have put the system objectives at risk and resulted in limited assurance being given. In order to strengthen the control environment two medium and one low priority recommendations were raised. All recommendations were accepted by management and were due to be implemented by the end of June 2014.

12.2 Progress on Implementation

12.2.1 A follow up review has now been completed to assess progress made to implement the recommendations raised in the original audit report. The follow up found that all recommendations have now been implemented.

12.2.2 Appendix A of this report sets out the detailed findings against each recommendation that have been summarised in this section.

12.3 Conclusion

12.3.1 All recommendations have now been implemented. As such the audit assurance that can be placed on the control environment has increased to full assurance which means that for those areas covered in the original audit there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.



AUDIT COMMITTEE

2 December 2014

Subject Heading:	Corporate Governance Update
Report Author and contact details:	Vanessa Bateman, Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee on Corporate Governance work in 2014/15 and progress towards production of the Annual Governance Statement
Financial summary:	N/a

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

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

SUMMARY

This report provides the Audit Committee with an update regarding work to strengthen the Council's Governance Arrangements, the actions taken so far in monitoring the issues noted on the 13/14 Annual Governance Statement and the plan for the rest of the year.

RECOMMENDATIONS

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

REPORT DETAIL

1. Introduction

- 1.1 Governance is about how councils ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which councils are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.¹
- 1.2 Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. Good governance enables the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk.
- 1.3 High standards of conduct and leadership are at the heart of good governance, placing responsibility on members and officers to demonstrate leadership by behaving in ways that exemplify high standards of conduct, and so set the tone for the rest of the organisation.
- 1.4 Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires all relevant bodies to prepare an Annual Governance Statement (AGS) which must accompany the Annual Statement of Accounts. The purpose of the AGS is to communicate to stakeholders the standards of Corporate Governance the organisation demonstrates and identify any significant issues that have arisen in year, and what is planned with regards addressing these issues.
- 1.5 The Council has an officer Governance Group which is chaired by the Group Director Communities and Resources, who reports to Corporate Management Team with regards outcomes. This group oversees the process to produce the AGS annually and monitors the action plan.

¹ Quote from CIPFA/SOLACE 'Delivering good governance in Local Government Framework'

2. Developments in 2014/15

- 2.1 The approach taken in this area has been reviewed to ensure that it is fit for purpose given the challenges the organisation faces. There is a need for activities to become more outcome focused and ensure that they are efficient in terms of resource utilization. As a result of the review a new group has been created to develop the work of the Officer Governance Group and to form a network of Governance Champions.
- 2.2 Two meetings were held, in September and November 2014, to develop the new group. The group seeks to bring key representatives from across the organisation together, on a quarterly basis, to:
- Identify, discuss and prioritise governance issues;
 - take action to resolve issues or propose resolution for relevant approval and implementation;
 - challenge system and process (old and new);
 - review assurances around compliance;
 - communicate key messages out across organisation;
 - streamline reporting/escalation of issues and ensure duplication of effort is identified and removed.
- 2.3 The group will maintain a robust record of issues raised and a detailed action plan to capture outcomes and achievements. Actions will be nominated to responsible officers for progression in between meetings and the network of other officer groups such as Health and Safety will be used ensure that actions and communications are being taken forward via the most efficient and effective method.
- 2.4 The group will report issues into Corporate Management Team by exception and the actions planned and taken by the group will be made available for information after each meeting.

3. Production of the 2014/15 AGS

- 3.1 The significant issues raised in the 2013/14 Annual Governance Statement are contained for information in Appendix A.
- 3.2 The process to develop the AGS is well established and has been running successfully for a number of years. The above review of arrangements also considered this process and two conclusions were reached:
- 1) The issues on the AGS, over time, have become very high level and ultimately difficult to remove.
 - 2) The paper based approach to obtaining assurances from Senior Management needs to be reviewed.

- 3.3 The new Group seeks to address both these issues. It is hoped that through: active participation of representatives throughout the year; seeking input from Senior Management on the resolution of live governance issues and the group reviewing key assurances around compliance with the Governance Framework the AGS can become a live document that is developed in year as part of business as usual without the need for an additional process to be completed.
- 3.4 The next meeting of the Governance Group is planned for February 2015 and work to develop the action plan and communicate out responsibilities to the group is planned for November so it is expected that significant progress will have been made and recorded by the February meeting. An update report including progress with regard the 13/14 significant issues will be presented to the Audit Committee in March 2015.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised. The risks of our arrangements not complying with best practice may lead to the Council not being viewed as open and transparent by stakeholders. Failure to produce a robust AGS could result in the Council's Accounts being qualified.

Legal implications and risks:

The Council is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk. (Regulation 4(1) Accounts and Audit (England) Regulations 2011/817.)

The Council must carry out an annual review of the effectiveness of its system of internal control which must be considered by the relevant committee and in the light of that review produce an annual governance statement prepared in accordance with proper practices in relation to internal control (Regulations 4 (2) and (3) Accounts and Audit (England) Regulations.

There are no apparent risks in noting the content of this Report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report. Equality and social inclusion are key factors to consider in the Council's Governance arrangements and any changes to the Code of Governance or other related policies and procedures are assessed in order to ensure the impact is appropriately identified. The Governance Group is attended by someone with Equalities expertise.

BACKGROUND PAPERS

Annual Governance Statement 2013/14.

CIPFA/Solace – current 'Delivering Good Governance in Local Government' framework.

This page is intentionally left blank

Appendix A – significant issues from 13/14 Annual Governance Statement

Significant Issue and action already taken	Planned action	CMT Lead
<p>1. Information Governance – protection of personal data, data sharing and quality</p> <ul style="list-style-type: none"> ➤ Information Governance Group in place. ➤ Revised guidance and e learning rolled out. ➤ Action plan produced and monitored. ➤ Meeting the requirements for N3 (to NHS) connection for Social Care. ➤ Corporate Risk monitored. ➤ CoCo Compliance achieved. ➤ Audit work undertaken and recommendations implemented. 	<ul style="list-style-type: none"> ➤ Further communications campaign. ➤ Focus on risks around partners and suppliers. ➤ Voluntary assessment by Information Commissioner. ➤ Data Quality checks and Performance Indicators around Information Governance have been implemented and will continued to be reviewed. 	<p>Group Director Communities and Resources.</p>

Significant Issue and action already taken	Planned action	CMT Lead
<p>2. Austerity – having to maintain services with fewer resources.</p> <ul style="list-style-type: none"> ➤ Embedded approach and governance around transformational activity linked to savings plans including impacts assessed and assurance work on savings delivery. ➤ On-going monitoring of savings and new process in place. ➤ Increased work on benefits of partnerships and collaborative working. ➤ Update to Business Growth Strategy. ➤ Medium to Long term financial strategy set out. ➤ Supply Chain Risks mitigated via use of construction line. ➤ Assessment of potential four year gap undertaken and reported to CMT and Cabinet. 	<ul style="list-style-type: none"> ➤ Plan in place to develop new financial strategy for discussion with Cabinet post election. ➤ Implementation of oneSource shared service which will deliver quantified savings. ➤ Wide range of detailed work underway on new social care legislation and funding arrangements. ➤ Audits will continue to focus on higher risk areas. ➤ Scheme of Delegation to be subject to closer scrutiny and the effect of the removal of resources considered. ➤ Business Continuity plans to include ensuring that key procedures are documented and kept up-to-date. 	<p>Group Director Communities and Resources.</p>

Significant Issue and action already taken	Planned action	CMT Lead
<p>3. Pace of Organisational Change – ensuring governance arrangements are revised and remain appropriate given the significant changes in the organisation and through partnership arrangements with third parties.</p> <ul style="list-style-type: none"> ➤ oneSource Joint Committee established. ➤ One Oracle – red risks identified with programme board for resolution. ➤ Wider representation on Governance meetings. 	<ul style="list-style-type: none"> ➤ Increased frequency is planned for review of governance framework. ➤ Audit and Risk work planned. ➤ New management Structure to be embedded. ➤ A list of policies and strategies the organisation holds has been created and will be updated and reviewed regularly. ➤ To ensure that members induction following a new administration is clear regarding their powers and responsibilities. ➤ To ensure that CMT are equipped to manage the potential for ‘change fatigue’ across the organisation with the next round of savings to be made. ➤ Managing the impact of new legislation on Social Care and ensuring effective joined up working with the NHS. 	<p>Chief Executive</p>

Significant Issue and action already taken	Planned action	CMT Lead
<p>4. Compliance – ensuring that policy, procedure and roles and responsibilities are fit for purpose, appropriately approved, clearly defined and communicated to and understood by all and that compliance levels are maintained during period of significant change and reduced capacity.</p> <ul style="list-style-type: none"> ➤ Awareness of issue and roles and responsibilities raised. ➤ Draft corporate policy framework has been produced that attempts to clarify definitions and approval routes. ➤ Management Development Programme has commenced. ➤ Review of policies. 	<p>Communications from Head of Strategic Human Resources and Organisational Development & Internal Audit.</p> <p>Corporate Management Team to consider compliance arrangements in context of governance framework.</p> <p>Governance Group to discuss the outcome of the review of policies.</p> <p>Improvements to Intranet to aid self-service and clear communication.</p> <p>Review and update of key policies and procedures as key activity of every transformational project.</p> <p>Audit work to provide assurance.</p>	<p>Chief Executive</p>

AUDIT COMMITTEE

2 December 2014

Subject Heading:

Fraud Progress Report
1st July to 30th September 2014

Report Author and contact details:

Vanessa Bateman: Internal Audit &
Corporate Risk Manager
ext: 3733
email: vanessa.bateman@oneSource.co.uk

Policy context:

To advise the Committee of the work and performance of the Council's anti fraud and corruption resources and update on recent developments with regards the resources.

Financial summary:

This report details information relating to fraud and special investigations. There are no direct financial implications arising from this report which is for information only.

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 Internal Audit Corporate Fraud Team and the Investigations Team from 1st July to 30th September 2014.

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 to the cases highlighted or the performance of the respective teams.

REPORT DETAILS

1. FRAUD RESOURCES UPDATE

1.1 OneSource Service Review and Single Fraud Investigation Service Transfer

1.1.1 At the end of September the Service Review had moved onto the 'To Be' phase of the process looking at requirements of the service going forward. It is still envisaged that the implementation of changes implemented following this review will lead to the delivery of savings which will contribute towards the achievement of oneSource business case.

1.1.2 The timetable for transfer of resources to the Department of Work and Pensions to join the Single Fraud Investigation Service is now working towards the transfer date of 01 April 2015. This process will be run in conjunction with the formal change management process affecting the teams in both council's, which is expected to begin November 2014.

1.2 Budget & Cost Information

1.2.1 The estimated cost of the posts within the audit section devoted to Corporate Fraud activity is outlined in the table below.

ESTIMATED COSTS 2014/15	
Expenditure	
Salaries	£140,110
Other Costs (incl. recharges)	£32,280
Cost of team	£172,390

1.2.2 The estimated cost of the Investigations Team is outlined in the table below.

ESTIMATED COSTS 2014/15	
Expenditure	
Salaries	£206,882
Other Costs (incl. recharges)	£113,820
Income*	(£91,546)
Net cost of team	£229,156

* income received in the team fluctuates significantly each year, in 12/13 we received £34,442 and in 13/14 we received £28,185. There has been a significant increase in 14/15 due to proceeds of crime money being received. The average income received through investigations for the last three financial years is £51,391.42.

CORPORATE FRAUD TEAM: UPDATE JULY TO SEPTEMBER 2014

1.3 Delivery of the Anti-Fraud and Corruption Strategy

- 1.3.1 Work has been delivered to further develop a fraud aware workforce through an on-going programme of training. During Quarter 2, training was provided on the Prevention and Detection of Fraud to Director of Exchequer and Transactional Services Management Team and the Head of Regulatory Services Management Team. In addition the corporate induction which includes a session on fraud has been delivered to new starters and apprentices joining the authority.
- 1.3.2 The Corporate Fraud Team also works to raise the Authority's awareness of the risk of fraud and appropriate responses to fraud through the on-going provision of advice and assistance to Directors and Heads of Service.
- 1.3.3 The Team also participates in the learning and sharing of best practice through the National Anti-Fraud Network and actively works with neighbouring boroughs to share learning and appropriate data.

1.4 Proactive Fraud Investigations

- 1.4.1 The Corporate Fraud Team's proactive fraud work comprises three elements:
- A programme of proactive fraud audit investigations;
 - Co-ordinating the Authority's investigation of the National Fraud Initiative (NFI) data; and
 - Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.
- 1.4.2 The proactive work plan for 2014/15 is shown in the table in Appendix A. During Quarter 2 progress was made on the plan.
- 1.4.3 The team's data matching work for the National Fraud Initiative (NFI) is on-going.
- 1.4.4 There has been increasing utilisation of the resources within the Investigations Team to support the work objectives of the Corporate Fraud Team in this period to ensure most effective use of Council resources and prioritisation of work. In 2.5.3 an example of the outcome of this work has been provided.

1.5 Reactive Fraud Cases: JULY to SEPTEMBER 2014

1.5.1 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed.

Caseload Quarter 2 2014/15						
Team	Cases at start of period	Referrals received	Referrals rejected/ overloaded	Fraud not Proven Cases	Success - ful Cases	Cases at end of period
Corporate	19	25	0	11	12	21

1.5.2 The table below provides information on the sources of fraud referrals to the Corporate Fraud Team.

Source of Referrals & Fraud Reports Quarter 2 2014/15	
Number of Referrals/ Type	IA Fraud Reports Qtr 4
Anonymous Whistleblower	2
External Organisations / Members of the Public	3
Internal Departments	18
Total	23

1.5.3 The table below shows the number and categories of potential Corporate Fraud cases reported in the Quarter 2 period and the number of cases open at the end of the period.

Reports by Category		
Potential Fraud	Previous Cases Qtr 2	Current Cases end of Qtr 2
PC – Misuse and Abuse	4	3
Breach of Code of Conduct	6	9
Breach of Council Procedures	1	1
Misuse of Council Time	0	1
Direct Payments	3	4
Safeguarding	0	0
Overpayment of Pension	0	0
Security	1	0
Theft	0	2
Disabled Facility Grant	2	1
School Admissions	2	0
Total	19	21

1.5.4 The table below shows the case outcomes for the Internal Audit Corporate Fraud Team from July to September 2014.

Case Outcomes	
Outcome	Qtr 1
Management Action Plan	4
Resigned	0
Disciplinary	2
Dismissed	1
No case to answer	12
Reduced Direct Payment Service	1
Withdrawn Application	2
Prosecution	1
Total	23

1.6 Savings and Losses

2.4.1 The investigations carried out by the Corporate Fraud team provide the Council with value for money through:

- The identification of monies lost through fraud and the recovery of all or part of these sums; and
- The identification of potential losses through fraud in cases where the loss was prevented.

2.4.2 The table in Appendix B shows the savings and losses identified during 2014/15 up until the end of Quarter Two.

2.5 Successful Fraud Cases.

Details of one successful Disability Facility Grant prosecution.

2.5.1 Mr X completed an Application for Disability Facility Grant (DFG) form on behalf of his disabled wife to obtain funding to build a single storey rear extension to their house, Rainham, with extensive internal alterations to create a downstairs bedroom and bathroom to meet Mrs X's needs.

Investigations revealed that Mr X failed to declare that he and his wife owned another property in Rainham, had a rental income and held more than one bank account.

On 11 March 2014 Mr X attended an interview under caution accompanied by his solicitor. Mr X admitted to:

- Purchasing second property on 23 December 2009 for £138,000
- A monthly rental income of £710 from this property
- Holding another bank account and failing to provide the statements

Audit Committee 2 December 2014

The Private Sector Housing Manager confirmed that because of Mr X's admission of property and rental income at the interview under caution on 11 March 2014 Mr and Mrs X were not eligible to receive a Council grant of £30,000.

Internal Audit referred the case for prosecution

Mr X was found guilty under Section 2 Fraud Act 2006 on two counts.

On 30 September 2014 Mr X was:

- Sentenced to 18 weeks imprisonment, suspended for one year.
- Ordered to pay £700 cost to the Council
- Ordered to pay £80 victim charges.

Details of one employee Disciplinary Outcome.

2.5.2 An employee was dismissed for 'Internet Misuse and Abuse'. The analysis found:

- Personal use of the internet on the 34 days amounted to a minimum of 32 hours 36 minutes
- The average duration of personal use of the internet during the 'paid working day' was 57 minutes per day.

The employee also admitted accessing and viewing inappropriate sites via You Tube.

Details of the Practical Proactive Blue Badge Fraud

2.5.3 Partnership working between, the Corporate Fraud Team, Investigation Team, Parking Services and the Safer Transport Team was carried out on Thursday 21 August 2014 to seize 'Blue Badge' from those who were using them illegally.

A total of seven blue badges were seized in a clampdown on fraudulent use of the disabled permits in Romford Market. The Audit Commission values the confiscation of a Blue Badge @ £1,000 each.

3.1 BENEFITS AND HOUSING TENANCY INVESTIGATIONS UPDATE JULY TO SEPTEMBER 2014

3.1.1 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed.

Caseload Quarter 2 2014/15						
Team	Cases At start of period	Referrals received	Referrals rejected/ overloaded	Cases of Fraud not Proven	Success -ful Cases	Cases at end of period
HB & CTS	344	97	52	45	39	305
HT	60	23	-	10	6	67
TOTAL	404	120	52	55	45	372

3.1.2 The table below provides information on the sources of fraud referrals made to the Housing Benefit, Council Tax and Housing Tenancy fraud sections during the period.

Source of Referrals & Fraud Reports Quarter 2 2014/15			
Type and Number of Referrals	HB/CTS Referrals	HT Referrals	Total
Anonymous	29	6	35
External Organisations / Members of the Public	2	2	4
Internal Departments / Whistleblowers	41	2	43
Social Landlords (inc H&H)	25	13	38
Data Matching / Proactive initiative	-	-	-
Total	97	23	120

3.1.3 The table below shows the categories of the potential Housing Benefit and Council Tax Benefit fraud referrals in the period.

Referrals by Category	
Potential Fraud	Quarter 2 14/15
Capital	4
Income from Other Sources	4
Living Together	39
Non-Dependant	3
Non-Resident/vacated	7
Working	16
Non Commercial Tenancy	1
Contrived	1
Tenancy Fraud	21
Other	1
Total	97

3.1.4 The table below shows the categories of the potential Housing Fraud referrals in the period.

Referrals by Category	
Potential Fraud	Qtr 2 14/15
Subletting	15
Not main/principal home	6
Fraudulent RTB	-
Fraudulent Housing Register Application	1
Fraudulent Mutual Exchange	1
Total	23

3.1.5 The table below shows the current benefit caseload by category.

Current Cases by Category	
Potential Fraud	As at end of September 2014
Capital	28
Contrived Tenancy	8
Income from Other Sources	28
Living Together	107
Non-Dependant	16
Non-Resident/vacated	35
Other welfare benefits	-
Working	31
Non Commercial Tenancy	4
Other	3
Single Person Discount	6
Tenancy Fraud	39
Total	305

3.1.6 The table below summarises the number and types of successful outcomes for cases completed by the benefits fraud team during the period.

Successful Outcomes			
Sanction/ Offence Type	Administrative Penalties	Cautions	Prosecutions
Capital	4	-	2
Working & Claiming	2	1	-
Living Together	4	-	4
Non Residence	-	-	-
Contrived Tenancy	-	-	-
Other Income	2	-	-
Non Dependants	-	-	-
Total	12	1	6

3.1.7 The case outcomes for the Housing investigations from July to September 2014 are detailed in table below.

Successful Outcomes	
(Note: Cases may have multiple outcomes)	
Outcome Type	Qtr2 14/15
Tenancy Relinquished voluntarily (keys handed in)	4
Property recovered via court action	1
Indefinite Suspended Order	-
Housing Register application withdrawn	2
Prosecution	-
Total	7

3.2 Successful Benefit and Housing Fraud Cases.

Details of three successful benefit prosecution cases are provided below.

- 3.2.1 A benefit claimant was sentenced to a year in custody, after an investigation established that she had been living with her husband throughout the period of her benefit claim where she had claimed Housing & Council Tax benefit and a variety of DWP benefits as a lone parent. The claimant, Miss X never advised that she had married and continued to use her maiden name in her claims for benefit. Following data match information, initial enquiries established details of the partner, Mr Y, and his residence at the claim address. Further financial links between the couple, who had two children together, were verified and a warrant to search the property was arranged. Mr Y was at the property on the morning of the arrest. He claimed that the couple had married a few months previously but the marriage certificate was found and confirmed that they had been married since 1997. The total overpayment amounted to £117,962.59. The claimant pleaded guilty at Court where the Judge stated that due to the circumstances of the case, only a custodial sentence was justified.
- 3.2.2 A referral was received from a member of the public which stated that Mrs X had a house which she had put in her son's name and had also received a lot of money which she had not declared. A joint investigation was initiated and it was discovered that Mrs X had been the sole beneficiary of a will belonging to Mrs Y. She was left a sum of money and the property. When probate was granted, £40,000 was paid into Mrs X's bank account. She then transferred £33,000 to her son's accounts. The property was then sold for £239,500 and the money given to her son. Mrs X continued to claim Housing and Council Tax benefit and pension credits. Mrs X was interviewed under caution twice. She stated that she believed that she had done nothing wrong and that she had been left a property and money by a late dear friend of hers. She confirmed that she had given the money and the property to her son as she did not need the money herself. Further enquiries were made with relatives and neighbours of Mrs Y, who stated that Mrs X had been her cleaner not her friend. At Court Mrs X pleaded guilty to failing to declare the capital resulting in an overpayment of £36,000.00.

- 3.2.3 A claimant who failed to declare capital from her divorce settlement obtained a criminal record for incurring an overpayment of £68,306.96. The claimant, Mrs X, was in receipt of Housing and Council Tax Benefit and Pension Credit. A joint investigation established that the most capital the claimant had in her account was £71,592.27 in 2006 which decreased to £25,426 in 2013. When interviewed under caution, Ms Y admitted that she should have notified the DWP and Council of her money and apologised for her deviousness. She claimed that the money had been used to pay for bills and expenses and had used a lot of the original capital for debts and money owed to family. Mrs X pleaded guilty at Court to two counts of failing to declare her true financial circumstances and received a 30 week suspended sentence for 18 months and a supervision order.

Details of three successful housing tenancy cases are detailed below.

- 3.2.4 Following an allegation of non-residence, the Investigation Officer visited the Council property which, from the outside, appeared to be in very poor condition. The Officer called at the neighbouring bungalow where the resident complained about the state of the property and the garden. The neighbour was aware that the tenant, Mr X lived with his girlfriend in the same road. After establishing the identity and address of the girlfriend, the Officer and a colleague carried out an early morning visit to her property. Ms Y answered the door and stated that she was at the property alone. The Officers noticed that there was male clothing at the address and asked to be shown around. They saw a child sleeping in one of the bedrooms and found the tenant Mr X in bed in the main bedroom. Ms Y admitted that she had lied and that Mr X did stay over. Personal effects and possessions belonging to Mr X were also seen at the address. The officers spoke to Mr X and Mrs Y in respect of their tenancy and benefit obligations. A few days later, Mr X contacted the Officer to advise that he wished to relinquish his tenancy.
- 3.2.5 Mr X had an authorised occupant, Miss Y renting part of his Council property although it only had one bedroom. It was suspected that he actually sublet the whole property to her and her boyfriend. Neighbours confirmed that they only saw a young woman and her boyfriend at the address. Miss Y was eventually found at the property by Officers conducting evening visits. She claimed that she rented the bedroom from the tenant, Mr X, and that he slept on the sofa as he didn't get in until late at night. Her boyfriend was also present and said that he lived at his parents' address. The Investigating Officer went back to the property the following morning and Mr X answered the door. He had some documents in an envelope but didn't have any recent correspondence. He claimed that the male clothing in the wardrobe was his and stated that he stayed occasionally with an elderly couple who he was looking after. The Officer persisted with her enquiries and left messages for Miss Y to make a statement but failed to receive a response. She also visited the address of the elderly couple where Mr X was found in residence. He voluntarily handed in his keys to his Council property.
- 3.2.6 Genesis Housing contacted the team requesting help for a sub-letting situation in one of their properties. The legal tenant had not been seen by

neighbours, but a young man, his partner and baby were using the property. Initial investigations revealed that the legal tenants were residing at Norwich and the Investigator suspected that their daughter, who had recently had a baby, had remained in the property. This was corroborated by obtaining the child's birth certificate which provided details of both parents at the address. The property was visited by our Investigator and the Genesis Tenancy Officer. A Miss X answered the door and confirmed that her Mother, Mrs Y, was the tenant and still lived there. However, after inspecting the property it was evident to the officers that this was not the tenant's main and principal home and a Notice to Quit was served. Mrs Y, the tenant was called in for interview and initially claimed that she still resided there. After being shown the evidence, Mrs Y admitted that she had moved but had allowed her daughter and family to reside there as they didn't have anywhere else to live. A report was sent to Genesis who put the matter in the hands of their solicitors. However, the tenant handed back the keys before any legal action took place.

3.3 HB/CTB/CTS Fraud Overpayments

3.3.1 The value of fraudulent housing benefit overpayments generated by the team for the first quarter of 2014/15 and the year to date are contained in table below.

Fraudulent Overpayment		
Type	Qtr 2	To date
Rent Rebate	£192,860.21	£350,756.65
Rent Allowance	£223,310.29	£340,013.74
Council Tax Support	£57,686.57	£95,451.90
Total	£473,857.07	£786,222.29

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications or risks arising directly from this report which is for information only.

However, 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 benefits to which claimants are not entitled to, which are to be recovered by the Council. It should be noted that both the transfer to SFIS and the outcome of the oneSource service review will have financial implications. These will be separately assessed and raised through the appropriate channels as required.

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.

Appendix A: Corporate Fraud Proactive Audit Plan 2014/15

Description	Risks	Plan days	Qtr 1 Status
Grants	Identification of grants provided to charity organisations to inspect and confirm that supporting documentation for expenditure is valid and used for the purpose intended in the original application or as stipulated by the Council on approval of the grant. Review formal acceptance documentation and payment and bank records to ensure payments are accounted for.	20	In progress
Payment of Election expenses	Review appointment of staff, entitlement, and payment of fees/arrangements including postal votes and counting. Completion of claims and receipt.	10	In progress
Learning & Physical Disability Residents	Review bank accounts, building society accounts, income and expenditure records and receipts.	20	Final Report
Internet Abuse - Review of blocked sites	Bluecoat reporting to ascertain if employees are attempting to access blocked internet sites.	10	In progress
Blue Badge	Identification of procedures to ensure records retained and maintained and badges are recovered following death. That badges are used in accordance with the legislation.	10	In progress
NNDR	A full review of the NNDR process to gain a position statement and establish the recovery levels to date and possible weaknesses in system particularly with Charities and 'Pop Up Shops'	20	Planned for End October
Direct Payment Assessments	This to include the assessment and payment calculations and follow ups with the Care Assessors to establish processes and evaluate controls.	15	Planned
Employee	This could involve any applications,	20	Planned

Description	Risks	Plan days	Qtr 1 Status
Applications	including attempts, to gain employment or subsequently where any of the details prove to be false including, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.		
Procurement of Services	False payments to contractors for house modifications, either by internal or external persons or companies including, but not limited to: violation of procedures; manipulation of accounts; records or methods of payment; failure to supply; failure to supply to contractual standard.	15	Planned
Debt Avoidance	This is any fraud linked to the avoidance of a debt to the organisation including, but not limited to: council tax liabilities (do not include SPD from question 4.1); rent arrears; false declarations; false instruments of payment or documentation.	15	Planned
Payroll	This includes, but is not limited to: the creation of non-existent employees; unauthorised incremental increases; the redirection or manipulation of payments; false sick claims; not working required hours; or not undertaking required duties.	30	Planned
NFI	The match identifies addresses where the householder is claiming a council tax single person discount on the basis that they are the only occupant over 18 years of age yet the electoral register suggests that there is somebody else in the household who is already or approaching 18 years of age. This may or will make the SPD invalid.	30	Planned
	TOTAL	215	

Appendix B: Savings, Losses and Potential Recoveries 2014/15

Case details	Qtr reported	Savings Identified	Losses Identified	Details
Application for Disabled Facility Grant	Qtr 1	£9,895		Applicant submitted a quote from what appeared to be a bogus contractor. When challenged to provide evidence of the contractor applicant withdrew the Disability Facilities Grant Application.
False Declaration for Disabled Facility Grant	Qtr 1	£30,000		Applicant declared not to have any assets or other income. Investigation proved owns another property and has a rental income. Court sentence applied
PCN's paid for on Purchase Card	Qtr 1	£110		Employees work related parking fines paid via the Council's Purchase Card.
Possible Theft - RS	Qtr 1	£25		Employee falsified a receipt and a medical letter to obtain an additional £25.00 expense claim.
Direct Payment Fraud - Mrs R	Qtr 1	£11,090	£24,170	Mrs X did not maintain a dedicated bank account or timesheets and double handed care did not correspond with carer's invoices. Reassessment of care reduced to single handed care package of 2:25 hours per day annual saving to the Council of £11,090.
Application for Disabled Facility Grant	Qtr 2	£700		Council's prosecution costs following court sentence.
7 Blue Badges	Qtr 2	£7,000		7 Blue Badges estimated savings by Audit Commission minimum £1k each.
Total		£58,820	£24,170	£24,170 loss can not be recovered by the Council.

Key:

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.

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