



Haverling

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

AUDIT COMMITTEE AGENDA

7.30 pm	Wednesday 11 March 2015	Committee Room 3B - Town Hall
----------------	------------------------------------	--

Members 6: Quorum 3

COUNCILLORS:

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

**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 - 10)

To approve as correct the minutes of the meeting held on 2 December 2014 and authorise the Chairman to sign them.

5 2013/2014 AUDIT REPORT OF GRANT CLAIMS AND RETURNS (Pages 11 - 32)

Report attached.

6 INTERNAL AUDIT PROGRESS REPORT - 29TH SEPTEMBER 2014 TO 4TH JANUARY 2015 (Pages 33 - 86)

Report attached.

7 FRAUD PROGRESS REPORT - 1ST OCTOBER TO 31ST DECEMBER 2014 (Pages 87 - 102)

Report attached.

8 BLUE BADGE AND NATIONAL FRAUD INITIATIVE 2012/13 - FINAL SUMMARY REPORT (Pages 103 - 108)

Report attached.

9 INTERIM AUDIT PLAN 2015/16 (Pages 109 - 114)

Report attached.

10 ANNUAL REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE (Pages 115 - 130)

Report attached.

11 ANNUAL REPORT OF THE AUDIT COMMITTEE (Pages 131 - 144)

Report attached.

12 CORPORATE RISK REGISTER (Pages 145 - 152)

Report attached.

13 ACCOUNTING POLICIES 2014/15 (Pages 153 - 172)

Report attached.

14 CLOSURE OF ACCOUNTS TIMETABLE 2014/15 (Pages 173 - 216)

Report attached.

15 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.

16 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.

17 TREASURY MANAGEMENT UPDATE - QUARTER 3 2014/15

Confidential report for members of the Committee only.

18 SURTEES CONTRACT

Confidential report for members of the committee only. To follow.

**Andrew Beesley
Committee Administration
Manager**

This page is intentionally left blank

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
2 December 2014 (7.30 - 8.35 pm)**

Present:

COUNCILLORS:

Conservative Group Frederick Thompson (in the Chair), Viddy Persaud

Residents' Group Julie Wilkes (Vice-Chair)

**East Havering
Residents' Group** Clarence Barrett

UKIP Group Philip Hyde

**Independent Residents
Group** Graham Williamson

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

19 MINUTES OF THE MEETING

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

20 ANNUAL AUDIT LETTER

PricewaterhouseCoopers (PWC) the council's External Auditors had delivered their annual audit letter to the committee summarising the result of their 2013/14 audit. The Committee was advised that there were no changes between the information provided at their last meeting when they had considered the report to those charged with Governance – International Standard of Auditing (ISA) 260.

The Committee's attention was brought to some variances in the proposed fees. These were:

- Overruns incurred during the final audit (£8,063);
- Additional targeted work undertaken in respect of oneSource to inform PWC's value for money conclusion (£6,666).
- Changes in the Audit Commission certification regime, which required PWC 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, £0 for Council Tax Support; and
- Additional audit work in relation to the additional risk in relation to pooled investment vehicles and the Pension Fund Annual Report (£3,645).

PWC indicated that they were currently in the process of agreeing the fees described above, that were in addition to the scale element, with the Audit Commission, and would report the final position in due course.

PWC's fee for certification of claims and returns was yet to be finalised for 2013/14 and would be reported to those charged with governance at a later date within the 2013/14 Annual Certification Report.

The Committee **noted** the report.

21 **CLOSURE OF ACCOUNTS TIMETABLE 2014/15**

Officers informed the Committee that the Council had successfully closed its accounts and prepared its Financial Statements for 2013/14. There were a number of technical changes required under the Code of Practice and for local reasons in 2014/15. The priority for the closure programme was to ensure that all key activities had been captured in the timetable and roles and responsibilities identified and understood.

The following key issues would need to be addressed during the 2014/15 closedown.

- **Voluntary Aided and Foundation Schools**

In October 2012, the Chartered Institute of Finance and Accountancy (CIPFA) had 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 had recommended that Foundation and voluntary aided schools should not normally be recognised on the balance sheets of local authorities as their assets were not usually deemed as being owned by the authority. Arising from this, and on the direction of the Council's auditors PricewaterhouseCoopers, the Council had removed these schools from its balance sheet.

However, following adoption of IFRS 10 Consolidation of Financial Statements, CIPFA was now of the view that "the single entity financial statements were 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 were defined as community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools; accordingly, voluntary aided and Foundation schools would need to be brought back on to the Council's balance sheet for 2014/15.

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

- **Infrastructure Assets**

Infrastructure assets included roads, highways, bridges and street furniture. These assets were currently recorded on the Balance Sheet on a Depreciated Historic Cost (DHC) basis. The Whole of Government Accounts guidance had included a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis since 2012/13. It would 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 had now been deferred to 2016/17. But it would represent a change in accounting policy from 1 April 2016 and would 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.

Officers were therefore establishing information collection arrangements to apply full retrospective restatement resulting from the measurement of transport infrastructure to enable the Council 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 would also need to disclose in the 2015/16 financial statements

- i) narrative explaining that transport infrastructure assets were 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.

- **One Oracle**

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

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

- **oneSource**

The Council had entered a joint arrangement with Newham from April 2014 for the provision of back office services. Development of this was on-going, but there would be additional disclosures required in the notes to the accounts and the recharging process between the two Councils needed to be included in the closedown timetable.

However, oneSource posed risks to closedown in that key staff were supporting Newham in implementing One Oracle. Additionally, the implementation of new structures in oneSource services meant that closedown duties of individual staff might be changing.

The implications of this were that;

1. critical parts of the accounts might not be completed in accordance with the timetable, with consequential impact on subsequent deadlines; and
2. there was a potential need for additional audit work, and an increased risk of adverse audit findings in the auditors' ISA260 report.

- **Progress to Date**

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

The guidance notes were being consulted upon and would be issued in early January 2015.

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

In closing the accounts for 2014/15 officers would ensure that all matters raised by PWC in the report to Management were addressed. These included:

- **Bank A/c**

All five bank accounts were reconciled by the due date, but the wrong documentation had initially been supplied to the auditors. These accounts were reconciled on a daily basis and had a monthly summary/reconciliation at the end of each month and at the end of year. Receipts were cleared on a daily basis, and any items not allocated at the end of each day were dealt with as information came 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 had been 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 had contributed to temporary under resourcing in the Team, although it continued to fully cover the bank reconciliation workload.

- **Payroll Rec**

The payroll reconciliation had been handed over to Payroll during 2013/14, but support had been required at the year end from the Systems Team. This function was now undertaken by Payroll, who were completing it on a monthly basis. With the introduction of OneOracle a payroll reconciliation report was now available.

- **Accruals and revenue Financing for Capital**

In the 2013/14 accounts, the auditors had 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 would be liaising with Operational Finance to ensure cost centre managers were aware of the accounting requirements relating to the raising of accruals and to capital expenditure.

The Committee **noted** the report.

22 **INTERNAL AUDIT PROGRESS REPORT - 30TH JUNE 2014 TO 28TH SEPTEMBER 2014**

The Committee received the report from officers on the work of the Internal Audit team during the period 30 June to 28 September 2014. The Internal Audit & Corporate Risk Manager reported that the team currently had one vacancy as an auditor had been seconded to undertake fraud work. Additionally a second member of the team commenced maternity leave in October 2014. The result of this was that as at the end of September there was a shortfall of 100 days in the time required to deliver the 2014/15 work plan. Due to the restructure there were no plans to address this by employing agency workers, but the shortfall would be closely monitored and other options to reduce the shortfall would be considered and implemented.

Officers advised that by the end of September 12 assignments had been completed with eight in progress. Work had also been 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 2013/14.

The table below details the final reports issued in quarter 2:

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

Seven risk based systems audit were nearing completion as was one school audit.

Officers also provided details of changes to the approved 2014/15 audit Plan and an update on outstanding recommendations.

The Committee sought clarification on a number of the audit reports.

Firstly the committee expressed concern that there were no agreements in place at MyPlace for the replacement of equipment being used within MyPlace. Officers agreed to take this away and look at ways of remedying this potential problem.

Secondly the Committee expressed concern that in some areas only two people were involved in the BACS process. Whilst management had made arrangements to ensure both staff were not on leave at the same time, there were no safeguards against unplanned absences. The audit report concluded that the lack of business continuity arrangements in place was sufficient to put system objectives at risk. The Committee supported this conclusion.

The final area identified by the Committee related to the audit of Gas Safety Regulations – Home Ownership. Back in 2012 an executive decision had been taken that leaseholders of council housing properties would be required to provide an annual gas safety certificate.

At the start of the review there were 2,315 leasehold properties. On initial testing audit had found that eight out of 40 gas safety certificates were not located on the computer file. A further had been 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.

The deadline for the receipt of all gas certificates had been July 2014. At the end of July 1,092 had still not been received,

The Committee expressed concern that Homeownership did not have sufficient resources to chase up the outstanding certificates.

The Committee **noted** the report.

23 GOVERNANCE UPDATE

Officer advised the Committee that Governance was about how councils ensure that they were doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprised the systems and processes, and cultures and values, by which councils were directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

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 enabled the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk.

High standards of conduct and leadership were 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.

Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 required all relevant bodies to prepare an Annual Governance Statement (AGS) which must accompany the Annual Statement of Accounts. The purpose of the AGS was to communicate to stakeholders the standards of Corporate Governance the organisation demonstrates and identify any significant issues that had arisen in year, and what was planned with regards to addressing these issues.

The process to develop the AGS was well established and had been running successfully for a number of years. The review of arrangements had also considered this process and two conclusions had been reached:

- 1) The issues on the AGS, over time, had become very high level and ultimately difficult to remove.
- 2) The paper based approach to obtaining assurances from Senior Management needed to be reviewed.

The new Group had sought to address both these issues. It was 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 could become a live document that was developed in year as

part of business as usual without the need for an additional process to be completed.

The Committee **noted** the report.

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

The Committee received a report covering the work of the Internal Audit Corporate Fraud Team and the Investigations Team for the period 1 July to 30 September 2014.

Officers advised that 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 was still envisaged that the implementation of changes implemented following this review would lead to the delivery of savings which would contribute towards the achievement of the oneSource business case.

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

The report showed the current workload of the fraud team:

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

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

The Benefits and Housing Tenancy Investigations Team had also been busy. Details of the caseload was set out below:

Caseload Quarter 2 2014/15						
Team	Cases At start of period	Referrals received	Referrals rejected/overloaded	Cases of Fraud not Proven	Successful 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

Details of a number of successful prosecutions were provided for the Committees information.

The Committee **noted** the report.

25 **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.

26 **TREASURY MANAGEMENT UPDATE QUARTER 2**

The Committee have received an update on the position of Treasury Management for the second quarter of 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

This page is intentionally left blank

<p>AUDIT COMMITTEE</p> <p>DATE: 11 March 2015</p>	<p>REPORT</p>
--	----------------------

Subject Heading:	2013/2014 AUDIT REPORT OF GRANT CLAIMS AND RETURNS
CMT Lead:	Andrew Blakeherbert
Report Author and contact details:	Lilian Thomas Corporate Finance - Senior Accountant Tel: 01708 431057 Lillian.thomas@havering.gov.uk
Policy context:	The Audit Committee are required to review the outcome of the Authority's grant claims process for audited grant claims relating to the financial year 2013/2014.
Financial summary:	Core audit fees: £22,565 Additional audit fees: £18,500

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

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

SUMMARY

The 2013/2014 audit process was completed by the Audit Commission's representative, PricewaterhouseCoopers.

This report updates the Committee of the position regarding the final version of the 2013/2014 audit report of grant claims and returns and subsequent Action Plan for the 2014/2015 process.

The 2014/2015 Action Plan can be found at Appendix 1. The 2013/2014 Action Plan and progress made can be found at Appendix 2 and the certification report from PricewaterhouseCoopers can be found at Appendix 3.

RECOMMENDATIONS

The Committee is recommended to:

1. review the outcomes of the 2013/2014 grant claims process
2. raise any issues of concern with officers on specific grant claims
3. note the year-on-year grant claims performance
4. otherwise note the report.

REPORT DETAIL

Overall summary of the 2013/2014 audited grant claims compared to 2012/2013.

1. Performance

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

There were 2 grants noted on the Audit Commission Index that required audit certification, in 2013/2014, compared to 4 in 2012/2013.

- 1.2 Both grants audited for 2013/2014 have now been certified.

- 1.3 To date there are no amendments to claims for 2013/2014, compared to 1 amended in 2012/2013.
- 1.4 1 claim was qualified for 2013/2014, compared to 2 qualified in 2012/2013

The qualified grant claim is:

BEN01 – Housing and Council Tax Benefits Scheme. This grant was also subject to a qualification in 2012/13.

The agreed recommendations regarding the above can be found in the 2014/2015 Action Plan (see Appendix 1).

- 1.5 Of the 2 claims audited both claims for 2013/2014 achieved their Audit Commission/Grant Funding Body certification deadlines as did all 4 claims for 2012/13.

	2013/2014		2012/2013	
	No.	%	No.	%
Submitted by due date	2	100	4	100
Total claims	2	100	4	100

Amended claims	0	0%	1	25
Claims not amended	2	100	3	75
Total claims	2	100	4	100

Qualified claims	1	50%	2	50
Unqualified claims	1	50%	2	50
Total claims	2	100	4	100

Certified by deadline	2	100	3	75
Uncertified by deadline	0	0	1	25
Total claims	2	100	4	100

2. Recommendations

- 2.1 PricewaterhouseCoopers identified 3 recommendations to address in the 2012/2013 Action Plan. All 3 recommendations were implemented during 2013/2014. (see Appendix 2)

2.2 The 2013/2014 Recommendations/Action Plan is attached as Appendix 1 and contains 1 recommendation for implementation during 2014/2015.

3. Audit Fees

3.1 The following table records audit fees paid each year:

Paid in 2011/2012 re 2010/2011 audits	Paid in 2012/2013 re 2011/2012 audits	Paid in 2013/14 re 2012/13 audits	Paid in 2014/15 re 2013/14 audits
£77,000	£67,105	£43,025	£22,565
No of Claims Audited 10	No of Claims Audited 6	No of Claims Audited 4	No of Claims Audited 2

The audit fee for the 2 grants subject to audit for 2013/14 is £22,565. The audit fee for 4 grants audited for 2012/13 was £43,025. This shows a decrease of 47% in costs.

The 12/13 costs that relate to the 2 grants audited in both years are £26,905, thus being a decrease in costs of like for like audits of 16%.

3.2 PricewaterhouseCoopers have been the Council's appointed auditor for grant claims since 2008/2009. The number of grants requiring audit via the Audit Commission Index for 2013/2014 lowered from 4 to 2.

The total audit fees decreased by 47% however the total budget set for external audit fees, in line with the Audit Commission Index for 2013/14 is £21,570.

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

3.3 The annual Audit Commission index for 2014/2015 has not yet been received although it is anticipated that 1 grant shall require Audit Commission certification for the period.

3.4. In Year Achievements

- During 2013/2014 both service and finance staff are being supported by one to one grants training upon request.

3.5. Future Planned Developments

- A grants workshop took place in June 2014 and one is due to take place in June 2015 which will be delivered prior to the start of the 2014/2015 grants and audit process.

IMPLICATIONS AND RISKS

Financial Implications and risks:

For 2012/2013 specific grant claims that require External Audit provided £98m in funding for the Council and poor performance in submitting claims puts income at risk and can affect the Council's reputation with funding bodies. Additional audit fees may also be incurred where working papers or procedures fail to meet the required standards.

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

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

In addition there were 2 grants that were not on the Audit Commission Index for 2013/14 whereby the Grant Funding Bodies published a requirement for grantees to engage an external auditor for 2013/14.

This being the case the audit fees for these 2 grants were negotiated over and above the audit commission agreed audit fee. An additional £18,500 is to be found in order to fund external audit certification requirements.

The PEN05 – The 2012/13 Teachers Pensions audit was commissioned via the Audit Commission however for 2013/14 this requirement ceased. Teachers Pensions then, in year decided that they would still require assurance and Local Authorities were required to engage an external auditor to provide that assurance.

Decent Homes Grant 2013/14 – The GLA conditions and guidelines stated that certification relating to the Schedule 8 Statement of Grant Usage required external audit scrutiny by way of sampling.

PwC quoted an audit fee of £8,750 plus VAT for each additional audit however should these grants be subject to additional testing then an extra fee would be charged. The final audit fee for the Teachers Pension audit was £9,750 plus VAT.

It is not currently possible to estimate how many grant funding bodies will require external audit certification from 2014/15 onwards and as such the Council may be exposed to the risk of increased audit fees.

Legal implications and risks

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

Human Resources implications and risks

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

Equalities and Social Inclusion implications

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

BACKGROUND PAPERS

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>Housing and Council Tax Benefits Subsidy (BEN01) (30/11/2013)</p> <p>Recommendation: 1</p>	<p>From our initial testing of 80 cases, we found one case where benefit had been overpaid as a result of miscalculating the claimant's income.</p> <p>Testing of an additional sample of 40 cases identified one further case where the claimant's income had been calculated incorrectly.</p> <p>The extrapolated error across the population of similar cases is £9,571.</p>	<p>While the issues noted were relatively minor in the context of the complexity of the BEN01 claim, we recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.</p>	<p>On discovery of these errors during the course of the audit, the Lead Subsidy & Support Officer briefed the benefit processing sections. In addition, further training is planned this financial year to refresh and remind benefit processors of how to deal with these minor but unusual scenarios.</p>	<p>Responsible Officer: Jeff Potter. Head of Exchequer Services/Chris Henry, Council Tax and Benefits Manager</p> <p>Timescale: 31 March 2014</p>

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>Teacher's Pension (PEN05 (29/11/2013) Recommendation: 1</p>	<p>Initially, we identified that the return was compiled incorrectly as it did not reconcile to the payroll system. We also identified a number of errors in the underlying working papers that required us to extend our sample testing.</p> <p>We identified that teachers had initially been paying pension contributions at the incorrect tiered rates, whilst this had been corrected in the March 2012 payroll, the return had been compiled on a monthly basis so the return had been compiled with the contributions reflected within incorrect tiers. The Council performed an exercise to identify these Entries and amend the return accordingly</p>	<p>We recommend that the Council ensures the Teacher's Pension return and supporting working papers reconciles to the payroll system and that procedures are put in place to review the 2013-14 working papers before these are passed to PwC for certification.</p> <p>We recommend that the</p>	<p>The Teachers Pensions new banding calculations regulations were issued only 6 weeks before implementation for April 2012. This led to issues on the understanding of the new tiers and how to record against them and what is required when adjustments were due and the recording of them.</p> <p>In July 2013 a new checking process has been put in place to ensure the banding tiers have been calculated correctly for the monthly payments over.</p> <p>When One Oracle is implemented in April 2014, there will be a report produced to make recording and reporting the monthly bandings over to Teacher's Pensions easier and more accurate.</p>	<p>Responsible Officer: Karen Balam, Transactional Services Manager/Marion Self, Transactional Specialist, Payroll</p> <p>Timescale: Completed</p>

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>National Non-Domestic Rates Return (LA01) (27/09/2013)</p> <p>Recommendation:1</p>	<p>Our initial testing of empty premises entries identified five premises that did not have an inspection or otherwise to confirm that they were indeed empty for the period in question.</p> <p>The authority explained that the cases within the initial sample were identified as not having received an inspection due to an integrity error within the Academy software that omitted them from the inspection routine and that this has subsequently been rectified. In order to understand the extent of the error further testing was performed. This identified a further 22 premises that did not have an inspection or otherwise, to confirm that they were indeed empty for the period in question.</p>	<p>Council ensures that empty property inspections are performed before the issuance of the relief.</p>	<p>It would not always be practical to visit a property prior to the award of the unoccupied relief and is not a routine adopted by many authorities. However I accept that routine visits are desirable and therefore to establish a base position have arranged for an external inspection service to undertake a review of every property currently shown as unoccupied based on a snapshot at the middle of December 2013. Additionally Exchequer Services has significantly enhanced the number of inspectors available across the Revenue service to address such issues and will be introducing a visiting regime that ensures every empty property is visited in a 6 monthly cycle.</p>	<p>Responsible Officer: Ted Smith/Exchequer Services Improvement Manager</p> <p>Timescale: April 14</p>

Claim/Return (deadline)	Issue	Recommendation	Management Response	Responsibility (Implementation Date)
<p>NNDR (LA01) Recommendation: 2</p>	<p>2) Our initial testing of 25 write-offs, identified two that did not have evidence to support that the Council's approval process had been followed correctly. In order to understand the extent of the error further testing was performed. This identified a further 22 write- offs that did not have evidence to support that the Council's approval process had been followed correctly.</p>	<p>We recommend that the Council ensures that evidence is retained to support that the approval process has been followed correctly.</p>	<p>Agreed. Procedures have now been implemented to ensure that write off schedules are controlled and the appropriate reconciliations maintained in line with this recommendation.</p>	<p>Timescale: Implemented</p>

Annual Certification Report 2013/14 London Borough of Havering

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

February 2015



The Members of the Audit Committee

London Borough of Havering
Town Hall
Main Road
RM1 3BB

5 February 2015

Our Reference: LBH 2015

Ladies and Gentleman

Annual Certification Report (2013/14)

We are pleased to present our Annual Certification Report which provides members of the Audit Committee with a high level overview of the results of the certification work we have undertaken at London Borough of Havering for financial year ended 31 March 2014.

We have also summarised our fees for 2013/14 certification work on page 6.

Results of Certification Work

For the period ended 31 March 2014, we certified two claims and returns worth a net total of £98,492,778.69. Of these one required a qualification letter to set out the matters arising from the certification findings of the claim or return. We have set out further details within the report.

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

We ask the Audit Committee to consider:

- the adequacy of the proposed management action plan for 2013/14 set out in Appendix A; and
- the adequacy of progress made by the Authority in implementing the prior year action plan in Appendix B.

Going forward, with changes in the Audit Commission structure, only the Housing Benefit Subsidy claim will be subject to certification under the existing regime. All other requests for auditor assurance work for claims and returns will operate outside of these engagement arrangements.

Yours faithfully,

PricewaterhouseCoopers LLP

Table of Contents

Introduction	4
Scope of Work	4
Statement of Responsibilities	4
Results of Certification Work	5
Claims and Returns certified	5
Summary:	5
Certification Fees	6
Matters Arising	7
Prior year recommendations	7
Appendix A	8
Management Action Plan: Current year issues (2013/14)	8
Appendix B	9
Management Action Plan: Prior year issues (2012/13)	9
Glossary	10
2013/14 Schemes applicable to the Authority under the Audit Commission Certification arrangements	10
BEN01 Housing Benefit Subsidy Claim	10
CFBo6 Pooling of Housing Capital Receipts Return	10
Audit Commission Definitions for Certification work	11

Introduction

Scope of Work

Each year some grant-paying bodies may request certification by an appropriately qualified auditor, of claims and financial returns submitted to them by local authorities. Certification arrangements are made by the Audit Commission under Section 28 of the Audit Commission Act 1998 and is one way for a grant-paying body to obtain assurance about an authority's entitlement to grant or subsidy or about information provided within a return.

Certification work is not an audit but a different type of assurance engagement which reaches a conclusion but does not express an opinion. This involves applying prescribed tests, as set out within Certification Instructions (CIs) issued to us by the Audit Commission; these are designed to provide reasonable assurance, for example, that claims and returns are fairly stated and in accordance with specified terms and conditions. The precise nature of work will vary according to the claim or return.

Our role is to act as 'agent' of the Audit Commission when undertaking certification work. We are required to carry out work and complete an auditor certificate in accordance with the arrangements and requirements set by the Audit Commission.

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

International Standards on Auditing UK and Ireland (ISAs), the Auditing Practices Board's Practice Note 10 (Revised) and the Audit Commission's Code of Audit Practice do not apply to certification work.

Statement of Responsibilities

The Audit Commission publishes a 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' this is available from the Audit Commission website. It summarises the Commission's framework for making certification arrangements and highlights the different responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns.

Results of Certification Work

Claims and Returns certified

A summary of the claims and returns certified for financial year 1 April 2013 to 31 March 2014 is set out in the table below.

The Audit Commission require that all matters arising are either amended for (where appropriate) or reported within a qualification letter. The report is based on the work carried out as agent of the Commission.

In one case a qualification letter was required to set out matters arising from the certification of the claim. All deadlines for authority submission of the claims and returns were met. All deadlines for auditor certification were met.

Fee information for the claims and returns is summarised on page 6.

Summary:

CI Reference	Scheme Title	Form	Original Value	Final Value	Amendment	Qualification
BEN01	Housing Benefit Subsidy	MPF720 A	£92,015,508	£92,015,508	No	Yes
CFB06	Pooling of Housing Capital Receipts	2013Po6 (on LOGAS net)	£6,447,270.69	£6,447,270.69	No	No

Certification Fees

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

Claim/Return	2013/14 £	2012/13 £	Comment
	£	£	
BEN01 Housing Benefit Subsidy	20,107	24,506	Council Tax subsidy ceased in 13/14 resulting in no requirement for auditor testing.
CFB06 Pooling of Housing Capital Receipts	2,458	2,399	
Total	22,565	26,905	

These fees reflect the Council's current performance and arrangements for certification.

Matters Arising

There were no significant issues of note; however details of matters giving rise to our qualification of the Housing Benefit Subsidy claim are set out in Appendix A.

Prior year recommendations

We have reviewed the progress made by the Authority in implementing the certification action plan for 2012/13; details can be found in Appendix B.

Appendix A

Management Action Plan: Current year issues (2013/14)

BEN01 Housing Benefit Subsidy Claim (deadline 30 November 2014)

Issue	Recommendation	Management response	Responsibility (Implementation date)
<p>From our initial testing of 60 cases, we found one case where benefit had been overpaid as a result of miscoding the claimant's income and applying a disregard inappropriately. The overpayment was classified incorrectly as the claimant's error when it was the Council's error.</p> <p>Testing of an additional sample of 40 cases identified one further error which was similar in nature.</p> <p>The extrapolated error across the population of similar cases is £2,055. This matter was reported in our qualification letter.</p>	<p>While the issue noted is relatively minor in the context of the complexity of the BEN01 claim, we recommend that the Authority continues its programme of training officers regularly, to minimise the possibility that errors occur in future.</p>	<p>I can confirm that in both instances we have taken the necessary steps to bring this to the attention of those officers involved. Furthermore, I have detailed the nature of the error and provided advice to the processing team on what to do in similar circumstances, if there is any doubt about the classification. Any issues of this nature identified by my team throughout the year, as well as those identified during the audit, are resolved and addressed in the same manner.</p>	<p>Responsible Officer: Sarah Bryant, Director of Exchequer and Transactional Services/Chris Henry, Council Tax and Benefits Manager</p> <p>Timescale: On-Going</p>

Appendix B

Management Action Plan: Prior year issues (2012/13)

For 2013/14 under Audit Commission certification arrangements, the following schemes did not apply:

- LA01 National Non Domestic Rates
- PEN05 Teachers Pensions Return

Alternative arrangements may have been entered into directly between the grant paying bodies and assurance practitioners, however for the purposes of this report, which is focused on Audit Commission certification work, these schemes have been excluded; on this basis where issues arose in prior year these are now excluded from the action plan.

BEN01 Housing Benefit Subsidy Claim (deadline 30 November 2013)

Issue	Prior year Recommendation	2012/13 Management response	Recommendation Status 2013/14
<p>From our initial testing of 80 cases, we found one case where benefit had been overpaid as a result of miscalculating the claimant's income.</p> <p>Testing of an additional sample of 40 cases identified one further case where the claimant's income had been calculated incorrectly.</p> <p>The extrapolated error across the population of similar cases is £9,571.</p>	<p>While the issues noted were relatively minor in the context of the complexity of the BEN01 claim, we recommend that the Council continues its programme of training officers regularly, to minimise the possibility that errors occur in future.</p>	<p>On discovery of these errors during the course of the audit, the Lead Subsidy & Support Officer briefed the benefit processing sections.</p> <p>In addition, further training is planned this financial year to refresh and remind benefit processors of how to deal with these minor but unusual scenarios.</p>	Implemented

(Due to the removal of Council Tax subsidy from the 2013/14 claim form, any issues noted in 2012/13 in relation to this particular benefit type have been excluded.)

Glossary

2013/14 Schemes applicable to the Authority under the Audit Commission Certification arrangements

BENo1 Housing Benefit Subsidy Claim

Local authorities responsible for administering statutory housing benefit (HB) of rent rebates to tenants of a local authority and rent allowances to private tenants; claim subsidy from the Department for Work and Pensions (DWP). With the exception of certain areas of benefit spending where authorities have the most scope to monitor and control costs, subsidy is paid at the full rate of 100 per cent of expenditure incurred.

CFBo6 Pooling of Housing Capital Receipts Return

Since 2004/05, local authorities pay part of a housing capital receipt into a national pool run by the Department of Communities and Local Government (DCLG). Pooling applies to all authorities, including those with closed HRAs who typically receive housing receipts in the form of mortgage principal and Right to Buy (RTB) discount repayments.

Audit Commission Definitions for Certification work

Abbreviations used in certification work are:-

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

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

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

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

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

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

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

‘returns’ are either:

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

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

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

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

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

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.

© 2015 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



AUDIT COMMITTEE

Report

11 March 2015

Subject Heading:

Internal Audit Progress Report
29th September 2014 to 4th January 2015

Report Author and contact details:

Vanessa Bateman, Internal Audit &
Corporate Risk Manager ext 3733

Policy context:

To inform the Committee of progress to
deliver the approved audit plan in quarter
three of 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 29th September 2014 to 4th January 2015.

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 29th September 2014 to 4th January 2015

A summary of the work undertaken in quarter three 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. Such failures may result in financial losses for the Council.

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

Final Audit Reports issued in the period
2014/15 Audit Plan
Audit Recommendations Monitoring Schedule

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 and a second member of the team is currently on maternity leave.
- 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 December a shortfall of 90 days was estimated to deliver the 2014/15 plan. Various options to reduce the shortfall were considered and deemed not to be cost effective. It has been necessary to procure some specialist computer audit for One Oracle which will reduce the shortfall. Further information about the changes in the audit plan are included in section four of this report.
- 1.4 At the end of December the service review was still underway. It is hoped that a restructure forming a shared audit service will be launched in February 2015 prior to presentation of this report. A verbal update will be provided at the meeting.
- 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 due to the vacant post and the maternity leave costs being lower than if post holder was present.
- 1.7 Since the end of this period some of this salaries budget has been redirected to fund the audit of One Oracle.

Section 2: Audit Work 29th September 2014 to 4th January 2015

- 2.1 At the end of December 17 assignments had been completed and eight were in progress but had not reached final report stage.

- 2.2 At the request of the Senior HR Advisor internal audit have attended project meetings with regards to the Talent Link project. Talent Link is the Councils new electronic recruitment system which will replace i-Recruitment.
- 2.3 The table below details the final reports issued in quarter three. Details are listed in the table and management summaries for the 10 system reports are included under Appendix A: Risk Based Systems Audit Report Summaries and management summaries for the seven school reports are included under Appendix B: School Audit Management Summaries.

Report	Assurance	Recommendations				Ref
		High	Med	Low	Total	
Systems Audit						
Carbon Reduction Commitment Scheme	N/A	N/A	N/A	N/A	N/A	A (1)
Construction Industry Scheme	Substantial	0	0	0	0	A (2)
Main Accounting (Pre One Oracle Implementation)	Substantial	0	0	0	0	A (3)
Housing Capital	Substantial	0	2	0	2	A (4)
Housing Allocations	Limited	0	0	0	0	A (5)
Tenancy Management Organisations	Limited	3	4	0	7	A (6)
Payments to Contractors (Road & Pavement Defects)	Limited	3	4	3	10	A (7)
Long Term Sick	Nil	0	4	0	4	A (8)
PARIS	Limited	3	1	0	4	A (9)
Operating Systems Follow Up	Substantial	0	0	0	0	A (10)
Parklands Junior	No	7	9	0	16	B (1)
St. Edwards CE Primary	Substantial	1	6	0	7	B (2)
Brady Primary	Substantial	0	9	3	12	B (3)
St Patricks RC Primary	Substantial	0	5	3	8	B (4)
Langtons Infants Health Check	Substantial	0	1	4	5	B (5)
Mead Primary Health Check	Full	0	1	2	3	B (6)
The Mawney Foundation Health Check	Full	0	2	1	3	B (7)

- 2.5 Work nearing completion at the end of September includes:
- Risk Based Systems Audits: Environmental Protection & Housing; Council Tax; Housing Benefit & Council Tax Support; Housing Rents; Housing Contracts & Procurement; Service Charges and Service Charge Contributions to Major Work; and Responsive Maintenance.

Section 3: Key Performance Indicators

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

Performance Indicator	Quarter 3 Target	Quarter 3 Actual
Percentage of Audit Plan Delivered	70	70
Number of Briefs Issued	48	44
Number of Draft Reports Issued	37	33
Number of Final Reports Issued	37	33

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 4 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
Use of Volunteers	15	3.5	Corporate	Topic now to be included on Risk Management Group Agenda.
Talent Link	0	2	Corporate	Added to 2014/2015 Audit Plan.
Carbon Reduction Commitment	0	3	Corporate	Added to 2014/2015 Audit Plan.
Car Pool Scheme	20	2	Corporate	Audit to be scoped this year but to carry forward into 2015/2016 plan due to other work being added to plan.
Payroll (Pre One Oracle Implementation)	5	4	Resources	Completed under budget.
Main Accounting System (Pre One	5	3	Resources	Completed under budget.

Audit Title	Orig. Days	Rev. Days	Directorate	Reason
Oracle Implementation)				
One Oracle Review	20	30	Resources	Audit scope changed / increased. Detailed computer audit to be undertaken by PWC. Fixed price assignment.
Children & Families Act	5	1.5	Children, Adults & Housing	Scope of Audit reduced.
Pupil Referral Units	0	15	Children, Adults & Housing	Added to 2014/2015 Audit Plan.
Adult Safeguarding	20	4	Children, Adults & Housing	Audit to be scoped this year but to carry forward into 2015/2016 plan due to other work being added to plan.
Adult Commissioning	20	3	Children, Adults & Housing	Deleted from Plan, will be considered in planning for 2015/16.
Special Educational Needs	15	2	Children, Adults & Housing	Deleted from Plan, will be considered in planning for 2015/16.
Pupil Place Planning	15	2	Children, Adults & Housing	Audit to be scoped this year but to carry forward into 2015/2016 plan due to other work being added to plan.

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	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	7	2♦
11/12	Contracts & Procurement	Finance & Procurement	Substantial	0	3	0	2	1♦
2011/12 Totals				5	12	1	14	4
12/13	Information Governance - Compliance with IG Toolkit	Legal & Democratic Services	Substantial	1	2	0	2	1
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-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♦
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	Tenancy Management	Homes & Housing	Limited	0	14	0	12	2
13/14	Fees and Charges	Various	Limited	1	1	1	2	1
13/14	JCAD LACHS	Finance & Procurement	Substantial	10	12	0	-	22

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
13/14	Compliance with Corporate Policy: Fees and Charges	Corporate	N/A	0	2	0	0	2
13/14	LAC Placements	Children's Services	Limited	0	7	0	6	1
2013/14 Totals				11	36	1	20	28
14/15	Gas Safety (Building Services)	Homes & Housing	Substantial	0	2	0	0	2
14/15	TMO's	Homes & Housing	Limited	1	0	0	0	1
2014/2015 Totals				1	2	0	0	3
Totals				24	84	9	67	50

Implementation of these recommendations is dependent on the implementation of the One Oracle system. The One Oracle system went live in August 2014/2015. To allow the One Oracle system to bed in these are therefore scheduled to be picked up at the end of Quarter 4 of 2014/2015.

APPENDIX A: RISK BASED SYSTEMS AUDIT REPORT SUMMARIES

Carbon Reduction Commitment

Schedule A (1)

1.1 Background

- 1.1.1 The Carbon Reduction Commitment (CRC) Scheme is a mandatory UK scheme which started in April 2010. The aim of the scheme is to improve energy efficiency and cutting carbon dioxide (CO₂) emissions in large public and private sector organisations (scheme participants). Phase Two of the scheme began on the 1st April 2014; however the London Borough of Havering does not qualify and therefore 2013/2014 will be the final compliance year in which it must pay for carbon.
- 1.1.2 The Environment Agency conducts compliance audits on a sample of participants each year to help ensure the integrity of the scheme. Each participant is due to receive at least one compliance audit within each phase. The London Borough of Havering is yet to receive this compliance audit in the current phase.
- 1.1.3 Participants are required to conduct an internal audit on their CRC data, evidence pack, and annual report to demonstrate that they are complying with their CRC responsibilities. Copies of internal audit reports and the findings form part of the evidence packs and should be made available upon request.
- 1.1.4 Audits can be carried out by a third party; an audit of the CRC data, evidence pack, and annual report for London Borough of Havering was undertaken by Green Energy Partners in June 2014. Green Energy Partners carry out internal audits on the CRC scheme for multiple scheme participants.
- 1.1.5 The audit gave the Council an 'amber' light on overall assessment; the Authority is likely to comply with scheme regulations and carries a low to medium risk of penalties or fines and is likely to generate its Annual Report within the permitted 5% tolerance for accuracy. Within the report the Council were given a 'green' light for compliance.
- 1.1.6 The audit raised two high, six medium and five low recommendations for improvements to the existing system.
- 1.1.7 The scheme does expect that the audit report produced by Green Energy Partners should be agreed by the participants own internal audit before being signed off by one of the CRC account representatives; Mark Lowers or Brian Partridge and a senior member of staff within the organisation, such as the Chief Executive or a Director.

1.2 Progress on Implementation

- 1.2.1 Our review found that the Green Energy Partners report provided an accurate assessment of the Council's compliance with the CRC scheme and all documentation required for the evidence pack was observed.
- 1.2.2 Progress against all recommendations made in the Green Energy Partners report was reviewed. Where actions had been completed by management

evidence to support this was gathered. Appendix 1 details that outcome of this review.

1.2.3 The results are also summarised below:

- Three recommendation were already in place at the time of the Green Energy Partners audit;
- Five recommendations had been completed at the time of this review;
- Five recommendations were completed during the review; and
- One recommendation was no longer applicable as the London Borough of Havering does not qualify for Phase 2 of the scheme

1.2.4 A review of the recommendations made in the previous years Green Energy Partners report was also undertaken; all recommendations had been implemented.

1.3 Conclusion

1.3.1 The review indicates that good progress has been made in implementing the recommendations made by Green Energy Partners. The outstanding actions were completed during the review. Full implementation will ensure that the Council is fully compliant with the CRC scheme and will mitigate the risk of penalties or fines.

2.1 Introduction

- 2.1.1 The audit of Construction Industry Scheme (CIS) forms part of the agreed 2014/2015 Internal Audit plan.
- 2.1.2 With effect from the 6th April 2007 the Construction Industry Scheme (CIS) was subject to major reform in terms of the processes to be followed by contractors and subcontractors who are required to operate it.
- 2.1.3 The CIS is governed by the Income Tax (Construction Industry Scheme) amendment Regulations 2012; these were an amendment of the original regulations from 2005.
- 2.1.4 The CIS sets out the rules for how payments to subcontractors for construction work must be handled by contractors in the construction industry.
- 2.1.5 Contractors are defined as running a business that engages subcontractors for construction work and spends an average of £1million over a three year period. Local Authorities are deemed contractors within the scheme if there spend is above the £1million over a three year period.
- 2.1.6 The definition of construction, as defined by the CIS, is to:
- Build things
 - Make things
 - Put things together
 - Assemble things
- 2.1.7 There are currently 76 sub-contractors, from which deductions are made, set up within the Oracle system as registered for CIS. Expenditure with all CIS suppliers between April – October 2014 amounts to £20,116,404.

2.2 Objectives and Scope

- 2.2.1 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 operating over Construction Industry Scheme (CIS). The system of internal control operates to ensure that;
- the council is compliant with the CIS Scheme;
 - all sub-contractors within the CIS regulations are identified;
 - correct deductions are made for contractors; and
 - Deductions are paid to HMRC in a full and timely manner.
- 2.2.2 The audit will concentrate on examining the internal control environment applied to mitigate the following potential risks:
- Sub-contractors are not identified;
 - Sub-contractors are not verified before they are engaged;
 - Deductions are not made from sub-contractors;
 - Incorrect deductions are made from sub-contractors;
 - Rules regarding payments to suppliers are not followed;
 - Deductions are not paid to HMRC in full and on time;

- Monthly statements submitted to HMRC are not accurate; and
- Proper records are maintained.

2.3 Summary of Audit Findings

- 2.3.1 Payments to CIS registered suppliers that have not already been entered onto Oracle are identified manually by monitoring invoices that are received within the Accounts Payable team. There is an inherent risk within the process with no system controls currently available.
- 2.3.2 System controls within Oracle ensure that payments to CIS sub-contractors, who have previously been entered onto the system, are monitored.
- 2.3.3 Payments and returns to HMRC are completed and sent within expected timescales; full written procedures are available in the event of any absences.

2.4 Audit Opinion

- 2.4.1 Substantial Assurance has been given on the system of internal control.
- 2.4.2 No recommendations have been raised as a result of this audit

3.1 Introduction

- 3.1.1 The 2014/15 Internal Audit plan includes two reviews of main accounting. 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.
- 3.1.2 The main accounting system is used to ensure that the financial affairs of the Council are accurately recorded and adequately accounted for. The Council's main accounting system (general ledger) operates via the current Oracle software package. Oracle comprises a system of modules incorporating the general ledger, purchase ledger, sales ledger and payroll. In addition to the Oracle modules, the main accounting system receives information from other systems that include the pension system, the Northgate Paris e-Payments system, council tax, non-domestic rates. The main accounting system; Oracle, is used to collate financial information from feeder system into the annual published accounts.
- 3.1.3 The 2013/14 internal audit report of main accounting gave substantial assurance with one recommendation raised regarding compliance with Whole of Government Accounts (WGA). This recommendation is not due for completion until 30th September 2014 however an update on its progress was sought during the course of this review.

3.2 Objectives and Scope

- 3.2.1 The aim of this review was to determine whether the key controls identified in the 2013/14 main accounting audit had continued to operate as expected during the period from 1st April to 3rd August 2014, prior to the implementation of One Oracle.
- 3.2.2 A sample of 15 journals and 15 budget transfers / virements was selected from a population of transactions processed during the period stated in 2.1. These were tested to ensure that they provided sufficient detail and had relevant authorisations in place (where appropriate).

3.3 Summary of Audit Findings

- 3.3.1 The control environment continued to operate during this period as was in place during 2013/14.
- 3.3.2 There were no issues arising from the testing carried out on a sample of journals and budget transfers / virements.
- 3.3.3 Evidence was obtained to demonstrate that the System Team have created the relevant functions in One Oracle to produce the reports required for compliance with WGA. This will require some testing by Corporate Finance as the end user to determine if this is sufficient and accurate enough for their needs.

- 3.3.4 Some potential issues raised in the previous audit such as the need for the Financial Framework to be updated will be dependent on allowing One Oracle some time to embed and the process to be reviewed again once it is business as usual. It is expected that these issues will be picked up and covered in more detail when the 2014 Internal Audit is carried out in quarter four.
- 3.3.5 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.

3.4 Audit Opinion

- 3.4.1 Substantial Assurance has been given on the system of internal control.
- 3.4.2 No recommendations have been raised as part of this audit.

4.1 Introduction

4.1.1 The 2014/15 Internal Audit plan includes a review of Housing Capital.

4.1.2 The housing service was transferred back to the London Borough of Havering on 1st October 2012 bringing with it a significant amount of Decent Homes funding. This funding is due to cease at the end of 2014/15.

4.1.3 The planned capital programme for 2014/15 totals £45.6 million.

4.2 Objectives and Scope

4.2.1 The aim of this review was to provide assurances of the processes and controls in place for management of the housing capital programme and identify any potential weaknesses in controls.

4.2.2 A separate review into contracts and procurement within housing is also taking place during 2014/15 so this review focused on the controls in place over budgets and monitoring of the capital projects once underway.

4.3 Summary of Audit Findings

4.3.1 There are generally good controls in place surrounding the monitoring of capital projects and associated expenditure. The Aids and Adaptations budget line presents a slightly higher risk in terms of control as responsibility for this lies outside of the Housing Capital Team and sits within Adults Services. While assurances have been provided that the processes in place to liaise with Adults Services has improved upon previous years this still remains an area of concern.

4.3.2 The overspend that has occurred for the previous two years for the Aids and Adaptation budget line, and is predicted again for 2014/15, provides a further area of concern. This budget was set three years ago and it is recognised that there have been increased pressures on this area of expenditure since that decision was made which has contributed to the overspend.

4.4 Audit Opinion

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

4.4.2 There are two medium priority recommendations arising from this audit relating to:

- Aids and Adaptation budget pressures to be taken into account; and
- Responsibilities for the Aids and Adaptations budget to be clearly defined.

5.1 Introduction

- 5.1.1 The audit of Housing Allocations forms part of the agreed audit plan for 2014/15. This audit was originally included as part of the 2013/14 audit plan and intended to supplement the Tenancy Audit completed in July 2013.
- 5.1.2 This audit was started in October 2013 with the intention that it would be undertaken in parallel with a reactive fraud investigation in order to provide housing management with insight into the causes of the fraud that had occurred and to facilitate the implementation of necessary changes.
- 5.1.3 It became clear that the fraud investigation would need to take priority over the systems audit and it was agreed by the Interim Internal Audit and Risk Manager that this audit would be delayed until such time as the fraud investigation was completed and implementation of the recommendations arising from that underway.

5.2 Objectives and Scope

- 5.2.1 The objective of the audit is to provide management and the Audit Committee with assurance on the effectiveness of the system of internal control operating over Housing Allocations.
- 5.2.2 The intended scope of the audit was amended to take into consideration the work that was undertaken as part of the fraud investigation as well as a recent change in the Lettings Manager.

5.3 Summary of Audit Findings

- 5.3.1 All bar one of the recommendations made as part of the fraud investigation concluded towards the end of 2013 have been implemented. The remaining recommendation was rejected by management.
- 5.3.2 Despite the process review concluding towards the end of 2013 there are still recommendations and actions outstanding. The process maps that were created are also yet to be fully rolled out and utilised across the teams. Some of the issues arising from this review would only reiterate or repeat the recommendations / actions already raised from the process review action plan and so have not been repeated within this audit report.
- 5.3.3 It is difficult to pinpoint why there has been a delay in implementing recommendations / actions raised as part of the process review but the following factors may have played a part:
- A new housing administration system has been proposed and work is underway to procure and develop this but the timeline for this is uncertain. Implementing a new system that takes into consideration the failings of the current system and addresses where there is significant manual intervention to make up for the lack of automation in OHMS would go a long way to address some of the weaknesses in control and subsequent errors that arise. Any recommendations raised that highlight a need for a

change in the system are likely to be put on hold until a new system is agreed and the capabilities of that assessed.

- Recent changes in management for the Lettings Team – The previous manager left relatively recently (June 2014) and although a new manager has been put into post with previous experience in the team it is accepted that it will take some time to embed into the role and initiate some of the changes the previous reviews have proposed.
- An experienced member of staff left the Lettings Team after the conclusion of the fraud investigation leaving a gap in knowledge and resources.
- There have been increased workload pressures over the last 18 months as a result of the abolition of the spare room subsidy and a subsequent rise in the number of tenants wishing to downsize.

5.3.4 Manual entry of data is required to input property information onto the East London Lettings Company (ELLC) system for advertising. This is reliant on the data provided on a form by the Empty Homes Team. While testing during this review did not highlight any issues management had previously advised of a recent incident where a property was incorrectly advertised and subsequently offered to an ineligible applicant. This duplication of effort and reliance on manual controls as well as the inability for the housing system to interface with ELLC increases the risk that this may occur. No recommendation has been raised as there is work underway to procure a new housing administration system which may be able to address this.

5.3.5 There are no timescales set out in the Housing Allocations Scheme (as at March 2013) to determine how long the successful bidder has to return all required evidence. Deadlines are set by the Housing Needs Assessment Officer but this may vary and there is nothing recorded to assess the impact this may have on void turnaround. Implementation of the process maps as mentioned in 3.2 may assist in setting some realistic deadlines for this.

5.3.6 There is no analysis to determine if there are repeat applications by the same applicant providing different data to try to get on the housing register once they've been refused by the initial automated stage. Data can be provided to show those rejected and any subsequent re-applications. When there was a dedicated officer previously administering only applications this was picked up. Verification at the point of offer has shown that applicants have amended their applications to pass this initial stage. This does provide a back stop control but there is no resource to allow for the initial preventative control to be put in place. Implementing the process maps may allow some efficiencies to be gained which would free up some resources to carry this out. In addition there may be some scope to pick this up as part of the development of the new Housing System.

5.3.7 Staff can carry out visits to tenants to determine eligibility but this is not standard as resources do not allow this to happen in all circumstances and visits will only occur when there are suspicions of fraud. Controls are reliant on the checks carried out on the evidence provided to determine eligibility and the results of Experian checks. There is scope for improvement in the controls in place but this would require significant additional resources to implement which is not considered feasible in the current climate.

5.4 Audit Opinion

5.4.1 A Limited 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. While there are concerns and issues raised during the audit (and described in section 3 above) it is felt that while there are actions still outstanding from process review it would not be beneficial at this point in time to add to this. Instead it is recommended that management work on the recommendations and roll out the process maps provided as part of the process review. Depending on the progress of this a further systems audit may be worthwhile taking place in 2015/16.

6.1 Introduction

6.1.1 The audit of TMOs forms part of the agreed 2014/15 Internal Audit Plan.

6.1.2 An audit was carried out in 2013/14 around Tenancy Management which briefly considered TMOs. Discussions between audit and management concluded that a separate audit of the TMOs would be worthwhile for the following reasons:

- An audit of the TMOs was carried out by Housing Quality Network in 2011 which resulted in an action plan for each TMO, in conjunction with Homes in Havering, to complete. This action plan was concluded in 2012 with some actions remaining outstanding
- Homes in Havering (HiH) was brought back into the London Borough of Havering in October 2012 and now forms part of the Homes and Housing Service within the Children, Adults and Housing Directorate.
- A dedicated TMO liaison officer post was created and filled as part of the Homes and Housing restructure in 2013. This is the first time there has been a dedicated role since 2012 and there is scope for the findings of this audit to inform some of the direction this role might take.
- A new management agreement for each TMO remains under review and is expected to be signed and agreed imminently.

6.2 Objectives and Scope

6.2.1 The objective of the audit was to provide Authority's management and the Audit Committee with assurance on the effectiveness of the system of internal control in operation for the monitoring and oversight of the TMOs by LBH as well as the management and operation of each individual TMO.

6.3 Summary of Audit Findings

6.3.1 The updated Modular Management Agreement (MMA) is still awaiting agreement and sign off by all parties. This poses a risk to LBH in effectively managing all aspects of the tenancy management process.

6.3.2 At present there is no visible audit trail in place to document the process of updating the MMA.

6.3.3 The TMOs were found to have no documented and tested plans in place for Business Continuity / Disaster Recovery. There was also no recognition of this in the current Homes and Housing Risk Register.

6.3.4 There is no evidence that the TMO staff have been notified of the availability of relevant LBH training in the past.

6.3.5 One of the TMOs did not have a formally approved Business / Financial Plan in place. LBH do not routinely request these and are reliant on the audited Financial Statements received after year end for a financial oversight.

6.3.6 There is a lack of uniformity in how leaseholder charges are calculated at each TMO in comparison with LBH.

6.3.7 The outcomes of the individual TMO audits were generally centred around Best Practice recommendations based on guidance from the National federation of Tenancy Management Organisations (NFTMO). These were made up as follows:

- DELTA – A total of 19 recommendations were raised as part of the review. Seventeen related to Governance and two under Financial Management. Substantial assurance was given to this TMO as a result of the audit. Areas of concern related to;
 - a lack of transparency of decision making in the TMO Board minutes;
 - the need for on-going review and update of key documents;
 - a lack of a Business Continuity / Disaster recovery plan;
 - difficulties in recruiting new members to the Board; and
 - weaknesses in data security.

- BETRA – A total of 28 recommendations were raised as part of the review. Twenty related to Governance, six under Financial Management and a further two for Performance Management. Limited assurance was given to this TMO as a result of the audit. Areas of concern related to;
 - a lack of transparency of decision making in the TMO Committee minutes;
 - the need for on-going review, update and formal approval of key documents;
 - the lack of a Business Continuity / Disaster recovery plan;
 - the absence of a formally approved and up-to-date Business / Financial Plan;
 - lack of budget monitoring; and
 - the need to provide regular newsletters to tenants and the reinstatement of the TMO website.

- PETRA – A total of 8 recommendations were raised as part of the review. Six related to Governance and two under Financial Management. Substantial assurance was given to this TMO as a result of the audit. Areas of concern related to:
 - the lack of a Business Continuity / Disaster Recovery plan; and
 - the usage of a personal credit card for TMO purchases.

There were a number of Best Practice elements already in place for this TMO.

6.4 Audit Opinion

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

6.4.2 As a result of this audit three high and five medium priority recommendations were raised. These comprise of:

High Priority

- Enlisting adequate resources to ensure that the Modular Management Agreement (MMA) is signed by all parties as a matter of priority.
- Mapping the objectives and risks that LBH intends to cover as part of the MMA.
- Acknowledgement in the Homes and Housing Risk Register of the impact of a disaster or financial failure affecting one or more TMOs.

Medium Priority

- The potential for utilisation by the TMOs of LBH training opportunities.
- Inclusion in the MMA of the provision to LBH of the TMO Business / Financial Plans.
- Inclusion in the MMA of a uniform method of calculating leaseholder charges and provision to the TMOs of guidance to assist with this.
- Futures testing of a sample of TMO successions to ensure the new procedures are followed.

7.1 Introduction

7.1.1 The Council is responsible for ensuring that pavements and roads are maintained to a reasonable standard. The Highways Act 1980 confirms the necessary powers to create, confirm and maintain highways. The management of works undertaken on the Highway are affected by various Acts and Regulations the significant ones being:

- the Traffic Management Act 2004;
- the Streetworks Act 1981 and its various regulations and codes of practice;
- Signing, Lighting and Guarding of Roadworks Chapter 8 of the Traffic Signs Manual; and
- the Road Traffic Act 1991.

7.1.2 The Council has an inspection regime to identify defects and will receive reports from members of the public with regards defects in roads and pavements.

7.1.3 Each defect is inspected and a risk based judgment made on site which defines whether or not something is repaired. The appropriate works are then raised via the Mayrise system, which was implemented in April 2013. The works are issued to the Councils DSO but any excess work is sub contracted to Miller Bros. (Romford) Ltd or Marlborough Surfacing Limited on term contract rates.

7.1.4 As at the 24th September 2014 a total of £919,901.73 had been spent in respect of A27002 - Highway Maintenance Reactive split between:

- 643040 - Supplies & Services Recharge: £919 651.73
- 651780 - Private Contractor payments - Other: £250.00

7.1.5 For 2013/2014 a total of £2,245,254.63 had been spent in respect of A27002 - Highway Maintenance Reactive split between:

- 643040 - Supplies & Services Recharge: £1,745,312.23
- 651780 - Private Contractor payments - Other: £499,942.40

7.2 Objectives and Scope

7.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance regarding:

- The accuracy of payments made to contractor for repairs to pavement and road defects;
- The robustness of contract monitoring activity; and
- Compliance with relevant Legislation and Council Rules and Procedures.

7.2.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:

- Legislation, Rules and Procedures;
- Payments made to contractors;
- Timeliness and Quality of work completed; and
- Timeliness and Quality of Performance / Management Information.

7.3 Summary of Audit Findings

- 7.3.1 The Highways Maintenance Senior Engineer maintains an Area Liaison Team Guidance Manual, which has recently been updated. However there is no version and date control or document owner shown on the document. Without procedure documents being annotated with Document Owner, Effective Date, Review Date and Version Number it is not possible to ascertain who the document owner is in the event of a query, or if the document is the current version.
- 7.3.2 Processes / procedures should be documented to ensure that staff are aware of the process to follow. The lack of up to date processes and procedures documents increases the risk that processes are out of date and don't adhere to current legislation or service requirements. There are no procedure documents maintained by the Highways DSO.
- 7.3.3 From the tests undertaken, the majority of planned safety inspections were carried out in accordance with prescribed timescales although there are examples of inspections that have been outside prescribed slippage targets. It is understood that the number of ALO's has reduced from six to four and there is a member of staff currently on long term sick. The Highways Maintenance Senior Engineer is aware of this and is monitoring the situation.
- 7.3.4 From a random sample checked, reactive inspections undertaken ranged from the day of the report up to 60 days after. However, 21 out of 26 were inspected within two weeks of the defect being reported, of which 16 were inspected within a week.
- 7.3.5 In the sample checked, 15 out of 16 works orders were raised within a day of the reactive inspection with remaining one within three days.
- 7.3.6 Currently ALO's use Log Books to record inspections and then have to transfer the data from the hand books onto Mayrise manually. However, the section has recently been trialling hand held units which link into Mayrise. Details of the defect will be annotated onto the hand held units which will automatically raise a works order on Mayrise. Pictures can also be taken of the defect, but at present there isn't the facility to get these down loaded onto Mayrise / works orders. The go live date for the hand held is expected to be the end of January 2015.
- 7.3.7 Miller Brothers were awarded a contract for the Period 01/04/2006 to 30/09/2009 Extended to 30/09/2011 as Highways Maintenance Support - Sub Contractors. Miller Brothers are still being used as the highways maintenance support sub-contractor. Approval to continue to use Miller Brothers was made by the Head of Service but this approval has not been documented nor has an Exception to Contract Procedure Rules been completed and approved by a Cabinet member. Therefore the continued use of Miller Brothers is in contravention of the Council's Procurement rules.

- 7.3.8 Marlborough is the Councils current contractor for Planned Maintenance. Marlborough is being used to help with backlog. There was no need to seek any further approval as Marlborough were already operating as the councils term maintenance contractor and this was just a contract variation.
- 7.3.9 Checks on the contractor's Business Continuity Plans should be undertaken 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 (BAU)'. No checks have been undertaken on the Business Continuity Plans for Miller Brothers. This is particularly relevant as the contract with Miller Brothers expired in September 2011.
- 7.3.10 Financial stability checks have not been undertaken on Miller Brothers. Financial stability checks should be undertaken to ensure that the contractor is not facing financial difficulty and if they are contingency plans can be drawn up.
- 7.3.11 If the Highways Maintenance Support - Sub contract had been retendered both the Business Continuity Plan and the financial stability of the contractor would have been reviewed.
- 7.3.12 The Highways DSO Operations Manager is in regular verbal contact with the contractor's operatives and phone contact and site visits (where required) with the supervisors. As formal meetings, as per Contract Procedure Rules, are not being held detailed records of meetings, decisions etc. are not being maintained.
- 7.3.13 In theory work should be completed within 28 days from when the ALO raises the order. However, works orders can be held back to ensure that DSO will always have an 'overload' of work / work held back for the future. Deferring works orders to ensure the DSO has sufficient work will cause delays in works being undertaken but ensures that the DSO always have work.
- 7.3.14 Works orders weren't being monitored to ensure that they are being completed in a timely manner. However, reports are now being produced showing outstanding works and these are being followed up.
- 7.3.15 Works order do not officially get signed off by the contractor to evidence work has been completed to a satisfactory quality, some operatives initial and date the works order to evidence who has undertaken the work and the date the work was completed.
- 7.3.16 Once Mayrise has been updated to evidence the work has been completed and charges made / invoices received works orders are then disposed of.
- 7.3.17 Work inspections are only being carried out by the Highways DSO Operations Manager where a query is identified on the works orders or photos. No pro-active random checks are being undertaken.
- 7.3.18 The Highways Maintenance Senior Engineer used to undertake a 10% random check on all road and pavement defects. However, with the reduction in ALO's from six to four and the absence of a member of staff these checks

have had to be dropped. However, the ALO's undertake regular planned inspections and should pick up poor work that has not been completed to the required specification. As planned inspection timescales vary depending on the type / usage of road, poor quality work may not be picked up on less used roads. The Highways Maintenance Senior Engineer is aware and hopes to reintroduce random checks

7.3.19 Mechanisms to deal with poor performance have not been documented. Without documented processes for dealing with poor performance both the DSO and contractors are unaware of what action will be taken if poor performance is identified.

7.3.20 Mayrise includes the current Schedule of Rates the DSO charge. However, Miller Bros charges are based on their original contract specification plus uplift for inflation. Therefore each works order has to be amended by the Highways DSO to show the original base rate (when originally quoted) plus 28.85% to take into account the uplift for inflation. Miller Brothers then send invoices based on these revised figures. The manual amendment of works orders is open to human error and also time consuming.

7.3.21 Marlborough invoices are based on the current schedule of rates within Mayrise. However, for an invoice to be processed, Marlborough sends through a 'Batch Spreadsheet' showing all work completed within a set period. The Admin Support Officer then checks the details on the spreadsheet to the annotated works orders to ensure they are correct and LBH has not been previously charged. Any anomalies are annotated on the spreadsheet. Once agreed the Admin Support Officer deducts 5% (in respect of admin etc.) off each works order. The spreadsheet is then returned to Marlborough, who in turn issues an invoice.

7.3.22 A check of Jobs / Works Orders appeared to show that duplicate works had been raised / undertaken. A sample of these were brought to the attention of the Highways DSO Operations Manager and the Highways Maintenance Engineer who both indicated that each area of work outside a property will be recorded separately and therefore it appears that work may have been duplicated. It is not possible to confirm that the 'duplicates' identified are separate works or not.

7.3.23 Formal KPI's in respect of the work undertaken by Miller Brothers are no longer in use. The lack of KPI's indicates that formal monitoring of work undertaken by Miller Brothers is not being undertaken.

7.3.24 The Street Care Performance Assistant has recently started producing reports for the Head of Service and is still working on additional reports to further assist in performance monitoring.

7.4 Audit Opinion

7.4.1 A Limited Assurance has been given on the system of internal control due to:

- The Highways Maintenance Support - Sub Contract expiring in 2009;
- The continued use of Miller Brothers without formal approval / non completion of an Exception to Contract Procedure Rules. Therefore the

continued use of Miller Brothers is in contravention of the Council's Procurement rules and possibly EU Procurement Rules; and

- The lack of contract monitoring activities normally associated with a formal contract, i.e. regular contract monitoring meetings, the lack of random management checks and the lack of formal KPI's.

7.4.2 The audit makes 3 high, 4 medium and 3 low priority recommendations that aim to mitigate the risks within the above audit findings.

7.4.3 Recommendations relate to:

- ALO Procedure documents to be annotated with: Document Owner, Effective Date; Review Date; and Version Number [Low];
- A procedure manual being completed by the Highways DSO Operations Manager showing the practices that should be followed and document relevant roles and responsibilities. Procedures should then be regularly reviewed and updated [Medium];
- The Highways Maintenance Support - Sub Contractor contract being retendered to ensure that the Council is compliant with Rules [High];
- Checks on the Business Continuity Plans for the contractor to be undertaken [High];
- Financial stability checks to be undertaken on the contractor [High];
- Regular meetings to be held with the contractor and records maintained [Medium];
- Works orders to be signed off by the Highways Operatives / Contractors [Low];
- Works orders to be scanned and retained as back up [Low];
- The Highways DSO Operations Manager to undertake random management spot checks on both DSO and contractors [Medium]; and
- Mechanisms to deal with poor performance to be documented [Medium].

8.1 Introduction

- 8.1.1 The audit of Long Term Sickness forms part of the agreed 2014/2015 Internal Audit plan.
- 8.1.2 An audit was carried out during 2013/14 of Compliance with Corporate Policy: Sickness Absence which provided a Limited Assurance.
- 8.1.3 Havering implemented an internal shared service centre and a new suite of Oracle systems. These have led to the adoption of a 'self-service' approach and the downsizing of back office functions. As a result the requirement for managers to take responsibility for ensuring compliance with Corporate Policy has been reinforced.
- 8.1.4 This audit found in the testing of four instances of long term sickness that the first formal review stage meetings had not been held and were therefore not in compliance with the Corporate Policy.
- 8.1.5 As a result of the findings of this audit the Director of HR / Organisational Development requested that a review into Long Term Sickness take place during 2014/15.

8.2 Objectives and Scope

- 8.2.1 The objective of the audit is to provide Authority's management and the Audit Committee with assurance on compliance with the organisations Managing Sickness Absence (Health and Wellbeing) Policy and Procedure in cases of long term sickness only.
- 8.2.2 This Policy sets out a fair, consistent and sensitive framework to allow managers to manage sickness absence positively and ensure employees are properly supported throughout the process. This review does not aim to provide assurance on the suitability of this document, but to assess whether there is compliance with the Policy in respect of long term sickness absence.
- 8.2.3 An audit programme was developed using the requirements set out within the Managing Sickness Absence (Health and Wellbeing) Policy and Procedures document that aimed to provide assurance as to the level of compliance.
- 8.2.4 A sample of 36 long term sickness absences that occurred between April 2013 and September 2014 were chosen at random and assessed against the programme to determine the level of compliance.

8.3 Summary of Audit Findings

- 8.3.1 In the period covered within the report (March 2013 – September 2014) there had been 366 instances of long term sickness, accumulating a total of over 38000 days.
- 8.3.2 The report included sicknesses that were already underway as at March 2013 as well as all absences that have begun during that time frame. The average

length of a long term sickness exceeded 100 days.

- 8.3.3 Fit Notes were being adequately maintained by managers for staff on long term sickness. However, not all documentation relating to individual sickness absences was available due to managers having individual filing systems.
- 8.3.4 First Formal Meetings had not being undertaken in a 13/25 (48%) cases where a First Formal Meeting would be expected. One instance was due to the severity of the illness, the remainder had been referred to Occupational Health but no formal meeting had been undertaken.
- 8.3.5 In four instances where a First Formal Meeting had been carried out this was done so after the period of sickness ended.
- 8.3.6 There is no allowance noted within the Sickness Absence Policy on how to deal with serious illnesses. In these circumstances HR should be consulted.
- 8.3.7 Second Formal reviews had only been carried out in line with the policy in two instances. There were eighteen instances within the testing where a Second Formal Meeting would have been expected.
- 8.3.8 No Third Formal Meetings had been carried out within the sample of sickness absences chosen. Within the sample there could potentially have been 11 cases where a Third Formal was required.

8.4 Audit Opinion

- 8.4.1 **Nil Assurance** has been given as the audit found that the control environment is generally weak, leaving the system open to significant error or abuse, and/or significant noncompliance with basic controls leaves the system open to error or abuse.
- 8.4.2 As a result of this audit four medium priority recommendations were raised. These comprise of:

Medium Priority

- Sickness absence reporting and document retention by managers in off-site offices should be reviewed.
- All managers to be issued with a reminder from HR of the need to use the dashboard for sickness and to ensure the policy is accurately followed.
- HR to investigate specific cases highlighted by this report.
- Governance group to be given information on long term sickness in order to monitor areas of non-compliance; Feedback from this group to be given to Director of HR to be able to tackle the worst areas of non-compliance.

9.1 Introduction

9.1.1 Paris is an income management system that is used by both Newham and Havering. This report considers the Havering system only. The subject of this audit is the system's application controls. Application controls are designed to ensure:

- The confidentiality of the data
- The integrity of the data
- The availability of the data.

9.2 Objectives and Scope

9.2.1 8.2.1 The objective of the audit was to confirm that there is an adequate control environment within the Paris system that is working as expected, and that the controls are appropriate to enable the achievement of the system's objectives.

9.2.2 8.2.2 The audit will concentrate on examining the internal control environment applied to the following potential risks areas:

- System management and governance
- User access
- System security
- Data integrity
- Data availability

9.3 Summary of Audit Findings

9.3.1 A review of all users with current access to the system identified that;

- 260 (43%) could not be confirmed as current employees.
- 63% had not changed their password within 90 days.
- The accuracy and completeness of a report detailing those logging into the application could not be confirmed. Inconsistencies between this report and a report of password changes were identified.

25 users have been given administrator level access to the system. In the majority of cases, these users have had administrator access applied to their general user account.

9.3.2 Neither audit nor exception reports are produced. These should be used to monitor system outputs and user activity.

9.3.3 A data restoration exercise has not been carried out.

9.3.4 Prior to the commencement of the audit, formal ownership of the system had not been assigned and therefore a number of standard, routine, system administrative are not being completed. Formal ownership has now been allocated to the transactional and exchequer services team.

9.4 Audit Opinion

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

9.4.2 There are three high and one medium priority recommendations arising from this audit relating to:

- A full review of users and group permissions should be undertaken. In addition, the service, in conjunction with ICT, should investigate the completeness and accuracy of the reports produced by the application [High];
- Audit trail reports and exception reports should be extracted from the system and they should be reviewed by an appropriately senior officer on a regular basis [High];
- The ICT Applications Manager should consider carrying out a data restoration exercise, to confirm that backed up data could be restored to a usable state if required [High]; and
- Formal documentation should be produced which identifies the system owner and their designated responsibilities [Medium].

10.1 Background

10.1.1 The 2013/14 Internal Audit Plan included a review of Operating Systems 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 Operating Systems 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 four high and one medium priority recommendation were raised. All recommendations were accepted by management and were due to be implemented by the end of September 2013.

10.2 Progress on Implementations

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 three high and one medium recommendation have been fully implemented with one partially implemented. The partially implemented recommendation relates to Policies and Procedures being available on the Intranet.

10.2.3 Although a number of policies and procedures are available on Havering's intranet, there is no specific information that details how the Domain Controllers are to be configured to ensure that they are both configured correctly to a high security standard

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.

This page is intentionally left blank

APPENDIX B: SCHOOL AUDIT REPORT SUMMARIES

Parklands Junior School	Schedule B (1)
-------------------------	----------------

1.1 Summary of Audit Findings

- 1.1.1 In the short time that the current Head Teacher has been in post, substantial changes have been made within the school. Robust processes have been established around safeguarding and school development planning. However the Head Teacher is aware of the need for significant improvements in areas such as Finance and ICT.
- 1.1.2 Initial discussions with the Head Teacher were held during which concerns were raised regarding key documentation. Over the last year, most likely due to the turnover of staff, critical documentation (including Finance Policy and Resources committee minutes) has either been lost / misplaced or has not been kept up to date. In some instances, evidence, such as minutes to Governing Body meetings, would suggest that the documents did exist, however without access to them it has not been possible to provide assurances in some areas.
- 1.1.3 Historically the schools administrative and finance functions have been the sole responsibility of named individuals. A lack of succession planning has resulted in these functions not being administered in the absence of the responsible individuals.
- 1.1.4 Large quantities of hard copy data are being retained in an outbuilding on site; including sensitive and confidential information held beyond their statutory limits.
- 1.1.5 Effective filing systems have not been established. Individual files for both pupils and personnel have not been in place. Significant improvements have been made in some areas and work continues to ensure that robust mechanisms for recording and retaining sensitive information continue to be developed. Manual records increase the risk that information can be lost or damaged in the event of an emergency.
- 1.1.6 The school have yet to transition from paper to electronic record keeping. Class registers are a good example of a process that is still being maintained in hard copy; increasing the possibility of human error occurring and impacting on the efficiency of the process.
- 1.1.7 A process for recording equipment loaned to staff has been established, however records lack clear descriptions, such as make, model and serial number to ensure that the item can be easily identified and there is no reference to the terms and conditions of use. There is also no requirement for the return of the item to be independently verified.
- 1.1.8 Whilst income collected by the school is relatively small, banking is not undertaken on a regular basis. As a result, the level of cash held in the safe and therefore the amount to be banked can be significantly increased.

- 1.1.9 Delays in updating the SIMS system were noted. Notifications from the borough are received and should be entered onto the system to ensure that the schools financial position is as accurate as possible. The review found that a number of weeks can elapse before this information is updated on the system.
Delays were also found in the raising of checks, with several weeks passing from the invoice being authorised to the cheque being raised.
- 1.1.10 Income collected is stored in the safe until being prepared for banking. At the time of the audit there were two large cash bags in the safe. The Auditor was advised that the cash was from the School Fete however, the school could not confirm the amount of money in these bags and there were no income records available to indicate that the cash had been counted and maintained intact. A total of £1048 was confirmed by the Auditor. In the absence of any verification of the amount being placed in the safe may result in theft going undetected.
- 1.1.11 Income and expenditure records for school trips are maintained separately. The school will subsidise some of the costs of the trip, however a profit and loss account is not produced at the end of the trip to ensure that income and expenditure costs are as expected and to confirm that the school did not make a profit from the income collected from pupils.
- 1.1.12 All bank reconciliations should be completed and returned to LMS for each month by the 15th of the following month. Bank reconciliations for April and May 2014 could not be located on site and had not been returned to LMS at the time of the audit.
- 1.1.13 Various weaknesses were identified within the procurement processes of the school. Use of individual suppliers and a lack of evidence of quotes and tenders being obtained limit the schools ability to demonstrate that value for money is being achieved.
- 1.1.14 The raising of orders after the invoice has been received, in addition to the incorrect use of cost centre codes impacts on the schools ability to accurately monitor the budget as well as ensuring that cost centres are a true reflection of the schools spending habits.
- 1.1.15 Paperwork relating to purchases are separated by type. Locating all documents that support the order, receipt and payment of goods and services has been unnecessarily complicated.
- 1.1.16 At the time of the review there were only two cheque signatories, this was due to the need to update the bank mandate to reflect the new staffing structure. As one of the signatories was off sick at the time of the review and work was underway to update the bank mandate, no cheques could be processed.
- 1.1.17 Whilst the school uses a number of individuals that would be considered independent of the school, the school have not carried out the necessary HMRC checks to confirm the employment status of the individual as required.

1.1.18 Historically Payroll reports have been checked by the Finance Officer for accuracy, but are not submitted to the Head Teacher for final approval.

1.2 Audit Opinion

1.2.1 **No Assurance** on the system of internal control operating at the time of audit is given. This reflects the fact that control environment is weak and is open to error, abuse and/ or non-compliance.

1.2.2 The audit makes seven high and eight medium priority recommendations which comprise:

High:

- Critical documents should be amended and reviewed on an annual basis;
- Key documentation is retained and be made easily accessible;
- Succession planning should be undertaken to deal with the event of staff absence with regard to accessing documents/ information;
- Documentation, including sensitive information should be archived / destroyed once it has reached its statutory limit of retention;
- Confidential staff and pupil information should be filed efficiently and access limited to authorised personnel;
- Administrative, income and finance records to be transferred to electronic format;
- The procurement process to be amended to improve budget monitoring and value for money.

Medium:

- Equipment on loan register to be amended;
- Banking to be carried out frequently;
- Financial information to be entered onto the SIMS system in a timely manner;
- Income placed in the safe should be verified prior to storing in the safe.
- A summary income and expenditure to be prepared for the schools residential school trip;
- Bank reconciliations to be completed and returned to LMS in line with expectations;
- Additional signatories to be agreed and added to the schools bank mandate;
- Checks to be carried out on the tax status when using individuals who are self-employed; and
- Payroll reports to be submitted to the Head Teacher once checked, for final approval.

2. Introduction

- 2.1.1 The audit of St Edwards Primary School was undertaken as part of the rolling triennial programme of school audits.
- 2.1.2 St Edwards Primary School was last audited in November 2011 when Substantial Assurance on the School's system of internal control was given. The opinion reflected the fact that the system of internal control was sound but a number of limitations and/or instances of non-compliance with some of the controls may put some of the system objectives at risk were identified.
- 2.1.3 The 2011 internal audit report made eight recommendations, one high priority, five medium priority and two low priority, which were designed to mitigate potential risk. Six of the recommendations had been completed at the time of the audit. The two outstanding recommendations related to retrospective ordering and the inventory. Both of these recommendations have been reiterated as part of this report.

2.2 Objectives and Scope

- 2.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:
- Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management; and
 - Procurement & Capital Projects.

2.3 Summary of Audit Findings

- 2.3.1 Checks had not been carried out to ensure that staff that use their car for work had relevant insurance and a valid MOT certificate.
- 2.3.2 The schools inventory was not fully updated at the time of the audit. A report had been carried out by Joskos and supplied to the school showing all IT items that had been disposed of since the previous inventory check.
- 2.3.3 Documents for long term lettings weren't retained on file in all cases. It is expected that certain documents relating to a letting are retained on file; these would include insurance certificates, DBS checks and any relevant training/ qualifications.
- 2.3.4 Testing found that orders for thirteen of twenty purchases checked had been entered onto the system retrospectively of the invoice being received. To allow for accurate budget monitoring orders should be entered onto the system in advance of the service/ product being purchased.

- 2.3.5 A reimbursement to the Head Teacher for a purchase had been made. It was found that the order and invoice/ receipt had been authorised for processing and payment by the Head Teacher. The cheque was signed by two alternative authorised signatories. Staff being reimbursed for the purchase of school items should not be involved in the authorisation of the reimbursement in order for the school to demonstrate an adequate level of segregation of duties.
- 2.3.6 Purchases of larger value items should be made using the current processes in place for school orders, or via a School Corporate Purchasing Card and not via cash to be reimbursed. One purchase within the testing was found to be for an iPad that was later reimbursed by the school.
- 2.3.7 During the audit it was found the school had used two individuals for school maintenance works who were self-employed. No checks on their self-employed/ tax status had been carried out in advance of the individuals being used. Checks on self-employed individuals tax status should be carried out through HMRC in advance of them being paid for school works.

2.4 Audit Opinion

- 2.4.1 A **Substantial Assurance** has been given as the audit found 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.
- 2.4.2 The audit makes one high and six medium priority recommendations which comprise:

High:

- Checks to be carried out for those staff using their car for work purposes.

Medium:

- School inventory to be updated;
- Documentation relating to lettings to be retained by the school;
- Orders to be raised in advance of invoices being received;
- Staff being reimbursed not be involved in the authorisation of the reimbursement;
- Large cash purchases to be made using official orders or corporate purchasing card; and
- Checks to be carried out on the tax status when using individuals who are self-employed.

3.1 Introduction

- 3.1.1 The audit of Brady Primary School was undertaken as part of the rolling triennial programme of school audits.
- 3.1.2 The current Head Teacher of Brady Primary School was newly appointed in September 2014.
- 3.1.3 Brady Primary School was last audited in September 2013 when the completion of the Audit Health Check by the Council's LMS Team resulted in a Limited Assurance on the School's system of internal control being given. The opinion reflected the fact that limitations in the systems of control identified were such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
- 3.1.4 The 2013 report made eleven recommendations, three priority one (High) and eight priority two (Medium) recommendations were raised to mitigate the potential risks. As part of this review, progress to implement the recommendations raised in 2013 as been undertaken.
- 3.1.5 The review found that seven recommendations had been implemented and could be easily evidenced. However in four cases, recommendations have either been implemented but can't be evidenced, or have only been partially implemented.
- 3.1.6 A priority two recommendation regarding the need to bank income regularly included an additional point that the school profit and loss accounts for journeys should be signed off. Whilst evidence supports the regular banking of income, the most recent profit and loss account for the 2014 Isle of Wight trip was not signed off.
- 3.1.7 A priority two recommendation setting out the need for staff to change passwords on a regular basis is currently in progress. Investigation found that the SIMS system does not contain a facility to prompt the regular changing of passwords. Whilst staff have been reminded to change their passwords, evidencing that passwords have been changed would be difficult.
- 3.1.8 A priority two recommendation was raised because the 2013/14 draft budget appeared to have been signed off by an individual Governor before it was presented and agreed by either the Governing Body or a committee with delegated responsibility, in this case the Finance Committee. It also noted that the draft budget was not approved by the Finance Committee until late in May 2013. The report acknowledged that the Finance Committee were invited to review the budget in April 2013.
- 3.1.9 A delay in approving the 2014/15 budget was noted during this review; however, because of the extenuating circumstances over the last year, which has most likely contributed to this delay, no recommendation is being raised.

3.1.10 Lastly a priority two recommendation was raised to address the finding that expenditure was being coded to cost centres where no budget have been allocated. No evidence of this was found during this review, however, cost centre overspends were found. Recommendations have been raised as part of this report to address these findings.

3.2 Objectives and Scope

3.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:

- Corporate Governance & Risk Management;
- Strategic Planning;
- Information Governance;
- Safeguarding;
- Financial Management;
- Income;
- Banking;
- Procurement;
- Payments; and
- Capital Projects.

3.3 Summary of Audit Findings

3.3.1 The schools Finance Policy and Procedures document contains evidence to support that amendments to this document have been made post the appointment of the current Head Teacher. However, the audit has highlighted several areas that do not reflect current arrangements. Furthermore, the revised version of this document has not been presented to Governing Body for approval.

3.3.2 The audit review carries out checks in a number of areas, where staff are either subject to checks, such as DBS checks or where staff are required to sign a declaration, such as a declaration of interest. Testing has highlighted a relatively low number of omitted forms in several areas. Whilst this does not pose a significant risk, due to the low number of cases identified, it does impact of the completeness of the schools records.

3.3.3 Similarly to the schools Finance Policy and Procedures document, the Emergency Plan requires both updating and approving. Elements of the plan are out of date; particularly where responsibilities are allocated to staff that no longer work at the school. It is essential that responsibilities are adequately allocated and communicated.

3.3.4 The school does not have a “grab bag” that includes useful / necessary items that may be required in an emergency situation. The schools Emergency Plan has been produced using the Council’s “Emergency Planning in Children’s Establishments” document which outlines items that should be placed in the bag.

- 3.3.5 The schools Asset Management Plan includes works and costs, however this is no longer up to date and doesn't align with the 2014/15 budget profile. The school needs to ensure that works are prioritised, including how and when works will be funded.
- 3.3.6 The Schools Finance Policy and Procedures document sets out that the Head Teacher is a permitted user of SIMS Finance, however a review of users found that access has not been set up.
- 3.3.7 To ensure the accuracy of the schools inventory, a sample of items are selected from the inventory, then located and checked for security markings. Testing is also undertaken to establish whether items within the school are recorded on the inventory. This test found that none of the three items selected from the school were recorded on the inventory.
- 3.3.8 Budget monitoring meetings have historically been attended by the Head and Deputy Head Teachers, the Office Manager and the Site Manager. After the unexpected passing of the Head Teacher, the Officer Manager with support from the Deputy Head who was Acting Head assumed responsibility for monitoring the budget. This has continued whilst the new Head Teacher settles in, but a formal monitoring process needs to be reinstated to ensure that the budget can be closely monitored for the remainder of the financial year and ultimately feed into the forthcoming budget setting process.
- 3.3.9 A review of the schools cost centre codes found instances of both over and underspends. Discussions identified some possible miscoding between the Health & Safety and Internal Maintenance codes that offset some of these figures. It is also possible that the budget was not accurately profiled for the current financial year, which has exacerbated the issue.
- 3.3.10 The school collects income from pupils for school meals, which is passed to an external company that provides meals for the pupils at another local school. A record is maintained of meals requested and money collected. This record, along with the money is not verified before it is taken off site.
- 3.3.11 Discrepancies were noted during procurement testing between the cheque numbers recorded on SIMS Finance to the actual cheques used. Whilst the explanation surrounding the error and the action taken are sufficient, there is a lack of documented evidence on file to ensure that there is a full audit trail of events.
- 3.3.12 The payroll report is checked for accuracy by the Office Manager; however it is not signed off. Whilst it is not expected that the Head Teacher will review the payroll report, the checking officers pay should be verified by the Head Teacher to ensure full segregation of duties.

3.4 Audit Opinion

- 3.4.1 **Substantial Assurance** on the system of internal control operating at the time of audit is given. This reflects the fact that the school has maintained good controls during a period of instability and as a result there is a basically sound

system of control in place. However, 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 and therefore need to be addressed.

3.4.2 The audit makes nine medium priority and three low priority recommendations which comprise the need for:

Medium:

- All necessary declarations and checks to be completed for all staff / governors where applicable;
- The Emergency Plan to be updated and approved;
- The school to put together a "grab bag" and allocate responsibility for this bag;
- The Asset Management Plan to be reviewed, updated and approved, ensuring that any financial requirements can be built into the budget setting process;
- A full review of the schools inventory to be undertaken to ensure that all items on site are included;
- Formal budget monitoring meetings to be reinstated to ensure that the budget is being adequately monitored;
- Expenditure to be coded to the most appropriate cost centre to ensure that budget profiles are as accurate as possible;
- Verification of school meals monies to be carried out prior to monies being removed from the school; and
- Clear audit trails to be maintained when errors occur, setting out the reason for the error and the action taken to rectify the error.

Low:

- The school Finance Policy and Procedures document to be updated to reflect the current arrangements in place and for the document to be subject to Governing Body approval;
- The Head Teacher to be given access to SIMS Finance in line with the Schools Finance Policy and Procedure document; and
- Payroll reports to be signed by the person checking the accuracy of the report and verified by the Head Teacher.

4.1 Introduction

- 4.1.1 The audit of St Patricks Primary School was undertaken as part of the rolling triennial programme of school audits.
- 4.1.2 St Patricks Primary School was last audited in February 2014 when the completion of the Audit Health Check by the Council's LMS Team resulted in a Substantial Assurance on the School's system of internal control being given. The opinion reflected the fact that whilst there was basically sound system of control in place, limitations were identified that may put some of the system objectives at risk, and/or there was evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- 4.1.3 The 2014 report made six recommendations, one priority one (High) and five priority two (Medium) recommendations to mitigate the potential risks. As part of this review, progress to implement the recommendations raised in 2014 has been undertaken.
- 4.1.4 The review found that three recommendations had been implemented and could be easily evidenced. In two cases, the audit found weaknesses that show the recommendation has not been fully implemented. The first case relates to the need for the school to reduce the number of orders being placed retrospectively.
- 4.1.5 This review found that a large number of retrospective orders are still being placed. A duplicate recommendation has not been raised as part of this report, however the school must continue to address this issue as part of the implementation of the original recommendation, especially as the risk of budget overspends will increase once the carry over funds currently in the account have been spent.
- 4.1.6 The second recommendation that remains outstanding relates to the need for the transfer of monies between staff to be recorded. During the audit it was stated that the transfer is documented, however the evidence is destroyed once the process is complete. A subsequent recommendation has been raised as part of this report to address this issue.
- 4.1.7 In the remaining case, the recommendation raised related to the need for Governors to consider The Royal Society for the Prevention of Accidents guidance in relation to staffing using their own vehicles for work purposes. In response to the recommendation and after discussion at the Full Governing Body meeting, the Governors deemed it inappropriate to ask staff to provide documentary evidence and that staff were responsible for ensuring that they have the correct cover. Instead staff are required to complete an annual declaration (or whenever their insurance was renewed) to evidence that they accept this responsibility.

4.2 Objectives and Scope

4.2.1 The audit was undertaken to provide the Governing Body and Head Teacher with assurance on the system of internal control operating within the school to manage key risks in the following key areas:

- Corporate Governance & Risk Management;
- Strategic Planning;
- Information Governance;
- Safeguarding;
- Financial Management;
- Income;
- Banking;
- Procurement;
- Payments; and
- Capital Projects.

4.3 Summary of Audit Findings

4.3.1 There are several declarations in place that staff and in some cases Governors are expected to complete.

4.3.2 A review of declarations of interest found that of the 61 staff and Governors tested, six individuals had not completed a declaration within the last year. Whilst only one (a Governor) would be expected to have completed a declaration, as in the remaining cases the individuals are not authorised signatories, for completeness, the school should ensure that all forms have been completed. It must be noted that in one case the member of staff was on sick leave and so could not complete the declaration until they return to work.

4.3.3 Declarations are signed by staff to evidence that they have been informed of their responsibility in regards to ensuring that they have appropriate insurance cover in the event that they use their own vehicle for work purposes. Of the 56 members of staff tested, two (a new starter and the member of staff on sick leave) have yet to complete the declaration.

4.3.4 Staff are also required to sign the Acceptable User Declaration. Testing found that three individuals (the new starter and member of staff on sick leave, set out above) have not completed this form, in addition to another member of staff off sick.

4.3.5 Governors are provided with the School Improvement Plan as part of the Head Teachers pack. Whilst minutes to both Governing Body and Finance Committee meetings clearly evidence that Governors are aware of and have access to this document, the minutes do not clearly evidence Governors approval of the plan.

4.3.6 Documentary evidence is not being retained to support the transfer of monies between the Breakfast and After School Club and the Office.

4.3.7 The schools Finance Policy and Procedures document sets out that there are four authorised signatories, all with a financial threshold limit of £10k+. The use of the plus sign in addition to the lack of varying limits between signatories

obscures the intention of the financial authorisation levels recorded in the procedures.

- 4.3.8 On the 30th January 2012 the Governing Body approved the issue and financial limits of charge cards to staff. However, evidence could not be located to support that card holders had been provided with guidance regarding permitted use of these cards.
- 4.3.9 Testing was undertaken on a sample of purchases made via charge card. Whilst testing found that the use of cards is in line with expectations it was noted that the Head Teacher has previously signed a charge card reconciliation as both the card holder and one of two authorisers. It is appreciated that the limited number of signatories results in difficulties in ensuring that there is full segregation of duties through the process. However, the planned addition of the Deputy Head, discussed at the time of the audit, as an authorised signatory will provide an additional avenue for approving Head Teacher transactions.
- 4.3.10 The schools Finance Policy and Procedures document regarding the petty cash process does not accurately reflect the actual process being followed and needs to be amended.

4.4 Audit Opinion

- 4.4.1 **Substantial Assurance** on the system of internal control operating at the time of audit is given. This reflects the fact that the school has maintained good controls during a period of instability and as a result there is a basically sound system of control in place. However, 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 and therefore need to be addressed.
- 4.4.2 The audit makes four medium priority and three low priority recommendations which comprise the need for:

Medium:

- Minutes to clearly evidence to approval of key documents;
- The transfer of monies between the Breakfast and After School Club to be documented;
- Financial thresholds for cheque signatories to be clarified;
- The Deputy Head Teacher to authorise charge card and petty cash transactions relating to the Head Teacher.

Low:

- The outstanding declarations to be completed and retained on file;
- The need for card holders to sign to accept that they have been notified of the procedures around the use of charge cards; and
- The Finance Policy and Procedures document to be updated to reflect the current arrangements for the approval of petty cash reimbursements.

5.1 Introduction

- 5.1.1 As part of the traded services on offer to all authority maintained schools within the borough, the schools are able to buy in an audit health check. The health checks provide schools with an independent assurance between their triennial audits.
- 5.1.2 Langtons Infant School was last audited in July 2012 when the completion of triennial audit resulted in a Substantial Assurance on the School's system of internal control being given. The opinion reflected the fact that while there is a basically a sound system of control in place, there were 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.
- 5.1.3 The 2012 report made five recommendations, one high, two medium and two low priority recommendations.
- 5.1.4 Recommendations raised in the previous Health Check in September 2013 have also been checked for implementation. This report made seven recommendations, one priority one (High) recommendation and six priority two (Medium) recommendations.

5.2 Objectives and Scope

- 5.2.1 The audit health check was undertaken to provide the Governing Body and Head Teacher with assurance on the implementation of previous recommendations and the system of internal control operating within the school to manage key risks in the following key areas:
- Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management;
 - Income;
 - Banking;
 - Procurement;
 - Payments; and
 - Capital Projects.
- 5.2.2 The health check does not fully review each key area as per the triennial audit but is directed by the recommendations raised previously and the answers supplied by the head teacher on the Schools Pre-visit Questionnaire.
- 5.2.3 The matters raised within this report are those that came to the attention of the auditor during the course of the review and are not necessarily a comprehensive list of all the weaknesses that may exist or all improvements that might be required.

5.3 Summary of Audit Findings

- 5.3.1 This review found that three of the five recommendations raised in the July 2012 triennial audit had been implemented. The review found weaknesses in the remaining two areas that related to the need for;
- Petty cash reimbursements to be authorised before the payment is made (Medium); and;
 - Staff that use their own cars for school business use to produce the relevant documentation and for documentation to be reviewed annually. (High).
- 5.3.2 This review found that five of the seven recommendations raised in the September 2013 triennial audit had been implemented. The review found weaknesses in the remaining two areas that related to the need for;
- VAT to be charged (where applicable) on the total cost of invoices raised where the Infant School is supplying goods and / or services to the Junior Academy (Medium). This recommendation had been implemented in part and human error was responsible for the weaknesses identified; and;
 - Staff that use their own cars for school business use to produce the relevant documentation and for documentation to be reviewed annually. (High).
- 5.3.3 Staff are asked to declare whether they use their car for work purposes. In the event that a member of staff declares that they do use their own car, a driving checklist is completed. The audit found that 11 members of staff do use their car for work purposes. Of the 11 checklists in place, seven are currently incomplete and awaiting the submission of supporting documents. In four cases, where it appears from the checklist that the member of staff is suitably insured, the supporting insurance policies appear to contradict this view.
- 5.3.4 One governor had not been subject to a DBS check. For completeness, this check should be carried out to ensure that in the event that the Governor attends the school during the day, that suitable checks have been completed in advance.
- 5.3.5 Testing found instances where the claimant had not signed the timesheet they submitted for payment. Claimants should sign to declare that the record is true and accurate.
- 5.3.6 The payroll report is checked for accuracy by the Office Manager; however it is not signed off. Whilst it is not expected that the Head Teacher will review the payroll report, the checking officers pay should be verified by the Head Teacher to ensure full segregation of duties.

5.4 Audit Opinion

- 5.4.1 Based on the records examined a **Substantial Assurance** has been given on the basis that whilst there is basically a sound system of control in place, 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.

5.4.2 The audit makes one medium priority and four low priority recommendations which comprise the need for:

Medium:

- Action to be taken to complete the driving checklists already underway and to reassess the cover detailed in the insurance policies already provided.

Low:

- All staff to sign a declaration to evidence that they have been informed of their responsibility regarding the use of their car for work purposes;
- A DBS check to be carried out on the last remaining Governor;
- All timesheets to be signed by the claimant;
- Payroll reports to be signed by the person checking the report and verified by the Head Teacher.

6.1 Introduction

- 6.1.1 As part of the traded services on offer to all authority maintained schools within the borough, the schools are able to buy in an audit health check. The health checks provide schools with an independent assurance between their triennial audits.
- 6.1.2 Mead Primary School was last audited in September 2013 when the completion of triennial audit resulted in a Full Assurance on the School's system of internal control being given. The opinion reflected the fact there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- 6.1.3 The 2013 report made three recommendations, one medium priority recommendation and two low priority recommendations were raised to mitigate the potential risks.
- 6.1.4 Recommendations raised in the previous Health Check in October 2012 have also been checked for implementation. This report made four recommendations, three priority two (Medium) recommendations and one priority three (Low) recommendation.

6.2 Objectives and Scope

- 6.2.1 The audit health check was undertaken to provide the Governing Body and Head Teacher with assurance on the implementation of previous recommendations and the system of internal control operating within the school to manage key risks in the following key areas:
- Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management;
 - Income;
 - Banking;
 - Procurement;
 - Payments; and
 - Capital Projects.
- 6.2.2 The health check does not fully review each key area as per the triennial audit but is directed by the recommendations raised previously and the answers supplied by the head teacher on the Schools Pre-visit Questionnaire.
- 6.2.3 The matters raised within this report are those that came to the attention of the auditor during the course of the review and are not necessarily a comprehensive list of all the weaknesses that may exist or all improvements that might be required.

6.3 Summary of Audit Findings

- 6.3.1 This review found that all previous recommendations raised across the two reports had been implemented and could be easily evidenced.
- 6.3.2 One governor had not signed a pecuniary interest form. This is a new governor appointed November 27th 2014.
- 6.3.3 The schools emergency plan was last updated in September 2012.
- 6.3.4 The information relating to FMS access within the Finance Policy does not accurately reflect current access rights.

6.4 Audit Opinion

- 6.4.1 Based on the records examined a **Full Assurance** has been given on the basis that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- 6.4.2 The audit makes one medium priority and two low priority recommendations which comprise the need for:

Medium:

- School Emergency Plan/ Business Continuity Plan to be updated.

Low:

- Pecuniary interest form to be completed for the one remaining governor,
- Finance Policy and FMS access information to be coordinated.

7.1 Introduction

- 7.1.1 As part of the traded services on offer to all authority maintained schools within the borough, the schools are able to buy in an audit health check. The health checks provide schools with an independent assurance between their triennial audits.
- 7.1.2 Mawney Foundation School was last audited in September 2012 when the completion of triennial audit resulted in a Substantial Assurance on the School's system of internal control being given. The opinion reflected the fact there is a basically sound system of control with some areas of non-compliance identified.
- 7.1.3 The 2013 report made four recommendations, three medium priority recommendation and one low priority recommendations were raised to mitigate the potential risks.
- 7.1.4 Recommendations raised in the previous Health Check in December 2013 have also been checked for implementation. This report made six recommendations, one priority one (High) and five priority two (Medium) recommendations.

7.2 Objectives and Scope

- 7.2.1 The audit health check was undertaken to provide the Governing Body and Head Teacher with assurance on the implementation of previous recommendations and system of internal control operating within the school to manage key risks in the following key areas:
- Corporate Governance & Risk Management;
 - Strategic Planning;
 - Information Governance;
 - Safeguarding;
 - Financial Management;
 - Income;
 - Banking;
 - Procurement;
 - Payments; and
 - Capital Projects.
- 7.2.2 The health check does not fully review each key area as per the triennial audit but is directed by the recommendations raised previously and the answers supplied by the head teacher on the Schools Pre-visit Questionnaire.
- 7.2.3 The matters raised within this report are those that came to the attention of the auditor during the course of the review and are not necessarily a comprehensive list of all the weaknesses that may exist or all improvements that might be required.

7.3 Summary of Audit Findings

- 7.3.1 Checks on the implementation of the recommendations raised at the last triennial audit found that one recommendation was still outstanding. This related to the need for orders to be raised on the system before invoices have been received to allow for more accurate budget monitoring. This recommendation has been reiterated as part of this report.
- 7.3.2 The review of the previous health check recommendations found that five recommendations had been fully implemented with one partially implemented. This related to the need for all key staff and governors to sign a pecuniary interest form.
- 7.3.3 One governor's form was outstanding at the time of the audit, this had been chased and the Governing Body had been made aware of this form being outstanding, therefore no recommendation relating to this has been raised within this report.
- 7.3.4 The schools business continuity plan was only partially completed at the time of the audit. Work was ongoing to fully complete the plan as soon as possible.
- 7.3.5 An ex-employee still had log in access to the FMS system.
- 7.3.6 Orders raised and authorised on the system were not printed/ authorised in advance of invoices being received from suppliers.

7.4 Audit Opinion

- 7.4.1 Based on the records examined a **Full Assurance** has been given on the basis that there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- 7.4.2 The audit makes two medium priority and one low priority recommendations which comprise the need for:

Medium:

- School Business Continuity Plan to be completed; and
- Orders to be printed/ authorised before being raised with the supplier.

Low:

- LMS to be contact to remove access to FMS for an ex-member of staff; and

This page is intentionally left blank

AUDIT COMMITTEE

Report

11 March 2015

Subject Heading:

Fraud Progress Report
1st October to 31st December 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 October to 31st December 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 Single Fraud Investigation Service

1.1.1 The transfer process for Havering employees to Department of Work and Pensions continues to run in conjunction with the internal oneSource change management process. Currently all eight employees remain in scope for the transfer as the consultation is yet to close for the restructure.

1.2 OneSource Service Review

1.2.1 The Consultation on the restructure was launched on 9th January 2015. At the time of drafting this report the consultation remains open.

2. CORPORATE FRAUD TEAM: UPDATE OCTOBER TO DECEMBER 2014

2.1 Delivery of the Anti-Fraud and Corruption Strategy

2.1.1 Work has been delivered to further develop a fraud aware workforce through an on-going programme of training. During Quarter three, training was provided on the Prevention and Detection of Fraud as part of the corporate induction.

2.1.2 The Corporate Fraud Team also works to raise the Authority's awareness of the risk of fraud and appropriate responses to fraud through advice and guidance to management on specific risk, control and compliance issues. 53 cases relating to advice and assistance to Directors and Heads of Service were referred at the end of Quarter 3 of which 51 are completed.

2.1.3 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.

2.2 Proactive Fraud Investigations

2.2.1 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.

2.2.2 The proactive work plan for 2014/15 is shown in the table in Appendix A. During Quarter 3 progress was made on the plan.

2.2.3 The team's data matching work for the National Fraud Initiative (NFI) is on-going and a separate report is being produced for Committee.

2.2.4 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. An investigator from the investigations team has been on secondment to support the work of the Corporate Fraud Team.

2.3 Reactive Fraud Cases: OCTOBER to DECEMBER 2014

2.3.1 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 3 2014/15						
Team	Cases at start of period	Referrals received	Referrals rejected/overloaded	Fraud not Proven Cases	Successful Cases	Cases at end of period
Corporate	21	11	0	7	9	16

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

Source of Referrals & Fraud Reports Quarter 3 2014/15	
Number of Referrals/ Type	IA Fraud Reports Qtr 3
Anonymous Whistleblower	3
External Organisations / Members of the Public	2
Internal Departments	6
Total	11

2.3.3 The table below shows the number and categories of potential Corporate Fraud cases reported in the Quarter 3 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 3
PC – Misuse and Abuse	3	2
Breach of Code of Conduct	9	4
Breach of Council Procedures	1	3
Misuse of Council Time	1	1
Direct Payments	4	4
Safeguarding	0	
Overpayment of Pension	0	
Security	0	
Theft	2	1
Disabled Facility Grant	1	1
School Admissions	0	
Total	21	16

2.3.4 The table below shows the case outcomes for the Internal Audit Corporate Fraud Team from October to December 2014.

Case Outcomes	
Outcome	Qtr 3
Management Action Plan	2
Resigned	2
Disciplinary	4
Dismissed	1
No case to answer	7
Reduced Direct Payment Service	0
Withdrawn Application	0
Prosecution	0
Total	16

2.4 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 Three.

2.5 Successful Fraud Cases.

Details of one employee Disciplinary Outcome

2.5.1 An employee was dismissed for 'Breach of the Council's Code of Conduct'. The investigation revealed that the employee failed to:

- Comply with the Council's Standing Orders and Financial Regulations
- Comply with the Council's Contract Procedure rules.
- Comply with the Council's print strategy.
- Report financial irregularities giving opportunity to fraud.
- Comply with the Manager's Guide to Responding to a Reference Request.

3.1 BENEFITS AND HOUSING TENANCY INVESTIGATIONS UPDATE OCTOBER TO DECEMBER 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 3 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	305	84	48	59	36	246
HT	67	22	-	10	5	74
TOTAL	372	106	48	69	41	320

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 3 2014/15			
Type and Number of Referrals	HB/CTS Referrals	HT Referrals	Total
Anonymous	38	8	46
External Organisations / Members of the Public	4	2	6
Internal Departments / Whistleblowers	22	1	23
Social Landlords (inc HiH)	20	11	31
Data Matching / Proactive initiative	-	-	-
Total	84	22	106

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 3 14/15
Capital	5
Income from Other Sources	8
Living Together	14
Non-Dependant	9
Non-Resident/vacated	11
Working	10
Non Commercial Tenancy	-
Contrived	5
Tenancy Fraud	13
Other	9
Total	84

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

Referrals by Category	
Potential Fraud	Qtr 3 14/15
Subletting	7
Not main/principal home	11
Fraudulent RTB	-
Fraudulent Housing Register Application	4
Fraudulent succession	-
Total	22

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

Current Cases by Category	
Potential Fraud	As at end of December 2014
Capital	21
Contrived Tenancy	5
Income from Other Sources	17
Living Together	74
Non-Dependant	18
Non-Resident/vacated	31
Other welfare benefits	-
Working	23
Non Commercial Tenancy	2
Other	3
Single Person Discount	5
Tenancy Fraud	44
Financial Investigation	3
Total	246

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	1	-	1
Working & Claiming	-	-	2
Living Together	4	1	1
Non Residence	3	-	-
Contrived Tenancy	-	1	-
Other Income	-	2	2
Non Dependants	-	-	-
Total	8	4	6

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

Successful Outcomes	
(Note: Cases may have multiple outcomes)	
Outcome Type	Qtr3 14/15
Tenancy Relinquished voluntarily (keys handed in)	3
Property recovered via court action	2
Indefinite Suspended Order	-
Housing Register application withdrawn	-
Prosecution	-
Total	5

3.2 Successful Benefit and Housing Fraud Cases.

Details of 3 successful benefit prosecution cases are provided below.

3.2.1 A “living together” investigation led to the prosecution of Mrs X and her sister-in-law when details of a further fraud emerged. Mrs X had been claiming Council Tax and disability benefits since 2003 on the basis that she was a lone parent residing with her children. An in-depth investigation and subsequent search of the property revealed substantial evidence which established that Mrs X had been sharing the same household with Mr X and that he had been providing financial support. This couple were found to be leading an extravagant lifestyle. Along with documentation gathered, pictures and videos obtained from computers showed that the couple had enjoyed 16 luxury holidays over a 6 year period. This footage also showed that Mrs X was not disabled. Their home was decorated and furnished to a high standard and Mr X owned several high spec vehicles. Mrs X had only declared one bank account to the Benefits department but the couple actually had numerous including several joint accounts. An analysis of the accounts identified considerable income and expenditure including many visits to a casino. During the investigation it was discovered that Mr X also owned a property in Barnet where his sister, Miss Y, lived. Enquiries into Miss Y’s situation revealed that she had not declared her relationship with her brother and that out of £1,200 benefit she received a month, she only parted £100 to pay for the mortgage. Miss Y’s overpayment was £189,000 for which she received an 18 month suspended sentence. Mrs X’s was overpaid £88,700 for which she also received an 18 month suspended sentence. Havering Council are pursuing recovery of the monies via Proceeds of Crime.

3.2.2 The investigation into Mrs Z began as a tenancy fraud. It had long been suspected that Mrs Z didn’t actually reside in her Council Property but lived at her partner’s address across the road. This was confirmed following an early morning visit to the property by Local Authority investigators and the Police. During Mrs Z’s interview under caution she claimed to have lived with her partner for 3 months but then admitted it was actually 3 years.

Mrs Z incurred an overpayment of £17,500. It was decided to offer Mrs Z an administrative penalty in respect of the overpayment as an alternative to prosecution. However, Mrs Z disputed the overpayment and denied that she had been living with her partner for 3 years, contrary to what she stated on tape. Her partner also complained that his Single Residency Discount had been removed too soon. In spite of 3 attempts inviting Mrs Z to accept an administrative penalty, Mrs Z failed to appear. A prosecution file was prepared and Mrs Z was summonsed to Court where she pleaded guilty. She received a 12 month community order to carry out 150 hours unpaid work and pay £210 costs.

- 3.2.3 This prosecution commenced as a joint investigation regarding Mr A's failure to declare his work since 2005. Several attempts were made to interview Mr A but he was always evasive and claimed to be sick. When he finally attended an interview, he struggled to walk and breathe and needed to take medication. He also advised that he had a hospital appointment the following day. It was decided that Mr A was too ill to be interviewed and he agreed to reschedule the interview after he had sought medical advice. When Mr A failed to make further contact to re-attend, the investigator visited Mr A's employer. From their records it showed that Mr A had worked all day before his previous interview. He then had a day's leave on the day of the interview but had returned to work the following day. Mr A was seen working on one of the stores check-outs. The investigator hand delivered an interview under caution appointment letter to Mr A's home. Mr A was seen through the window wearing his blue work jacket but by the time he came to the door he was wearing only a vest and using his walking aid. Mr A claimed he was too sick to attend the interview but did attend a later one where he admitted that he should have notified the DWP and the Council when he started work and that he had been dishonest by not doing so. Mr A incurred a total overpayment of £68,364.68. He failed to attend Court following a summons and was subsequently arrested. At Court Mr A pleaded guilty and received a 12 month sentence suspended for 18 months with community service.

Details of three successful housing tenancy cases are detailed below

- 3.2.4 Neighbours of Mr B had been complaining for a while that he had not been residing at his property and only came back occasionally to pick up the mail. Mr B had a bank and medical link to another address where his alleged partner lived, however the partner's family denied that he lived there. The Police had also attended Mr B's flat and confirmed that no-one lived there. Investigator took statements from the concerned neighbours and left cards for Mr B to make contact. His Housing Benefit ceased when he failed to do so. The civil hearing for possession was listed to be heard just before Christmas 2013 but due to lack of court time the hearing was adjourned until July 2014. Just before this hearing, Mr B's circumstances with his partner changed and he returned to the flat. The hearing was adjourned with liberty to restore but in the meantime Mr B had accrued rent arrears and was in breach of a previous suspended possession order. The Council was therefore able to apply to Court for an eviction warrant. Mr B did not appeal this application and the property was returned to the Council.

3.2.5 A benefit investigation led to the return of a Guinness Trust property. Evidence had been gathered to establish that Miss C, who was claiming benefit as a lone parent, was actually residing with her partner. When investigators attended the property with Police Officers in relation to the offence, it was discovered that cannabis was being cultivated at the address and that the electricity was being illegally abstracted. The property was also found to be decorated to a very high standard and contained expensive appliances. Miss C received a suspended sentence for the drug and electricity offences. She incurred a benefit overpayment in the region of £40,000 and received a custodial sentence. Guinness Trust liaised with the investigator as their case relied heavily on the evidence obtained by the council investigation to gain possession of the property under Ground 14 of the Housing Act 1988. Possession was granted to the claimant following a further police raid on the property where drugs were found.

3.2.6 A phone call on the hot line was received from someone stating that he was concerned that he was paying rent to Mrs D for a flat in Harold Hill but Mrs D had left the country and he was now paying rent to her brother. The property was found to be a council flat and Mr & Mrs D were identified as the legal tenants. Further enquiries revealed that the sub-tenant was paying £700 per month into the account of Mr D. A witness statement was taken from the sub tenant and details of the false tenancy agreement obtained. An NTQ was served and Mrs D called to find out why she was being investigated. She was interviewed under caution and admitted that she'd lived away in Rwanda for a year and her husband was still there. She denied knowledge of the sub-let and blamed this on her husband. She advised that she was returning to Rwanda. Following the interview Mrs D handed the keys of the property back, however the subtenant remained in the property and initially refused to leave. Court proceedings were instigated and a meeting was held to advise the sub-tenant of his options. The sub-tenant consequently left the property four days prior to the court hearing.

3.3 HB/CTB/CTS Fraud Overpayments

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

3.3.2

Fraudulent Overpayment		
Type	Qtr 3	To date
Rent Rebate	£98,693.65	£449,450.30
Rent Allowance	£124,830.35	£464,844.09
Council Tax Support	£68,147.93	£163,599.83
Total	£291,671.93	£1,077,894.22

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	Draft Report
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	Delayed due to Restructure of service
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 Applications	This could involve any 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.	20	Planned

Description	Risks	Plan days	Qtr 1 Status
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	Qtr 1	£25.00		Employee falsified a receipt and a medical letter to obtain an additional £25.00 expense claim.
Direct Payment Fraud	Qtr 1	£11,090	£24,170	Mrs R 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. More info provided in last report.
7 Blue Badges	Qtr 2	£7,000		7 Blue Badges estimated savings by Audit Commission minimum £1k each.
Goldcare Homes	Qtr 3	£8,314.56		Internal Audit advice to Directors recovered outstanding sums owed to the Council

Direct Payments	Qtr 3	£8,388		Payments made to an ironing company. Care plan cancelled.
Total		£75,522.56	£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.

This page is intentionally left blank



AUDIT COMMITTEE

11 March 2015

Report

Subject Heading:

Blue Badge and National Fraud Initiative
2012/13 – Final Summary Report

Report Author and contact details:

Vanessa Bateman, Internal Audit &
Corporate Risk Manager ext 3733

Policy context:

To provide information requested about
Blue Badge Fraud and inform the
Committee on the results of the National
Fraud Initiative 2012/13

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 performed as part of the National Fraud Initiative and the results of the matching exercises and investigations undertaken.

It also provides information regarding blue badge fraud, as Members had concerns following a briefing on fraud based on a report from the Audit Commission.

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

1. Introduction

- 1.1 The National Fraud Initiative (NFI) is a data matching exercise designed to help participating bodies identify possible cases of fraud and detect and correct any consequential impact or loss. The core of the NFI is the matching of data to help reduce the level of housing benefit fraud, payroll and occupational pension fraud, housing tenancy and blue badge fraud.
- 1.2 The Corporate Fraud Team have overseen the participation in the NFI and pick up some of the cases regarding employees however the majority of the work to first download and then review the match within the NFI system is undertaken by the relevant service area.

2. Results of matches

- 2.1 A programme of key dates and actions were set out in order that the Council could fully participate in the 2012/13 exercise and once again as in previous years the exercise has proven successful and overpayments, fraud and financial savings have been identified. The total amount identified as at 31st December 2014, amounts to £262,393 of which £172,266 is recoverable by the Council.
- 2.2 There are a number of areas that have proved successful; the most significant are highlighted below:
 - Housing Benefits 42 cases referred for investigation
 - Student Loans - £146,045
 - Local Government pensioners - £41,216
 - Local Government employees - £44,964
 - Central Government pensioners - £13,434
 - Central Government employees - £15,398
 - Administrative Penalties - £19,427
 - Blue Badge – 445 deceased cases - £222,500

- Deceased Pensioners - £1,335
- Single Persons Discount – Ongoing assessment

Deceased Pensioners

- 2.3 Following the review of deceased pensioners there were two cases that had not been previously identified with a value of £1,335 which has been subsequently recovered.
- 2.4 It is pleasing to note that there were no cases of overpayments to private residential homes, where residents were also deceased.

Single Person Discount

- 2.5 Those occupiers receiving Single person discount were again matched with the Electoral Register and further matched to information supplied by Data Tank and a separate exercise has commenced in order to identify cases where the discount for 2013/14 should not be applied.
- 2.6 The original report from audit contained 732 NFI targets. However, it was found that 185 of these had already been included within the main SPD review with the following results:
- 2.7 Of those remaining 547 Datatank screened 356 with the credit bureau as these were the only ones which still had a live SPD claim. The analysis of the 547 cases is as follows
- 356 still claiming SPD were screened of which 146 received a review letter results of which are still being processed;
 - 94 now paying full council tax;
 - 9 on an exemption or disregard; and
 - 88 who are no longer living at the property.

Blue Badges

- 2.8 In October 2013 data relating to Blue Badges was supplied to the Audit Commission and the data matched to Department of Works and Pension deceased persons. Following investigations of the 632 matches 438 badges were cancelled and letters sent to executors asking for the badge to be returned and informing them that the badge had been cancelled and should not be used. The number of cancelled badges was reported to the Audit Commission as part of the annual fraud survey, Protecting the Public Purse. Members received a briefing on the survey results and were concerned that Blue Badges may be a high risk fraud in Havering.

- 2.9 There are 11455 blue badges on issue from the 1st Jan 2012 (this is when the Council started recording on Northgate system) till the 31st Dec 2014.
- 2.10 The Audit Commission treat these cases as fraud because the person who originally applied for the badge is now deceased. It should be noted that although the badge may not have been returned or cancelled there is no evidence that the badge was being used illegally by relatives of the deceased and were cancelled as soon as the Council became aware of the deceased.
- 2.11 Blue badges are available to enable eligible residents who have a disability to enable them to park closer to their destination. Since 1st April 2015 the number of badges issued totals 3536.
- 2.12 During the year the Corporate Fraud Team perform a number of pro-active audit reviews in order to identify possible fraud. On Thursday 21 August 2014 the Corporate Fraud Team organised a team involving partnership working with the Counter Fraud Investigation Team, Parking Services and the Metropolitan Police Safer Transport Team in Romford to identify illegal use of Blue Badges.
- 2.13 A total of seven 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. Although there were no prosecutions on this occasion the “event” was well published in the local media and a warning to badge holders that the misuse of a Blue badge is a criminal offence and may be liable to a fine of up to £1,000.
- 2.14 Following the success of the above another exercise was carried out on 19th February 2015 which involved the cautioning and subsequent prosecution of offenders. The outcome of the exercise will be available in time for the Committee meeting.

3 Reporting results

- 3.1 As reported last year the review is now web based and this enables the Council to review and update records instantly. The Audit Commission were able to monitor the performance of each authority and met with the Council’s Key Contact to discuss our performance. There were no adverse comments received following the meeting with the Audit Commission who have complimented the Council on the work undertaken.

4 Conclusion

- 4.1 Comments have been made to the Audit Commission regarding the web based application process and the content of reports in order to assist in improvements for subsequent exercises.

- 4.2 Overall the matching exercise continues to highlight overpayments, fraud and subsequent savings for the Council although the work involved, especially with the Housing Benefit matches, is time consuming but on the whole the exercise has once again been extremely successful and worth while.
- 4.3 The NFI continues to play an important role in protecting the public purse against fraud. On 1 April 2015 the Audit Commission's data matching powers and the Commission's NFI team transfer to the Cabinet Office. It is currently unclear if the NFI and other publications the Audit Commission have produced in the past will continue into the future, it is likely some changes to approach will occur.

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

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

National Fraud Initiative – National Report June 2014

Protecting the Public Purse – Fraud Briefing 2014

This page is intentionally left blank



AUDIT COMMITTEE

Report

11 March 2015

Subject Heading:

Interim Audit Plan 2015/16

Report Author and contact details:

Vanessa Bateman, Internal Audit & Corporate Risk Manager ext 3733

Policy context:

To inform the Committee of the proposed interim audit plan for Q1 of 2015/16 and of progress to develop the full year plan.

Financial summary:

N/a

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

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

SUMMARY

This report provides the Audit Committee with a proposed interim audit plan for 2015/16. At the time of producing this report the service review for internal audit had been completed, however, the restructure had not been launched for consultation.

In order to have an approved audit plan in place for April 2015 an interim oneSource audit plan has been developed, seeking where possible to exploit any possible economies of scale or other benefits of a joined up approach.

The days included in the interim audit plan are based on actual internal audit resources available at the time of developing the plan, which is obviously subject to

change as part of the restructure. A final plan for 2015/16, incorporating the contents of the interim plan, will be presented for approval by the Committee in June 2015.

The updated Terms of Reference and Audit Strategy which usually accompanies the plan to the March meeting will also be presented for approval in June 2015. Work to review these documents is part of the implementation phase of the new Audit Service.

RECOMMENDATIONS

1. To approve the 2015/16 interim audit plan.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

1. Introduction

- 1.1 The Internal Audit Service is part of oneSource and was identified in the first year of service reviews. The Service Review is complete and this has considered the audit service required by the two parent authorities and the structure required to deliver this service. It has made recommendations with regards how efficiencies can be achieved but these are yet to be implemented. A structure has been proposed but the change management process is yet to be concluded.
- 1.2 Work to develop the audit plan for 2015/16 is underway but without development of a new audit strategy and finalization of the audit structures the total audit days available can not yet be confirmed. As a result oneSource have focused on identifying the priorities for audit attention in quarter one based on the auditors available when the plan was compiled. The full year plan for 2015/16 based on the new audit strategy and structure will then be presented in June 2015 for approval.

2. Developing the 2015/16 Audit Plan

- 2.1 The methodology used for developing this interim plan is no different to that applied for the Annual Internal Audit Plan. The approach is focused on the quantification of the risks associated with the London Borough of Havering's objectives in consultation with key officers. The process has identified a

number of audit areas that will require attention in year but focused on highlighting the areas where priority is needed.

- 2.2 As part of the planning process assurances planned or available from other sources are considered and some risk areas have been proposed for inclusion in the proactive audit plan which will be delivered by the Fraud Team, whose auditors will be a link between the two teams in the new structure helping ensure that the objectives of both the Audit and Fraud strategies are achieved in an efficient and effective manner.
- 2.3 In addition for the development of the 2015/16 audit plan there have been meetings with colleagues working in Newham to discuss shared and converging systems and processes and the opportunity to provide increased assurances with reduced audit input. Although opportunities are evident as expected the two organisations are very different and levels of risk vary so the majority of the audit plans remain separate. However even for these audits sharing of expertise will be beneficial.
- 2.4 The draft plan has been circulated to Senior Management for comment.

3 Proposed Plan

- 3.1 The Audit Plan has been developed to provide maximum assurance using the internal audit resource available. Considering the resources that will be available during quarter one of 2015/16 and expected utilisation rates, as determined by the service review, the plan needs to be @ 650 days. 225 days have been allocated to Havering Audits.
- 3.2 Appendix A attached to this report contains the proposed interim audit plan for the first quarter of 2015/16.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs related to delivery of this interim plan will be met from within the 2015/16 budget for the Audit Service. The 650 days of resource available are sufficient to review all the high risk areas identified in the planning process as well as allowing the team to undertake some probity work. There are risks associated with not having an adequate audit provision to provide assurance and protect the organisation from loss.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report. Risk relating to the change management process within the service will be managed under the relevant policy and procedure.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

None

oneSource Interim Audit Plan 2015/2016

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Type of audit
Newham	Adults	15	Client Affairs	Due to sensitivity, this is audited annually.	Corporate Governance
Newham	Adults	10	Care Act 2014 - consultancy	New legislation	Consultancy/Advice
Newham	Children's Safeguarding	15	Business Continuity Planning	Legislative duty to ensure that the council can continue to deliver its functions in an emergency	Strategic and Operational Risks
Newham	Children's Safeguarding	50	Schools census returns	Concerns were identified with the accuracy of data during an audit of excluded children	Strategic and Operational Risks
Havering	Learning and Achievement	10	Pupil Place Planning	To ensure that a robust approach is applied to forecasting the demand for school places in the Borough in future years.	Strategic and Operational Risks
Newham	Community and Environment	20	Capital Monitoring	Lack of forecasting identified in period 8 budget monitor	Procurement/Commissioning/Contracts
Newham	Community and Environment	20	Contract Management of Active Newham	Ensuring that the council has appropriate contract monitoring arrangements (PY)	Procurement/Commissioning/Contracts
Newham	Cross cutting	15	Grant claims	To carry out grant certifications	Compliance review
Havering	Cross cutting	5	Grant claims	Some returns require Internal Audit sign off	Assurance regarding accuracy and completeness of return and compliance with corporate approach
Newham	Cross cutting	10	Data Matching	Continuous audit	Strategic and Operational Risks
Newham	Cross cutting	15	Compliance with procurement rules	Service to be determined	Compliance review
Havering	Cross cutting	15	Compliance with procurement rules	Service to be determined	Compliance review
Newham	Cross cutting	20	Agency staff vetting	Compliance review	Compliance review
Havering	Cross cutting	15	NEPRO system	New system to control the engagement of consultants implemented 1415	Strategic and Operational Risks
Havering	Cross cutting	15	I Procurement	Issues with duplicate payments detected and new version implemented in 1415	Strategic and Operational Risks
Newham	Cross cutting	30	Consultancy/contingency	To respond to emerging risks.	Consultancy/Advice
Newham	Cross cutting	40	Follow up audits	All audit recommendations should be followed up to confirm they have been implemented.	Strategic and Operational Risks
Havering	Cross cutting	15	Follow up audits	Follow up of limited assurance reports from 1415	Strategic and Operational Risks
Havering	Cross cutting	5	Recommendation Monitoring	Progress to implement all audit recommendations is tracked and results are reported to CMT and audit committee	Strategic and Operational Risks
Newham	Cross cutting	33	Prior year audits	To complete prior year audits	Strategic and Operational Risks
Havering	Cross cutting	20	Car Pool	New policy implemented in 1415	Strategic and Operational Risks
Newham	Enforcement and Safety	15	Emergency Planning	Has not been audited for some years	Strategic and Operational Risks
Newham	Housing	15	Private Rented Sector	Timely cessation of payments when properties are handed back	Strategic and Operational Risks
Havering	Homes and Housing	15	Private Sector Leasing	New team/strategy established 1415	Strategic and Operational Risks

oneSource Interim Audit Plan 2015/2016

Council	Directorate /Service	Days	Audit name	Reason for inclusion	Type of audit
Newham	ICT (oneSource)	15	Remote access	Confirming that there are adequate security controls around remote access to the council's network.	IT audit
Havering	ICT (oneSource)	15	Remote access	Confirming that there are adequate security controls around remote access to the council's network.	IT audit
Havering	ICT /Procurement (oneSource)	15	Off Site Storage	Confirming that there are adequate arrangements for off site storage of records and management of these records.	Strategic and Operational Risks
Havering	ICT (oneSource)	10	Contingency	Scope yet to be determined	
Newham	Planning and Regeneration	15	Atherton Leisure Centre - capital monitoring	High value/high profile capital project	Procurement/Commissioning/Contracts
Newham	Asset Management (oneSource)	15	School expansions and new builds	High value/high profile capital project	Procurement/Commissioning/Contracts
Havering	Asset Management (oneSource)	20	Capital works in schools	High value/high profile capital project	Procurement/Commissioning/Contracts
Newham	Schools	35	Schools audits	Rolling programme of schools audits	Strategic and Operational Risks
Havering	Schools	25	School audits	Rolling programme of schools audits	Strategic and Operational Risks
Havering	School Audit Health checks	15	School audit Health checks	Traded Service with schools	Strategic and Operational Risks
Newham	Exchequer & Transactional Services (oneSource)	7	Employee advances	Confirming that advances are recovered (PY)	Fundamental Financial Systems
Newham	Exchequer & Transactional Services (oneSource)	20	Council Tax Collection	Review of processes for collection of Council Tax income and improving collection rates	Fundamental Financial Systems
Havering	Exchequer & Transactional Services (oneSource)	5	Governance Risk Control Compliance	This module is part of one oracle and has significant control possibilities if properly deployed and utilised	Consultancy/Advice

TOTAL INTERIM PLAN

650

HAVERING

225

NEWHAM

425



AUDIT COMMITTEE

Report

11 March 2015

Subject Heading:	Annual Review of the Effectiveness of the Audit Committee
Report Author and contact details:	Vanessa Bateman, Internal Audit & Corporate Risk Manager ext 3733
Policy context:	It is best practice to review the effectiveness of the Committee annually against a defined criteria
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 the results of the Annual Review into the Audit Committee’s effectiveness based on a toolkit developed by PricewaterhouseCoopers. An Annual Review is undertaken to comply with best practice and so that the Council demonstrates its commitment to good Governance.

The review was undertaken by seeking views of officers who interact with the activity of the Committee and the Members of the Committee themselves.

RECOMMENDATIONS

1. To note and discuss the contents of the report.
2. To agree any actions or recommendations for improvement for implementation in 2015/16 prior to the next review.

REPORT DETAIL

1. Introduction

- 1.1 In previous years the Committee's effectiveness has been reviewed against best practice guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) these reviews have provided good levels of assurance with regards the effectiveness of the Council's Audit Committee, with only minor areas for improvement noted.
- 1.2 PricewaterhouseCoopers (PwC) have developed a toolkit that can assist with the review of effectiveness. The toolkit comprises a series of questions which relate to processes and the underlying knowledge and behaviors of the Committee as these processes are carried out. This toolkit and the prescribed methodology have been the basis of the 2014/15 review of effectiveness.
- 1.3 The toolkit has been completed in accordance with the methodology outlined by PwC by the Internal Audit & Corporate Risk Manager with input from officers who interact with the Committee all Members who attend the Committee were given the opportunity to feed into the assessment.

2. Developments in 2014/15

- 2.1 The composition and Chair of the committee changed in May 2014 following the local elections. The new Chairman was a longstanding member of the Audit Committee all other members were new to the Committee. There was a further change in year as a result of change to the political make up of the Authority however this brought an experienced Member back onto the Committee.
- 2.2 The Committee has not yet completed its first year training plan; this is expected to be completed by June 2015.

3. Results of the Review

- 3.1 The toolkit contains 32 questions regarding the effectiveness of the committee and asked for ratings to be provided against each one where applicable as follows:
- 1 = Hardly ever/Poor
 - 2 = Occasionally/Below average
 - 3 = Some of the time/Average
 - 4 = Most of the time/Above average
 - 5 = All of the time/Fully satisfactory
- 3.2 The toolkit questions, scoring and comments are attached in Appendix 1.
- 3.3 Of the 32 questions asked 5 were deemed n/a. There were six (22%) rated as 5; 14 (52%) rated as 4; 6 (22%) rated as 3; 1 (4%) rated as 2; No areas were rated as poor.
- 3.4 The main areas where scoring is low relate to risk, as members are yet to receive training or reports relating to Risk Management; Whistleblowing for the same reason and due to the delay in reporting issues as a result of the frequency of meetings.
- 3.5 Actions for members to consider have been identified where scoring is not at the desired level.

4. Conclusions

- 4.1 Overall the assurances provided to the Council and Audit Committee with regards effectiveness is good. Some ratings are lower simply because this is the first year of a new committee and not all training has been delivered.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising from noting this report. However, the actions/recommendations for improvement identified by the committee may have financial implications. It is envisaged that most areas of improvement will be delivered within existing resources (staffing/budgets) and where this is not possible the financial implications will be raised through the appropriate channels as required.

The risks of our arrangements not complying with best practice may lead to the Council not being viewed as open and transparent by stakeholders or a failure to demonstrate good governance.

Legal implications and risks:

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.

BACKGROUND PAPERS

PricewaterhouseCoopers Effectiveness Tool kit.

A - Knowledge & behaviours		N/A	1	2	3	4	5	Comments
1.	<p>Understanding of core business, business model and risks</p> <p>All Audit Committee members have a good understanding of the business model and the risks associated with it.</p>				X			<p>The level of experience held by Members of the Audit Committee varies, however all members demonstrate a good understanding of the Council business and objectives. The committee are yet to receive their training on risk or be presented with the Corporate Risk Register for review; this is scheduled for the March Meeting so no action has been raised. Risk is generally only presented once a year.</p> <p>Action – Members to consider if the frequency of reporting on risk is sufficient for their needs.</p>
2.	<p>Understanding risk appetite and management</p> <p>a. The Audit Committee members have a clear understanding of the company's agreed risk appetite; and</p> <p>b. of the risk management and internal control framework that is in place.</p>				X			<p>As above.</p> <p>Risk Appetite has not been determined for the Council as part of its Risk Management procedures in the past but this is part of our action plan for the future so no further action has been raised.</p>
3.	<p>Understanding of how assurance is gained</p> <p>a. The Audit Committee understands the interaction between the various sources of assurance available to it; and</p> <p>b. how these sources map to the</p>				X			<p>The Audit Committee receive reports from both the Internal and External Auditors as well as from Officers and the s151 Officer. The Committee is yet to complete a full year of meetings and training to complete there full understanding however two members had served on the Audit Committee for a number of years prior to last</p>

A - Knowledge & behaviours		N/A	1	2	3	4	5	Comments
	significant risks of the organisation							years elections. See above comments and planned and suggested actions.
4.	Understanding of financial reporting The Audit Committee has a good understanding of the financial reporting and the key financial issues, for example how the results compare with prior periods and market expectations, quality of earnings (including exceptional items), critical accounting policies and complex transactions.					X		The Audit Committee have received training with regards the Annual Statement of Accounts prior to the September meeting when they were approved. Updates with regards accounting policies and changes are presented in year as required. This is one of the more complex areas for Audit Committee to understand. This is an area where understanding and expertise certainly increases each year that they serve.
5.	Members with appropriate skills and experience The Audit Committee comprises members with an appropriate mix of skills and experience, including recent and relevant financial experience.					X		As part of the induction to the Committee one to one meetings were held with each of the new Members to discuss the knowledge and skills required to be an effective Audit Committee Member and whether there were any specific areas of focus or particular support required. A training programme has been devised and approved for the committee which will see all key topics covered in the first 14 months. The first year of training focuses on face to face briefings as the main deliverable. The Committee contains members with finance expertise. A review of the training needs of Committee and the forward plan is undertaken annually. Next one is planned for June 2015

A - Knowledge & behaviours		N/A	1	2	3	4	5	Comments
								Action – Members to consider training and training needs and highlight any areas where additional training is required.
6.	<p>Ongoing personal development to remain up to date</p> <p>All Audit Committee members, in conjunction with the Board chairman, undertake ongoing personal development activities to update their skills and knowledge. Consider also induction arrangements for new members.</p>					X		A comprehensive induction for members was provided after the elections in 2014. Attendance at training provided specifically for Audit Committee Members has been good the annual programme of topics is yet to be fully completed.
7.	<p>Quality of chairmanship</p> <p>The chairman operates satisfactorily in terms of promoting effective and efficient meetings, with an appropriate level of involvement outside of the formal meetings.</p>					X		Views of officers and Members confirmed a good quality of chairmanship.
8.	<p>Rigour of debate</p> <p>Audit Committee meetings encourage a high quality of debate with robust and probing discussions.</p>					X		Officers confirmed a good rigour of debate occurs in meetings. This is confirmed by the minutes of the meetings.
9.	<p>Sufficient time and commitment to undertake responsibilities</p> <p>a. All Audit Committee members have sufficient time to fulfil their</p>					X		Attendance at the meetings is good; officers observe that members come prepared for the meetings having considered the agenda items sufficiently to participate in the discussion and

A - Knowledge & behaviours		N/A	1	2	3	4	5	Comments
	responsibilities. b. All Audit Committee members demonstrate sufficient commitment to fulfilling their responsibilities							debate.
10.	Contribution at meetings All Audit Committee members actively and effectively contribute at meetings.					X		This is confirmed by observation of meetings, assessment by officers and the contents of the minutes.
11.	Challenging situations The Audit Committee responds positively and constructively to challenging situations, including for instance accounts adjustments and restatements, major issues or investigations.						X	Officers confirm that Committee have positive relationships with officers who attend the Committee and challenge in a constructive manner.
12.	Setting the tone from the top There is an appropriate balance between the monitoring role of the Audit Committee and it being an “influencer for good”. The Committee fulfils its responsibilities in respect of establishing and monitoring compliance with codes of ethics and conduct.	X						This is the role of Standards Committee.

B – Processes		N/A	1	2	3	4	5	Comments
13.	<p>Clear terms of reference</p> <p>a. There are clear terms of reference, with clarity as to role vis a vis the Board as a whole and other committees, including in relation to risk management.</p> <p>b. The terms of reference are reviewed annually.</p>					X		The Terms of Reference for Audit Committee are included within the constitution, they are not specific in detail and information is held in various locations. Review of terms of reference are triggered by change in committee structure, changes in legislation these would be approved by the Governance Committee. The terms of reference was discussed with members as part of their induction.
14.	<p>Appropriate links with other board committees</p> <p>The Audit Committee has appropriate links with the other board committees, for example, Risk committee, Remuneration committee and their respective responsibilities are clearly delineated.</p>						X	The Audit Committee reports annually to Full Council, it also has a responsibility to report any significant governance issues to the Governance Committee. The Pensions Committee look at their Accounts prior to them being included in the Annual Statement of Responsibilities are clearly defined in the constitution.
15.	<p>Structured and appropriate annual agenda</p> <p>a. There is a structured annual agenda of matters to be covered in each meeting and across the year.</p> <p>b. The structured agenda focuses on the right areas and avoids minutiae.</p>						X	A forward plan is produced and approved annually; ad hoc items are added to the plan. All annual and quarterly agenda items are identified on the appropriate agenda of the year. There is some flexibility in the timing of some items to allow length of agenda to be balanced.
16.	<p>Sufficient number and timing of meetings</p>							In previous years the Committee has had five meetings per year. This year there are four. Efforts have been made to spread agenda items

B – Processes		N/A	1	2	3	4	5	Comments
	<p>a. The number and length of meetings is sufficient.</p> <p>b. Meetings are sufficiently in advance of board meetings for issues to be resolved.</p>				X			<p>evenly across the meetings where possible. There is no limit on the length of the meeting so agenda items are all covered. Timing is appropriate with regards other meetings. The forward plan for the Committee contains a number of agenda items as standard before any ad hoc additional items are added. The reporting of activity is can be 3-6 months behind, which delays the influence on resolution that the committee could have to significantly after the issue is raised.</p> <p>Action – Members to consider in the number of meetings per year is sufficient.</p>
17.	<p>Right people invited to attend and present at meetings</p> <p>Executive management and others are asked to present on topics, as appropriate, but are not present when it is not appropriate.</p>						X	<p>The Committee requests reports where it requires them from Management; the relevant officer will attend to present the report. Officers only attend Audit Committee when required. The Councils s151 officer attends every meeting.</p>
18.	<p>Concise, relevant and timely information</p> <p>a. Audit Committee papers are concise, relevant and timely.</p> <p>b. Audit Committee papers are received sufficiently in advance of meetings.</p>					X		<p>The reports strike a balance between ensuring that the Members get sufficient background information without being too lengthy. The agenda is circulated eight days prior to the meeting. Exceptions to this are very rare. The templates for regular reports have been developed over time and input from members is</p>

B – Processes		N/A	1	2	3	4	5	Comments
								reflected in the current format and contents provided. Quarterly reports contain activity from the last quarter completed. Reports are reviewed and cleared prior to being publishes as part of the agenda. Comments above re timeliness of information are relevant here.
19.	<p>Access to independent advice and adequate resources</p> <p>a. Audit Committee members are able to take independent advice as required; and</p> <p>b. have sufficient resources available to support them in their role.</p>					X		There are no independent members on the Audit Committee. Officers are there to advise members on issues within the agenda, there will be officers present who are independent of management. All reports are cleared by Human Resources, Finance, Legal prior to publication. In the past the committee has had an officer from legal present at each meeting, however this practice has ceased recently due to a vacancy in the management structure. The clerk is present to guide members in governance or procedural issues.
20.	<p>Feeding back to board meetings</p> <p>All key issues are identified reported back to the Board promptly, and the timing of meetings allows this.</p>						X	There has been no requirement to report issues this year; mechanisms are in place to do so if required. An Annual Report is produced reporting the activity of the Committee.
21.	<p>Role in relation to whistle-blowing</p> <p>The Audit Committee has been informed of the whistle-blowing procedures in place within the organisation and undertakes its</p>			X				Whistleblowing has not been specifically covered with Audit Committee members; it is not part of the induction process. The whistleblowing policy has been approved at Governance Committee in

B – Processes		N/A	1	2	3	4	5	Comments
	defined role in relation to them.							<p>the past; however it is visible to the Audit Committee as part of the Annual Review of Fraud and Corruption Arrangements which is yet to be completed due to the implementation of the oneSource team.</p> <p>ACTION – Provide members with briefing note and link to policy.</p>
22.	<p>Appointment of external auditors The Audit Committee makes its recommendation to the board on the basis of an effective process, including robust assessment:</p> <p>a. Of the quality and effectiveness of the audit process; and</p> <p>b. of the tenure of the current auditor, and any need to tender.</p>	X						N/a
23.	<p>Independence of external auditors a. The committee is provided on a timely basis with information on any potential threats to the independence of the external auditors along with the safeguards that have been put in place</p> <p>b. The safeguards are thoroughly considered by the Committee</p>	X						N/a

B – Processes		N/A	1	2	3	4	5	Comments
24.	<p>Quality of interaction with external auditors</p> <p>a. The Audit Committee actively engages with the external auditors regarding scope of work, audit findings and other relevant matters.</p> <p>b. The Audit Committee ensures that issues raised are appropriately resolved in a timely manner.</p>				X			<p>There is usually a discussion around the audit fee. The Committee have been interested in the findings of external audit work. They have not in the past requested updates on progress to implement external audit recommendations and it is noted that one recommendation re reconciliations was raised two years in a row.</p> <p>ACTION – Committee to consider the need to request assurance that appropriate actions have been taken following all audit work.</p>
25.	<p>Quality of interaction with internal audit</p> <p>The Audit Committee demonstrates an appropriate degree of:</p> <p>a. involvement in setting the remit of internal audit; and</p> <p>b. involvement in the findings of internal audit and in their resolution.</p>					X		<p>The Committee approve the Annual Audit Plan and all changes to the plan are reported for information and challenge. Outcome of audit work is also presented and Management can be asked to attend the meeting to provide update on issues of concern. Outstanding audit recommendations are monitored by Committee. In 2014/15 members have requested audits to be undertaken in two areas and these were both considered and added to the plan by the Internal Audit & Corporate Risk Manager.</p>
26.	<p>Private meetings with internal and external auditors</p> <p>Private meetings of the Audit Committee, without management, are held at least annually with both the external auditors</p>				X			<p>The Internal Audit & Corporate Risk Manager met privately with all new members of the Committee when they joined. The Internal Audit & Corporate Risk Manager meets periodically with the Lead Member for Finance and attends</p>

B – Processes		N/A	1	2	3	4	5	Comments
	and internal audit.							pre meets with the Chair and Vice Chair prior to each meeting. There are no meetings with External Audit without management present. ACTION – to agree a private meeting is diarised annually.
27.	Review of effectiveness of risk management and internal control Where requested, the Audit Committee carries out a thorough review of the effectiveness of the risk management and internal control systems (covering all material controls including financial, operational and compliance controls).					X		The Committee receives an Annual Report from Internal Audit which provides assurance on risk management and internal control systems. An Annual Review of Risk Management is also presented to the Committee although this has been delayed until the oneSource team integration occurs post April 2015. Previous comments and actions are relevant here.
28.	Sufficient involvement throughout year The Audit Committee is sufficiently involved in monitoring the integrity of the financial statements and formal announcements throughout the year, including quarterly and half year results.	X						The Committee receive updates regarding the closure of accounts during the year. The Council only reports annually on Financial results.
29.	Consideration of going concern The Audit Committee considers the prevailing economic climate and refers to relevant guidance when reviewing management's year end going concern processes and reports including the applicable level of stress-testing.	X						

B – Processes		N/A	1	2	3	4	5	Comments
30.	<p>Quality of external reporting – including significant issues</p> <p>a. The Audit Committee communicates with stakeholders in an effective and transparent manner through the reporting of the committee’s activities.</p> <p>b. In particular, the Committee’s reporting on significant issues considered in relation to the financial statements is meaningful and transparent to an appropriate degree.</p>						X	Minutes and Agendas as well as other information regarding the activity and responsibilities of the Audit Committee are available through the Havering Website.
31.	<p>Fair, balanced and understandable annual report</p> <p>Where requested, the Audit Committee has a well-defined and robust process, including sufficient review of management’s proposals, to allow it to advise the board on whether the annual report taken as a whole is fair, balanced and understandable.</p>						X	<p>An Annual Report is approved by the Committee annually before it is presented by the Chair are Full Council in May. The template has been reviewed for 2014/15 to include more detail of specific activity.</p> <p>ACTION – new Committee to consider any additional contents required in the annual report at the March Meeting.</p>
32.	<p>Assessment of the effectiveness of the Audit Committee</p> <p>The annual effectiveness review of the Audit Committee is carried out with sufficient rigour.</p>						X	The effectiveness is considered against a different benchmark annually in the past under guidance of the Chartered Institute of Public Finance and Accountancy this year using the PricewaterhouseCoopers toolkit. There has never been an independent review undertaken which is considered best practice every three

B – Processes		N/A	1	2	3	4	5	Comments
								years. ACTION – consider independent review next year.

- 1 = Hardly ever/Poor
- 2 = Occasionally/Below average
- 3 = Some of the time/Average
- 4 = Most of the time/Above average
- 5 = All of the time/Fully satisfactory



AUDIT COMMITTEE

Report

11 March 2015

Subject Heading:	Annual Report of the Audit Committee
Report Author and contact details:	Vanessa Bateman, Internal Audit & Corporate Risk Manager ext 3733
Policy context:	The Annual report of the work of the Audit Committee.
Financial summary:	N/A

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

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

SUMMARY

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

RECOMMENDATIONS

1. To comment on the draft report.
2. To agree the final report should be presented to the next appropriate Council Meeting.

REPORT DETAIL

The report covers the period April 2014 to March 2015 and outlines:

The report contains the following information

- Introduction;
- Background;
- The Audit Structure;
- Audit Committee Coverage;
- Key issues arising;
- Work to ensure effectiveness of Committee; and
- Priorities and work plan for the forthcoming year.

Key highlights from the report are:

- The Committee maintained its usual work plan based on its Terms of Reference.
- The Committee received briefings on Treasury Management, Statement of Accounts and Fraud.
- The Committee approved accounts compiled in accordance with the International Financial Reporting Standards.
- The Committee approved the Annual Governance Statement.
- Appendix A of the report details agenda items considered at each meeting, Appendix B details Audit Specific Assurances, Appendix C outlines members training and Appendix D contains a forward plan.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

None

This page is intentionally left blank

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

March 2015

1. Introduction

1.1 This report covers the period April 2014 to March 2015 and outlines:-

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

2. Background

2.1 The Audit Committee has been in place for a number of years. The Committee's terms of reference list the responsibilities and authorities delegated in the Council's Constitution, which comprise:

Internal control

- To consider and monitor the adequacy and effectiveness of the Authority's risk management and internal control environment and to make recommendations to full Council where necessary.

External audit

- To monitor the adequacy and effectiveness of the External Audit Service and respond to its findings.

Internal audit

- To support the Group Director Resources with his or her delegated responsibility of ensuring arrangements for the provision of an adequate and effective internal audit.
- To monitor the adequacy and effectiveness of the internal audit service and to receive and monitor an annual internal audit plan from the audit manager.
- To approve the Annual Statement of Accounts, including the Annual Governance Statement, and to recommend as necessary to the Governance Committee regarding the committee's responsibilities to monitor corporate governance matters generally.
- To monitor proactive fraud and corruption arrangements.

3. The Audit Structure (as at February 2015)

Audit Committee: Cllr Frederick Thompson (Chair)
Cllr Julie Wilkes (Vice Chair)
Cllr Viddy Persuad
Cllr Clarence Barrett
Cllr Philip Hyde
Cllr Graham Williamson

Internal Auditors: Internal Service

External Auditors: PricewaterhouseCoopers (PwC)

4. Audit Committee coverage

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

4.2 Regular Work

The Committee has regularly reviewed:

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

4.3 Specific Review / Reports

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

- the Statement of Accounts;
- the Annual Governance Statement; and
- the Annual Audit Plan.

The Committee also received assurances via:

- Annual Report from Internal Audit that includes the Annual Assurance Statement; and
- The work of External Audit (PwC).

5. Key issues arising

5.1 Appendix B includes details of the audit assurances and recommendations provided for each audit area within the plan.

5.2 The Committee have been updated on the plans for the Audit, Risk and Fraud teams to be restructured as part of the oneSource service integration. This work continues and the new structures will be implemented in 2015/16.

6. Work to ensure effectiveness of Committee

6.1 The Committee has received dedicated training and awareness sessions on Treasury Management, the Annual Statement of Accounts and Fraud. Risk Management is scheduled for March. Details of training and attendance are included at Appendix C.

7. Priorities and work plan for the forthcoming year

- 7.1 The Audit Committee is currently planned to meet on four occasions over the next municipal year. There are specific reports planned throughout the year, running through a mix of quarterly progress reports and annual reviews of specific strategies and policies within the remit of the Committee, together with progress reports from the Council's external auditor.
- 7.2 Officers will continue to ensure all members on the Committee, and their nominated substitutes, are adequately trained.
- 7.3 The Committee will continue to oversee the effectiveness of the audit team and wider fraud resources as they become part of oneSource and in accordance with Public Sector Audit Standards and the updated Audit and Accounts Regulations 2015 that take effect from April 2015.
- 7.4 The Committee will focus on the Risk Management arrangements while they continue to be embedded and seek assurances that robust arrangements are in place.
- 7.5 Fraud prevention and detection will continue to be high on the Audit Committees agenda going forward, ensuring the changes in fraud strategy in 2015 are effectively delivered.
- 7.6 The Committee will continue to focus on ensuring Value for Money and challenging weak areas that have been highlighted by the work of Internal Audit.
- 7.7 A draft forward plan and training plan are detailed in Appendix D.

AUDIT COMMITTEE AGENDA ITEMS - FROM APRIL 2014 TO DATE

April 2014

- Internal Audit System Audit Summaries
- Internal Audit School Audit Summaries
- Internal Audit Annual Report
- Annual Governance Statement
- Urgent Business
- Surtees Contract
- Internal Audit Fraud Interim Report

June 2014

- Closure of Accounts Timetable 2013/2014
- Internal Audit Progress Report
- System Audit Report Summaries
- Internal Audit School Audit Summaries
- Fraud Progress Report
- Forward Plan of the Audit Committee
- Revised Internal Audit Plan for 2014/2015
- Internal Audit Charter and Terms of Reference
- Member Training Plan
- Annual Governance Statement
- Urgent Business

September 2014

- Annual Statement of Accounts 2013/2014
- Report to those charged with Governance
- Fraud Progress Report
- Urgent Business
- Annual Treasury Management Report 2013/2014
- Treasury Management Update Quarter 1 2014/2015

December 2014

- Annual Audit Letter
- Closure of Accounts Timetable
- Internal Audit Progress Report
- Governance Update
- Fraud Progress Report
- Urgent Business
- Treasury Management Update Quarter 2

AUDIT COMMITTEE SPECIFIC ASSURANCES

The table below shows the reports submitted to Audit Committee during the municipal year and identifies the title of the audit and shows the audit opinion given. The audit opinion options are:

- **Full:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- **Substantial:** 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.
- **Limited:** Limitations in the systems of control are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
- **No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/or significant non compliance with basic controls leaves the system open to error or abuse.

The table also shows the number of recommendations made and the category. Recommendations are categorised into three priority levels which indicate the level of risk the identified weakness poses on the control environment. The key below defines these priorities.

- **High:** Fundamental control requiring implementation as soon as possible.
- **Medium:** Important control that should be implemented.
- **Low:** Pertaining to best practice.

Report	Assurance	Recommendations			
		High	Med	Low	Total
Systems Audit					
Housing Benefits	Substantial	0	0	0	0
Council Tax	Substantial	0	2	3	5
Main Accounting (Pre One Oracle Review)	Substantial	0	0	0	0
Debtors (Pre One Oracle Review)	Substantial	0	0	0	0
Pensions (Pre One Oracle Review)	Substantial	0	0	0	0
Budgetary Control	Substantial	0	0	0	0
Payroll	Substantial	0	0	0	0
Pre-Paid Cards	Substantial	0	3	0	3
Youth Services	Substantial	0	3	1	4
Accounts Payable (Pre One Oracle Implementation)	Substantial	0	1	0	1
Accounts Receivable (Pre One Oracle Implementation)	Substantial	0	1	0	1
Payroll (Pre One Oracle Implementation)	Substantial	0	0	0	0
BACS	Limited	1	2	0	3
Gas Safety Regulations – Building Services	Substantial	1	4	3	8
Gas Safety Regulations – Home Ownership	Limited	3	2	0	5

Annual Report of the Audit Committee, 2014/15

Report	Assurance	Recommendations			
		High	Med	Low	Total
Carbon Reduction Commitment Scheme	N/A	N/A	N/A	N/A	N/A
Construction Industry Scheme	Substantial	0	0	0	0
Main Accounting (Pre One Oracle Implementation)	Substantial	0	0	0	0
Housing Capital	Substantial	0	2	0	2
Housing Allocations	Limited	0	0	0	0
Tenancy Management Organisations	Limited	3	4	0	7
Payments to Contractors (Road & Pavement Defects)	Limited	3	4	3	10
Long Term Sick	Nil	0	4	0	4
Follow Up Audit					
Information Governance Follow Up	Substantial	0	0	0	0
Tenancy Management Follow Up	Substantial	0	1	0	1
LAC Placements Follow Up	Substantial	0	1	0	1
Emergency Assistance Scheme Follow Up	Full	0	0	0	0
Computer Audit					
PARIS	Limited	3	1	0	4
Operating Systems Follow Up	Substantial	0	0	0	0
Schools Audit					
Benhurst Primary School	Substantial	1	3	2	6
Towers Junior School	Substantial	0	5	0	5
Squirrels Heath Infants School	Full	0	1	1	2
Parklands Junior	Nil	7	9	0	16
St. Edwards CE Primary	Substantial	1	6	0	7
Brady Primary	Substantial	0	9	3	12
St Patricks RC Primary	Substantial	0	5	3	8
Langtons Infants Health Check	Substantial	0	1	4	5
Mead Primary Health Check	Full	0	1	2	3
The Mawney Foundation Health Check	Full	0	2	1	3

AUDIT COMMITTEE MEMBERS TRAINING / AWARENESS

Timescale	Session	Coverage	Attendance
May	Induction	General	Cllr Ray Morgon Cllr Julie Wilkes Cllr Graham Williamson Cllr Phillip Hyde Cllr Viddy Persuad
September	Finance	Treasury Management	Cllr Frederick Thompson Cllr Ray Morgon Cllr Julie Wilkes Cllr Graham Williamson
September	Finance	Statement of Accounts	Cllr Frederick Thompson Cllr Ray Morgon Cllr Julie Wilkes Cllr Viddy Persuad Cllr Graham Williamson
December	Fraud	Fraud Briefing 2014	Cllr Frederick Thompson Cllr Julie Wilkes Cllr Philip Hyde Cllr Viddy Persaud Cllr Graham Williamson

AUDIT COMMITTEE – FORWARD PLAN / TRAINING

FORWARD PLAN	AGENDA ITEM	PLANNED TRAINING
June 2015	<ul style="list-style-type: none"> • Internal Audit Charter and Terms of Reference • Audit Strategy and Full Year oneSource Plan • Internal Audit Progress Report • Fraud Progress Report • Annual Governance Statement • Annual Review of Risk Management • Annual Review of Fraud & Corruption • Committee Forward Plan • Member Training Plan • Accounts Update – verbal 	Corporate Governance
September 2015	<ul style="list-style-type: none"> • Annual Statement of Accounts • Report to those charged with Governance • Response to Auditors • Audit Progress Report • Fraud Progress Report • Treasury Update Q1 • Annual Treasury Report 	Accounts
December 2015	<ul style="list-style-type: none"> • Annual Audit Letter • Closure of Accounts Timetable • Internal Audit Progress Report • Governance Update • Fraud Progress Report • Audit Progress Report • Treasury Management Update Q2 	Fraud
March 2016	<ul style="list-style-type: none"> • 2014/2015 Audit Report of Grant Claims and Returns • External Audit Plan • Internal Audit draft plan and strategy. • Internal Audit progress report • Outstanding Audit Recommendations • Fraud Progress Report • Annual Review of Audit Committee Effectiveness • Treasury Management Update Q3 • Annual Report of Audit Committee • Closure of Accounts timetable 	Risk Management

This page is intentionally left blank



AUDIT COMMITTEE

11 March 2015

Subject Heading:	Corporate Risk Register
Report Author and contact details:	Vanessa Bateman, Internal Audit & Corporate Risk Manager ext 3733
Policy context:	To inform the Committee of the current Corporate Risk Register contents and Risk Ratings.
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 on the Strategic Risks the organisation currently faces the ratings applied to them and the mitigations and planned actions identified and documented through the risk management activity of the council.

A workshop on Corporate Risk was held at Corporate Leadership Team to update the Risk Register and the updated version was agreed by Corporate Management Team in February 2015.

The Annual Review of Risk Management Arrangements has been delayed due to the oneSource Service review however it is anticipated it will be completed for the June Committee.

RECOMMENDATIONS

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

REPORT DETAIL

1. Introduction

- 1.1 Risk Management is defined by the Institute of Risk Management as:

“Risk Management is the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of failure.”

Risk management will, by adding to the business planning and performance management processes, strengthen the ability of the Council to achieve its objectives. Risks associated with these objectives can be managed and the potential impact limited, providing greater assurance that the Vision will be achieved.

- 1.2 The Corporate Risk Register is owned by the Corporate Leadership Team to ensure that links to risks within services and directorates as well as projects are robust.
- 1.3 Heads of Service are responsible for risk management within their own service area all projects and programme boards maintain risk logs. Significant risks are escalated to Corporate Management Team through one to ones and management team meetings.

2. Risk Management Activity

- 2.1 Although there has not been a formal review of risk management arrangements the work to manage risk and deliver the strategy obviously continues day to day within the business and decision making processes.
- 2.2 oneSource Management Team have developed their Strategic Risk Register.
- 2.3 The service planning process for 2015/16 has commenced and this includes a review of service risks.
- 2.4 Corporate Leadership Team participated in a workshop to inform the recent update of the risk register.
- 2.5 Corporate Management Team have reviewed the updated register and approved it.

3. Annual Review

- 3.1 The Annual Review of Risk Management has been delayed due to the service review for the Audit & Risk Service, the service review has considered the resources and structures required within oneSource to support both the London Borough of Havering and Newham in continuing to embed risk management.
- 3.2 As part of the implementation phase of the restructure the Strategy and Procedures for Risk Management will be updated for approval by the Audit Committee and then re-launched across both organisations. It is anticipated that the Annual Review of Risk Management will be ready for the June Committee.

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. There are financial implications where risks are not managed in an efficient and effective manner. The new strategy will be developed based on resources that are available within the budget for the Council. The responsibility for risk management is shared across all services of the Council therefore individual Heads of Service deploy the level of resources required to manage risks in their area it is part of business as usual and integral to roles, particularly management within the organisation.

Legal implications and risks:

There are no apparent risks in noting the content of this Report. Failure to effectively manage corporate risks are likely to have legal consequences.

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 within the Council's objectives and therefore requirements are embedded within governance framework. Failure to manage risk in this area would have implications.

BACKGROUND PAPERS

None.

Corporate Risk Register

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
	Organisation and Governance											
G1	Failure to have governance arrangements in place to ensure compliance with statutory and regulatory requirements and to ensure that all decisions taken are legal and robust enough to withstand challenge	Reputational damage, legal action, fines and penalties, cost of corrective action	3	2	6	Chief Executive	Governance Group oversees key aspects of the governance framework and monitors compliance reporting by exception to CMT on issues and risks Constitution is reviewed regularly - review currently underway. Training provided on decision making process. Robust procedures for decision making Reviews to reduce bureaucracy planned Overview and Scrutiny committees are embedded into Governance Framework and a new Overview and Scrutiny Board established to oversee.	50 75 75 0 100	Director of Communities and Resources Director of Legal & Governance (oneSource) Director of Legal & Governance (oneSource) Director of Communities and Resources Leader	3	1	3
G2	Failure to ensure the organisation is free from fraud and corruption from both internal and external threats	Financial loss, reputational damage.	1	3	3	Director of Communities and Resources	Fraud strategy monitored by Audit Committee. Dedicated fraud resources undertaking both proactive and reactive work. Governance Group oversees fraud issues and trends reporting by exception to CMT on issues and risks Fraud Campaign to deter fraud run annually. Whistleblowing Policy in place and activity reported to Audit Committee Council requires Heads of Service and Managers to ensure system of internal control is robust and audit work provides assurance and raises recommendations.	80 80 80 80	Director of Finance (oneSource) Director of Communities and Resources Director of Finance (oneSource) Director of Finance (oneSource)	1	2	2
G3	oneSource - Failure to manage the impact on governance framework of a shared back office and potential conflicts of interest	Non compliance with local requirements, Haverings best interests not served	2	3	6	Chief Executive	Review of Scheme of Delegation and update to constitution Induction and Training for oneSource managers PDR and 1:1s undertaken In interim Legal are providing advice to support governance arrangements where required.	50 0 100 100	Director of Legal & Governance (oneSource) MD oneSource CLT Director of Legal & Governance (oneSource)	2	1	2
G4	Care Act Implementation - inability to deliver in the defined timescales or deliver the broader changes in social care and improve wider health services	Non compliance with legislation, failure to achieve the outputs for the community	3	2	6	Director of Children, Adults and Housing	Programme Board monitoring implementation includes all relevant service area representatives Risk Register in place for the Programme, regularly updated and Red risks visible to other CMT members. Demand and expectations management controls identified as part of the programme risk register which would limit the impact of the risk Financial Risk Management as part of the programme is critical as insufficient resources is biggest cause of this risk materialising	100 100 75 75	Director of Children's, Adults and Housing Director of Children's, Adults and Housing Director of Children's, Adults and Housing Director of Children's, Adults and Housing	2	2	4
G5	Business Continuity and Disaster Recovery Failures	loss of critical services	4	3	12	Director of Communities and Resources	Business Continuity Plans in place, monitored by HoS and tested periodically Reassurance of ICT capability within the server rooms of Newham and Havering ensuring a resilient and accessible service is available to both Councils. Plans to incorporate the communications systems linked through ICT ensuring resilience is maintained. Plans incorporating activation, escalation and maintenance of ICT systems with resilient 24/7 maintenance of the systems especially identifying single points of failure and criticality.	50 25 25 40	Director of Communities and Resources Director of ICT Services Director of ICT Services Director of ICT Services	4	2	8

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
Generation and Management of Funds												
F1	Lack of oversight of future budget trends and failure to control budgets in year and achieve savings proposals	Unable to meet demand for services within budgetary constraints. Overspends occur.	4	2	8	Director of Communities and Resources	Medium Term Financial Strategy in place, robust forecasting in place	100	Director of Communities and Resources	4	1	4
						Impact of new legislative demands understood and factored in	??	CMT				
						Robust in year budget monitoring arrangements - supported by technology	80	CLT				
						Savings achievement is monitored and independently confirmed	100	Director of Finance (oneSource)				
F2	Failure to exploit potential income streams and maximise the funds generated and received	Missed opportunities, increased budgetary pressure.	3	3	9	Director of Communities and Resources	Income collection plans and targets monitored by CMT	100	CMT	3	1	3
						Robust business retention Strategy in place	100	Head of Economic Development				
						oneSource business development plan has been produced for 2015/16	0	MD oneSource				
						Robust plans to deliver large impact projects aimed at delivering income i.e. Havering Company	100	Director of Communities and Resources				
F3	Failure to manage increased demands for services in the short, medium and long term	Cuts in services, unable to deliver statutory responsibilities, resident dissatisfaction	3	3	9	Chief Executive	Demographic and demand trends modelled quarterly by CMT	100	Head of Business & Performance	3	2	6
						Key drivers i.e. school places separately modelled	100	Head of Learning and Achievement				
						Demand Management Strategy reported quarterly	100	Director of Children's, Adults and Housing				
						CLT Working group planned	0	Chief Executive				
						Corporate Early Help, Intervention and Prevention Strategy to be developed through the Corporate Brain Steering Group	0	Head of Business & Performance				
Organisation and Management												
M1	The workforce does not have the capacity or is not sufficiently skilled and motivated to meet the future needs of the organisation	Unable to deliver key projects and programmes, reduced productivity, lack of innovative ideas, failure of deliver objectives and outcomes	3	3	9	Chief Executive	PDRs and 1:1s are mandatory part of the performance management process	80	CLT	2	2	4
						Managers Development Programme completed by majority of LBH managers	100	Head of Human Resources and Organisational Development				
						Workforce and Organisational Development Strategies monitored at CMT	75	CMT				
						Partnership working with Newham will gong forward increase resilience	20	MD oneSource				
Duty of Care												
C1	Failure to ensure we are carrying out our duty of care to the most vulnerable in our community	Harm suffered by individual, reputational damage, financial cost of dealing with the issue or any legal action	4	2	8	Director of Children's, Adults and Housing	Safeguarding and Early Intervention programmes in place for referrals and management of vulnerable children	100	Director of Children's, Adults & Housing	4	2	8
						Safeguarding Adults and Children's Board with opportunities for chair to report issues to Chief Exec and Cabinet	100	Chief Exec				
						Robust monitoring and escalation processes with Council including the Child Safety Performance Board between Leader, Cabinet Member, CE and Director.	100	Leader				
						Multi Agency Safeguarding Hub established with links to the above	100	Director of Children's, Adults & Housing				

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
						Annual Secion 11 Audit Carried out and findings acted upon.	100	Head of Business & Performance				

Risk No.	Details of Risk Event	Negative Consequences	Current Assessment of Risk			Risk Owner	Mitigating Actions / Controls	% Complete	Control Owner	Controlled Assessment of Risk		
			Current controls in place							With ALL controls 100% in place		
			Impact	Likelihood	Risk Rating					Impact	Likelihood	Risk Rating
C2	Health and Safety arrangements are not robust for our own operations and for the community	Harm suffered by individual, reputational damage, financial cost of dealing with the issue or any legal action	4	1	4	Chief Executive	Appropriate plans in place issues of compliance reported to CMT	100	CMT	4	1	4
							Appropriate training and awareness provided to staff and manager as compulsory training	100	CLT			
							Governance Group oversee compliance and communicate issues.	25	Director of Communities and Resources			
							Local and Corporate Health and Safety Groups operate reviewing incidents and near misses for lessons learned	100	Director of Asset Management (oneSource)			
C3	Emergency Planning / Community Safety	Harm suffered by individual, health, Social, Economic and environmental impacts, reputational damage, financial cost of dealing with the issue or any legal action	4	2	8	Chief Executive	Borough Resilience Forum	100	Director of Communities and Resources	4	1	4
							Robust Emergency Plans in place, monitored by CMT and tested periodically	100	CMT			
							Having Community Safety Partnership	100	Chief Executive			
							Borough Risk Register reviewed and maintained with partner organisations	100	Director of Communities and Resources			
							Business Continuity Plans in place, monitored by HoS and tested periodically	50	CLT			
Relationships and Reputation												
R1	Failure to engender the trust of our residents in order to implement demand management strategies or encourage participation in community provided services	Unachievable expectations of residents = dissatisfaction and reputational damage, missed opportunities to continue services for the community without financial burden on council	3	3	9	CMT	Clear visions and communications strategy	100	Chief Executive	3	2	6
							Good consultation process around change	100	Head of Communications			
							Robust engagement plan with customers receiving direct services	100	CLT			
							Good response to complaints and a new process being implemented	65	Chief Executive			
							VCS infrastructure support to be re-commissioned		Head of Business & Performance			
R2	Failure to have a positive relationship with our private and public sector partners	Loss of opportunity to minimise our costs or share opportunities, cost of increased bureaucracy,	3	2	6	CLT	Scanning of opportunities in London and local area including watch on strategic and partnership agenda.	100	Chief Executive	2	1	2
							Retention of good working relationship with neighbouring Leaders	100	Leader			
							Shared / integrated strategies for Health	100	Director of Children's, Adults & Housing			
							Robust governance in place	75	Chief Executive			
							Compact to be reviewed and re-launched	0	Head of Business & Performance			
R3	Failure to ensure that third parties operate in accordance with contractual or partnership requirements and fulfil the Council's responsibilities	Liability for Claims for Damages, increased premiums for insurance, harm to an individual, reputational damage, legal action and the cost of fines	3	2	6	CLT	Robust legal process delivers signed contracts or memorandum of understanding	80	CLT	3	1	3
							Corporate Contract Monitoring approach defined and guidance and support for all contract managers available	80	MD oneSource			
							Roles and responsibilities and Governance is clearly defined	80	Director of Legal & Governance (oneSource)			
							Risks of the relationship clearly outlined when the decision is made	80	CMT			

AUDIT COMMITTEE

11 March 2015

REPORT

Subject Heading:	Accounting Policies 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 Accounting Policies applicable to the Closure of Accounts 2014/15
Financial summary:	There are no direct financial implications to the report. There are no alterations to the accounting policies which might give rise to a material impact upon the financial position of the Council

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

- This report presents the accounting policies applicable to the financial year 2014/15 and reflected in the published statement of accounts.

- The CIPFA Better Governance Forum has produced a tool-kit for local authority Audit Committees that recommends Members review accounting policies.
- Appendix A includes the revised accounting policies for 2014/15.

This report summarises the main contents of the policies and highlights recent changes. Any further changes to accounting regulations may require the policies to be changed during 2014/15 although none are anticipated at this stage. Any significant changes will be highlighted in the statement of accounts report in September 2015.

RECOMMENDATIONS

The Committee is asked to note and comment on the accounting policies applicable to 2014/15.

REPORT DETAIL

1. Introduction

- 1.1 This report tables the revised accounting policies that will be applied during the financial year 2014/15. The full policies are shown in appendix A to this report and will be included in the statement of accounts. The draft policies are prepared under the international Financial Reporting Standards. Members of the Audit Committee are invited to note these policies and make comment. Reviewing of accounting policies by Members ensures that the Council and Audit Committee complies with the CIPFA Better Governance Forum toolkit for local authority Audit Committees.
- 1.2 Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.
- 1.3 The draft audited Statement of Accounts for 2014/15 will be presented to the September 2015 Audit Committee for approval. The draft accounting policies statement will be included within the accounts and any changes made during the course of the closedown programme and/or audit will be highlighted and explained.

2. Purpose of Accounting Policies

- 2.1 The Statement of Recommended Practice for Local Authority Accounting defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves".
- 2.2 The application of accounting policies supports the implementation of the main accounting concepts of best practice. These ensure financial reports:
- Are **relevant** - providing appropriate information on the stewardship of Authority monies.
 - Are **reliable** - financial information can be relied upon and is without bias and free from error,
 - Within the bounds of materiality and has been prudently prepared.
 - Allow **comparability** - the interpretation of financial reports is enhanced by being able to compare information across other accounting periods and other organisations.
 - Are **understandable** - though financial reports have to contain certain information, they have to be understandable. For example the Council publishes summary accounts.
 - Reflect **material** information - significant transactions must be incorporated in the financial reports.
 - Prepared on a **going concern** basis (the assumption that the authority will continue in operational existence for the foreseeable future).
 - Prepared on an **accruals** basis (accounts are prepared to reflect the benefit of goods and services received and provided rather than when cash transactions occur when invoices are paid in a later accounting period).
- 2.3 The accounting policies currently in place are similar in requiring accounts to be prepared on a going concern basis (unless not appropriate), use of accruals, consistent presentation, material items to be shown separately if material and no offsetting of assets and liabilities.

3. Contents of Accounting Policies

- 3.1 The appendix contains all of the Council's accounting policies. The more significant policies cover the treatment of the following:
- **Property Plant and Equipment** – the basis for valuing major long-term assets, such as council dwellings and offices is explained.
 - **Impairment** – The carrying value of assets is reviewed annually to determine whether there is a material change in value and the basis on which impairment losses are written off.

- **Depreciation** – Depreciation is charged to spread the value of an asset over its useful life.
- **Provisions and reserves** – A **provision** is created because the Council will have to make a future payment to settle a financial obligation and a reasonable estimate can be made of the amount payable. Provisions are charged to the relevant service area. A **reserve** is created for a planned future purpose or maintained as a general contingency. These are recorded separately on the Movement in Reserves Statement.
- **Accruals of Income and Expenditure** – The Council raises these to comply with the accruals concept of accounting to measure when payments or receipts are due rather than where cash is transferred to settle the amount due.
- **Pensions** – This note describes the three pension schemes Council employees contribute to (teachers, health workers and Local Government Pension Scheme). The policy includes detail on the investment valuation basis used and the calculations made of future liability.
- **Value Added Tax** - As the vast majority of VAT paid by the Council is recoverable from H.M. Revenue & Customs, recoverable VAT is excluded from the cost of services within the accounts.

4. **Changes in accounting policies for 2014/15**

- 4.1 The application of most accounting policies is consistently applied from year to year. Changes are required when new accounting regulations are introduced or updated or if there is a significant change within the financial activities of the Council.
- 4.2 We must follow the requirements of International Accounting Standard 8 when selecting or changing accounting policies, adopting the accounting treatment and disclosing changes in accounting policies, estimation techniques and correcting errors.
- 4.3 There is a requirement to disclose the expected impact of new standards. They will only result in a change in accounting policy if they are required by the code and will result in the financial statements providing reliable and more relevant information.
- 4.4 It is for an authority to select the accounting policies that are most appropriate to its particular circumstances. Best practice requires councils to regularly review the accounting policies adopted to ensure they remain appropriate and give due weight to the impact of a change in accounting policy to ensure comparability between accounting periods.
- 4.5 There are no significant amendments proposed in the draft code of practice on local authority in the United Kingdom 2014/15. The proposed accounting policies for 2014/15 are reflected in **Appendix A**.

4.6 There are some minor changes proposed to Havering's accounting policies for the 2014/15 accounts. These include:

- ii Accruals of Income and Expenditure – policy amended to disclose a de minimus for accruals raised manually of £25,000 for 2014/15 (£10,000 for 2013/14). We are required to note the impact on the accounts of the change – a reduction in net accruals raised estimated at around £1 million. This is not material to the overall published accounts.
- iv Deletion of the policy for exceptional items. This will be reinstated as required in future years.
- xvii Jointly Controlled Operations and Jointly Controlled Assets – a new policy, reflecting the arrangements for oneSource.
- xviii Overheads and Support Services – we are not adopting a new policy, but are simply declaring existing processes.
- xix Deletion of the existing policy for Public Private Partnership (PPP) and Similar Contracts, in the absence of any current arrangements.
- xxiii Deletion of the policy on Carbon Reduction Commitment, as Havering is not required to participate in Phase 2 of the Government scheme.
- xxiv Amendment of the policy for accounting for schools to reflect inclusion of Foundation, Voluntary Assisted and Voluntary Controlled schools within Havering's consolidated accounts.

4.7 The proposed accounting policies for 2014/15 are reflected in **Appendix A**.

5 External Audit Consultation

5.1 As accounting policies form part of the Statement of Accounts document, these are subject to annual external audit review as part of the final accounts audit process.

5.2 Corporate Finance liaises with the external auditors with regard to proposed changes in accounting regulations and how these impact on accounting policies.

IMPLICATIONS AND RISKS

Financial Implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Councils financial position

Legal Implications and risks:

Section 21 of the Local Government Act 2003 enables the Secretary of State to make regulations requiring accounting practices including the Statement of Accounts to be undertaken in accordance with proper practices. 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 2011.

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

Human Resources Implications and risks:

None arising directly.

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

None

Appendix A

London Borough of Havering

Statement of Accounting Policies for the financial year 2014/15

Notes to the Core Financial Statements

Statement of Accounting Policies

1. Accounting Policies

Going Concern

The concept of a going concern assumes that an Authority, its functions and services will continue in operational existence for the foreseeable future. Where this is not the case, particular care will be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an Authority was in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2014/15 financial year and its position at the year-end of 31st March 2015. The Authority is required to prepare an annual Statement of Accounts by 30th June 2015 (the Accounts and Audit Regulations 2011 require the accounts to be prepared in accordance with proper accounting practices). These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the *Service Reporting Code of Practice 2014/15*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets **and financial instruments**.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Most accruals are automatically generated by the feeder system concerned, but a de minimus is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. Following a review of accruals raised over the past three years, the de minimus was raised from £10,000 for 2013/14 to £25,000 for 2014/15; this change has resulted in a reduction in net accruals raised

estimated at around £1 million.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance (the Minimum Revenue Provision). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by an adjusting transfer to the General Fund Balance from the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexitime) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of ~~two~~ three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The National Health Service Pension Scheme, administered by the National Health Service.
- The Local Government Pension Scheme, administered by the Council.

Both All three schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the Teachers' and National Health Service schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education and Public Health Services lines in the Comprehensive Income and Expenditure Statement ~~is~~ are charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

The liabilities of the London Borough of Havering Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 4.5% based on the indicative rate of return on high quality corporate bonds.

The assets of the London Borough of Havering pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return credited to the Financing and

Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions charged to the Pensions Reserve.
- contributions paid to the London Borough of Havering pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

vii. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

viii. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure

Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

ix. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify the future economic benefits or service potential embodied in the asset received in the form of grant or contribution acquired using the grant or contribution that are required to be consumed by the recipient as specified, or future economic benefits or service potential that must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

For all S106 contributions, because of their complex nature and numerous legal conditions all S106 contributions are only recognised through the Comprehensive Income and Expenditure Statement once they have been spent. Only then are we certain all conditions have been met and there is no return obligation.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Un-ringfenced Grant

A general grant allocated by central government directly to local authorities as additional revenue funding. It is non-ring fenced and credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts

The Council is the billing Authority for the London Riverside Business Improvement District managed by Ferry Lane Action Group which provides a cleaner, safer more secure business environment and to promote the interest of the business community within the BID. The Council acts as principal under the scheme, and

accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

xi. Heritage Assets

The Council's Heritage Assets are split into 2 categories

- Civic Regalia
- Heritage Buildings.

Civic Regalia

The collection of civic regalia includes the Mayor's and the Deputy Mayor's chains, which are worn on ceremonial duties and various items with civic insignia. They are valued based on manufacturing costs and do not include any element for rarity or collectable value, retail mark-up or VAT.

Heritage Buildings

The Council owns one building that meets the definition of a heritage asset and this is Upminster windmill. The building has been valued by professional valuers who have stated that the most appropriate means of valuing this building is by its historic cost.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see note xviii.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Inventories

The Council has a small number of Inventories. These are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned predominantly using the First In First Out (FIFO) costing formula.

xiv. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of

goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Leases for the acquisition of vehicles valued at less than £10,000 (£5,000 for plant and equipment) are treated as operating leases on the basis that the impact of incorrectly classifying the lease would not materially impact upon the accounting disclosures.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the

Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvi. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2014/15* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

xvii. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xviii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2014/15* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xix. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Finance costs are excluded in valuations for assets valued at Depreciated Replacement Cost.

Havering has applied the following de minimis criteria for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

- works to buildings £5,000
- infrastructure £5,000
- office and information technology £5,000
- other furniture and equipment £5,000

There are no de minimis limits for the following categories: land acquisition, vehicles and plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital expenditure below £5,000.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued as a minimum every five years, to ensure that their carrying amount is not materially different from their fair value at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is not charged in the year of acquisition but is charged in full during the year of disposal.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – Straight line allocation over a five year period unless a suitably qualified officer determines a more appropriate period.
- infrastructure – straight-line allocation over 20 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the Code requires that these components are depreciated separately.

Major components which have a materially different asset lives will be identified in respect of:

- new capital expenditure as it arises, and
- existing assets as they become subject to revaluation.

Assets will not be valued on a componentised basis in the following circumstances on the basis that the impact upon asset valuation and depreciation is not material to the accounting disclosures;

- Capital expenditure of less than £300,000 per scheme.
- Assets valued at less than £3,000,000.

As a consequence of the application of this policy the Council has not identified any major components with materially different asset lives. However, the application of this policy will be reviewed on an on-going basis to ensure that the carrying value of assets is not materially affected.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to

the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xix. Public Private Partnership (PPP) and Similar Contracts

PPP and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PPP contractor. As the Council is deemed to control the services that are provided under its PPP scheme, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Council's PPP scheme, the liability was written down by an initial capital contribution of £3.2 million leaving an initial liability of £1.6 million.

The amounts payable to the PPP operator each year are analysed into the following elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge of 4.8% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- the Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write-downs is calculated using the same principles as for a finance lease).

Any assets in schools converting to academies will, in line with other assets, be written out of the balance sheet as disposals and any remaining lease liability remaining with the authority will be reclassified as a long term creditor.

xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxi. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover Contingency Reserves created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxii. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiii. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxiv. Carbon Reduction Commitment

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

xxiv. Accounting for Schools

The Council includes the income and expenditure, assets and liabilities of Community schools within its financial statements on the basis that they remain within the Local Authority boundary under common control.

Foundation Schools and Voluntary aided schools are not considered to be under Local Authority control and, as such, are not consolidated within the Council's accounts. Grant allocations to these schools are included as expenditure within the Consolidated Income and Expenditure Statement.

The Council includes the income and expenditure of local authority maintained schools within its financial statements on the basis that they remain within the Local Authority boundary under common control. These are defined as community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools. Assets of these schools are also included in the Council's accounts except for non-current assets owned by another legal body acting as a trustee (such as the diocese) and made available for the school's use.

Academies must prepare accounts under the Charities' Statement of Recommended Practice (SORP). This is a requirement in their Funding Agreements. Academies are therefore excluded from the Council's accounts from the date of conversion with grant allocations included as expenditure within the Consolidated Income and

Expenditure Statement.

AUDIT COMMITTEE

11 March 2015

REPORT

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 will give rise to additional costs in terms of software enhancements and the valuation of assets. These are expected to be contained within existing budgetary provision.

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.

At the time of the audit of the main accounts (September 2014), statutory deadlines for production of the Pension Fund report and the timing of the audit programme meant that the audit work had as that date not been finalised. This work was subsequently completed and the concluding statement was issued by PWC on 27th November.

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

2. Key Issues

The following is an update on the key issues to be addressed during the 2014/15 closedown, as previously reported to Audit Committee on 2nd December 2014.

2.1. Voluntary Aided and Foundation Schools

The Chartered Institute of Finance and Accountancy (CIPFA) has confirmed its 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 accounts for 2014/15.

We have met with the auditors to agree the presentation of prior year figures, and liaised with the valuers over current values of the assets involved.

2.2. Infrastructure Assets

Infrastructure assets (including roads, highways, bridges and street furniture) 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.

From 2016/17, these assets will need to be included within the Council's accounts on a DRC basis. This 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.

Data collection arrangements are in hand to enable opening values as at 1st April 2015 to be presented in the restatements required for the 2016/17 accounts, and budgetary provision has been made for the costs of the revaluations.

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 2014/15 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 on-going, and we will need to make additional disclosures in the notes to the accounts. The deadlines for the recharging process between the two Councils have been included in the closedown timetable.

However, oneSource poses risks to closedown in that key staff involved in the closedown process are also supporting Newham in implementing One Oracle. Additionally, the implementation of new structures in oneSource services may create a period of uncertainty as closedown duties of individual staff involve in specific parts of the accounts may be changing or transferring between the two Councils..

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

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

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

3.3 PWC have issued their draft *External audit plan 2014/15 for the statement of accounts and pension fund accounts audits*. This is included as Appendix A to this report.

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

4.1 Bank Accounts

As reported to Audit Committee on 2nd December 2014, the wrong documentation was initially supplied to the auditors, and 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. 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. These issues are not expected to re-occur during the 2014/15 audit.

4.2 Payroll Reconciliations

Following the implementation of One Oracle from 4th August 2014, the non-functioning of the payroll reconciliations to General Ledger has repeatedly been raised by Havering and partner One Oracle authorities with Cap Gemini, but no solution has been made available.

But Havering has re-written the Structured Query Language to fit in with the One Oracle restrictions and have now created the files from August to reconcile. We are currently resolving issues concerning changes in the One Oracle configurations and the picking up of data files, and expect to have made available for PWC during their interim audit (week commencing 2nd March) .reconciliations for pensioners and payroll reconciliations at least until December

We anticipate that all payroll reconciliations for the year will be available to auditors for their main audit from July.

4.3 Accruals, Revenue Financing for Capital

In the 2013/14 accounts, the auditors identified errors in accruals that should or should not have been raised, and two instances of expenditure being charged to revenue that should have been capitalised.

Corporate Finance has issued initial guidance to cost centre managers and will continue to liaise 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** A risk log has been prepared for submission to CMT.
- 5.2** The technical accounting changes arising from the revisions to The Code of Practice do not give rise to any direct financial implications. However, the more complex accounting and valuation requirements associated with infrastructure assets will generate additional work and may give rise to increased cost pressures. In particular, it will be necessary to introduce a regular valuation programme for all infrastructure assets in order to value them on a Depreciated Replacement Cost (DRC) basis instead of Depreciated Historic Cost (DHC). The enhancements and additional software costs relating to these requirements have cost around £25k. The on-going cost of re-valuation will be dependent upon the frequency, range and complexity of the valuation requirements but at this stage is expected to be contained within existing budgetary provision.
- 5.3** The new coding structure for One Oracle will impact on the carrying out of reconciliations at the year end. This is being managed carefully to mitigate any impact on the closedown timetable, but reconciliations are likely to be subject to additional scrutiny by the auditors.
- 5.4** There are also risks associated with oneSource and Newham's implementation of One Oracle, as staff may be re-deployed or temporarily re-assigned to support the implementation. These risks should be mitigated by the project management approach to the closedown process ensuring that tasks are assigned to individuals/teams with a clear understanding of deadlines and requirements.

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.

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Appendix A

London Borough of Havering

PWC External audit plan 2014/15 for the statement of accounts and pension fund accounts audits

London Borough of Havering

*External audit plan 2014/15 for the statement of
accounts and pension fund accounts audits*

DRAFT

Government and
Public Sector
February 2015
Page 181

Contents

<i>Executive summary</i>	2
<i>Audit approach</i>	3
<i>Risk of fraud</i>	16
<i>Your PwC team</i>	18
<i>Your audit fees</i>	19
<hr/>	
Appendices	20
<i>Appendix A: Independence threats and safeguards</i>	21
<i>Appendix B: Communications Plan</i>	24
<i>Appendix C: Audit quality</i>	25
<i>Appendix D: Other engagement information</i>	29

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.

Executive summary

Background

We have prepared this audit plan to provide the Audit Committee of the London Borough of Havering (the 'Authority') with information about our responsibilities as external auditors and how we plan to discharge them for the audit of the financial year ended 31 March 2015.

This document also includes our planned audit approach to the audit of the pension fund accounting statements.

Framework for our audit

We are appointed as your auditors by the Audit Commission as part of a national framework contract and consequently we are required to incorporate the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (the 'Audit Code') as well as the requirements of International Standards on Auditing (UK & Ireland) ('ISAs').

The remainder of this document sets out how we will discharge these responsibilities and we welcome any feedback or comments that you may have on our approach.

We will continue to update our risk assessment during the course of the audit, especially after our interim visit. We will present to management and the Audit Committee any changes we make.

We look forward to discussing our report with you on 11 March 2015. Attending the meeting from PwC will be Ciaran McLaughlin.

Our Responsibilities

Our responsibilities are as follows:

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)).

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.

Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.

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.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

Determine whether any other action should be taken in relation to our other responsibilities under the Audit Commission Act.

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.

Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk.

Audit approach

The PwC Audit

Our unique methodology involves our people, a tailored audit approach and our use of technology. The core elements of our audit are outlined below:

1. Client acceptance & independence
2. Deep business understanding
3. Relevant risks
4. Intelligent scoping
5. Robust testing
6. Meaningful conclusions

PwC's audit is built on a foundation of smart people, a smart approach and smart technology. This together with our six-step audit process, results in an audit that is robust, insightful and relevant.



Smart People + Smart Approach + Smart Technology = The PwC Audit

Client acceptance & independence

Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance system' which highlights an overall engagement risk score and highlights areas of heightened risk.

At the beginning of our audit process we are also required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. We have set out in Appendix A the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

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

Deep understanding of the Authority

The Authority is operating in an increasingly challenging environment where many Local Government organisations are facing a continued reduction in funding from central government and increasing demand for their services, in particular in relation to social care, and demographic pressures in Children's services. The Authority has a £6m budget gap in the years 2017/18 and 2018/19 and is considering how it closes this gap.

Our risks identified later in this plan have been considered in the above context.

Relevant risks

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2014/15 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement as this helps to drive the design of our testing procedures:

● Significant	Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration.
● Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.

The table below highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ended 31 March 2015.

Main Council Audit

Risk

Management override of controls

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.



Categorisation

Significant ●

Audit approach

As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.

We will perform procedures to:

- Test the appropriateness of journal entries and other adjustments to the general ledger.
- Test accounting judgements that affect the General Fund for bias, such as bad debts, accruals and provisions.
- Consider if there have been significant transactions outside the normal course of business, and if there have, whether their rationale suggests fraudulent financial reporting or asset misappropriation.
- Test that expenditure has been recorded in the correct financial year.
- Consider whether any segregation of duties weaknesses give rise to a significant risk of material misstatement.
- Test that the reversal of items debited or credited to the Comprehensive Income and Expenditure Statement are in accordance with statute.
- Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and
- Perform unpredictable procedures targeted on fraud risks.

We will also understand and evaluate controls relevant to management override risks identified above.

We may perform other audit procedures if necessary.

Risk	Categorisation	Audit approach
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure in local government.</p>	<p>Significant ●</p>	<p>We will perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.</p> <p>For income, we consider that sales, fees and charges are areas of significant risk. We do not consider grant income, Council Tax and Business Rate income or interest income to be significant risks.</p> <p>For expenditure, we consider that non payroll service expenditure is an area of significant risk. We do not consider that housing and council benefits, payroll expenditure, depreciation and impairment, pension costs recognised due to the requirements of IAS 19, or interest expenditure to be significant risks.</p> <p>We will:</p> <ul style="list-style-type: none"> • Evaluate the accounting policies for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting. • Conduct tests of detail to obtain a high level of assurance over the significant risks described above. • Conduct tests of detail over accounting estimates for income and expenditure (for example, provisions). • Obtain an understanding and evaluate the controls relevant to the significant risks described above. <p>We will conduct tests of detail to obtain a high level of assurance over the significant risks described above.</p> <p>We are also considering recent guidance from the Financial Reporting Council on the audit of complex supplier arrangements, and whether there is any action we need to take in respect of our audit of the authority. We will provide a verbal update to the audit committee on this matter.</p>

Risk	Categorisation	Audit approach
<p>Oracle system</p> <p>The Council has moved to a new single instance of Oracle during 2014/15</p>	Elevated ●	<p>We will undertake the following work to address this risk:</p> <ul style="list-style-type: none"> • Understand & evaluate the controls in place around the migration, (was there a project plan in place, were the appropriate migration validation tests carried out?) • Understand the changes to and update our understanding of business process controls via walkthroughs. • Understand the changes to the IT environment. • Test the migration of data to ensure completeness and accuracy of transferred data. We will enquire of management and document the controls in place to ensure the complete and accurate transfer of data. • Test the opening Trial Balance (TB) on the upgraded system to ensure that it agrees to the closing TB on the old system. • Review Internal Audit's work in relation to the controls in the new system and consider the impact on our audit approach of any issues arising.
<p>Accounting for schools</p> <p>CIPFA's Local Authority Accounting Panel has issued a bulletin ("LAAP 101") that provides guidance on the accounting treatment of non-current assets used by schools.</p> <p>LAAP 101 notes that 'it is generally the case that for religious schools, non-current assets (such as the school buildings) are not owned by the school but by another legal body'.</p> <p>The Council therefore needs to carry out an exercise to ensure that it applies the guidance in LAAP 101 to its schools.</p>	Elevated ●	<p>We will audit the authority's approach to addressing the guidance in the LAAP bulletin.</p> <p>We will check that the authority has obtained sufficient evidence to enable it to form a conclusion as to whether the non-current assets of individual schools should be included within its balance sheet.</p>

Risk	Categorisation	Audit approach
Valuations of Property, Plant and Equipment (PPE) and Investment Properties	Elevated ●	<p>As at 31 March 2014, the value of the PPE portfolio was £713.1m, and the Council held £34.6m of Investment Properties.</p> <p>We will:</p> <ul style="list-style-type: none"> • Challenge how management has satisfied itself that the key assumptions driving the revaluation of PPE and Investment Property at 31 March 2015 are appropriate for the circumstances of the Council; • Utilise our own valuation experts to review the work of the valuation experts engaged by the Council; • Test the source data used by the valuation experts engaged by the Council; and • Challenge how management has satisfied itself that the element of the PPE portfolio not subject to a formal revaluation as at 31 March 2015 is materially correct.

Value for Money Conclusion

Risk	Categorisation	Audit approach
<p>Savings Plans – financial resilience criterion ▶</p> <p>The Council in common with many local authorities is experiencing increased pressures on many of its budgets. Current and forecast reductions in funding and changing demand for services require the Authority to deliver significant savings in the current and future years. Budget holders may feel under pressure to try and push costs in to future periods, or to miscode expenditure to make use of resources intended for different purposes.</p> <p>There is a risk that saving plans may not be robust and the Council is unable to demonstrate that it has achieved value of money in its use of resources.</p>	<p>Significant ●</p>	<p>We will review your medium term financial plan and consider:</p> <ul style="list-style-type: none"> • how you manage the plan, and will investigate the reasons behind any significant variations from the plan; • how arrangements in onesource contribute to financial governance, financial control and financial planning; • your record in delivering savings; • the governance structure in place to deliver the targets (including extent of Member involvement and capacity of the management team in the context of recent changes to the team); • the level and extent of accountability; • project management arrangements; • monitoring and reporting; and • progress on delivering the plan. <p>We will also consider the accounting implications of your savings plans and we will consider the impact of the efficiency challenge on the recognition of both income and expenditure.</p>

Pension Fund Audit

Risk	Categorisation	Audit approach
<p>Management override of controls</p> <p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Significant ●</p>	<p>We will perform procedures to:</p> <ul style="list-style-type: none"> • Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • test the appropriateness of journal entries; • review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • perform ‘unpredictable’ procedures. <p>We will also understand and evaluate controls relevant to management override risks identified above.</p> <p>We may perform other audit procedures if necessary.</p>

Risk	Categorisation	Audit approach
<p>Risk of Fraud in Revenue Recognition</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p>	<p>Significant ●</p>	<p>For Pension Fund income, we consider that contributions and investment income are an area of significant risk.</p> <p>We do not consider transfers in to be a significant risk as the amount concerned (£3.9m in 2013/14) is not material to the Pension Fund, but will re-consider this when the 2014/15 accounts are produced.</p> <p>We will:</p> <ul style="list-style-type: none"> • Evaluate the accounting policies for income recognition to ensure that this is consistent with the CIPFA/LASAAC Code of Practice on Local Authority Accounting. • Conduct tests of detail to obtain a high level of assurance over contributions and investment income. • Obtain an understanding and evaluate the controls relevant to contributions and investment income. <p>We will conduct tests of detail to obtain a high level of assurance over the significant risks described above.</p>

Risk	Categorisation	Audit approach
<p data-bbox="613 220 1010 300">Valuation of pooled investment vehicles may be materially misstated</p> <p data-bbox="613 331 1010 603">The pooled investments are held in a pooled fund of funds. These investments are not all publicly listed and as such there is a degree of estimation involved in the valuation. Given that these funds form a material balance within the Pension Fund Accounts, we have identified the valuation of these funds as an elevated risk.</p>	Elevated ●	<p data-bbox="1375 220 1720 244">We will perform procedures to:</p> <ul data-bbox="1375 276 2085 834" style="list-style-type: none"> <li data-bbox="1375 276 2085 331">• Obtain independent confirmation from the fund managers of valuations. <li data-bbox="1375 363 2085 467">• Re-perform the calculation of year-end valuation by multiplying the confirmed number of units by the confirmed unit price and convert by PwC sourced foreign currency exchange rate where necessary. <li data-bbox="1375 499 2085 603">• Obtain evidence that confirmed prices reflect realisable value, by obtaining details of transactions in the fund close to the year-end (where available) and compare the transacted price to the year-end price. <li data-bbox="1375 635 2085 722">• Obtain a copy of fund manager’s report on internal controls and identify whether there are any weaknesses in the controls over the pooled vehicle valuation process. <li data-bbox="1375 754 2085 834">• Obtain the audited accounts for the fund, where available, and compare the audited unit price to the unaudited price provided by the fund manager or custodian.

**Main accounts
overall
materiality:
£12.2m**

**Pension fund
overall
materiality:
£10.1m**

**Triviality for
main accounts
and pension
fund: £500,000**

Page 194

Intelligent scoping Materiality

	£
Overall materiality – Main accounts	12,200,000
Overall materiality – Pension Fund	10,100,000
Clearly trivial reporting de minimis – Main accounts	500,000
Clearly trivial reporting de minimis – Pension Fund	500,000

We set overall materiality to assist our planning of the overall audit strategy and to assess the impact of any adjustments identified.

Overall materiality has been set at 2% of actual gross expenditure for the main accounts and 2% of net assets for the pension fund for the year ended 31 March 2014.

We will update this assessment as necessary in light of the Authority's actual results for the 2014/15 financial year.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. For the 2013/14 we applied a threshold of £500,000.

We would like to seek the Audit Committee's views on this de minimis threshold.

Robust Testing

Where we do our work

As previously mentioned our audit is risk based which means we focus our work on those areas which, in our judgement, are most likely to lead to a material misstatement. In summary, we will:

- Consider the key risks arising from internal developments and external factors such as policy, regulatory or accounting changes;
- Consider the robustness of the control environment, including the governance structure, the operating environment, the information systems and processes and the financial reporting procedures in operation;
- Understand the control activities operating over key financial cycles which affect the production of the year-end financial statements;
- Validate key controls relevant to the audit approach; and
- Perform substantive testing on transactions and balances as required.

When we do our work

Our audit is designed to quickly consider and evaluate the impact of issues arising to ensure that we deliver a no surprises audit at year-end. This involves early testing at an interim stage and open and timely communication with management to ensure that we meet all statutory reporting deadlines. We engage early, enabling us to debate issues with you. We have summarised our formal communications plan in Appendix B.

Meaningful conclusions

We believe fundamentally in the value of the audit and that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

In designing the Authority audit, our primary objective is to form an independent audit opinion on the financial statements; however, we also aim to provide insight.

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also means that we should be giving you value through our observations, recommendations and insights. We will share insights and observations with you in our audit reports throughout the year.

We have also developed a Local Government Centre of Excellence which supports your audit team in all aspects of the audit, including sharing insight and observations gained from audit teams across the country.

Value for Money Work

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

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

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good

Governance in Local Government”. The AGS is required to be presented by the Authority with the Statement of Accounts.

We will review the AGS to consider whether it complies with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work.

Whole of Government Accounts

We are required to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating in our view if they are consistent or inconsistent with the Statement of Accounts.

Risk of fraud

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

Auditors' responsibility	Management's responsibility	Responsibility of the Audit Committee
<p>Our objectives are:</p> <ul style="list-style-type: none"> • To identify and assess the risks of material misstatement of the financial statements due to fraud; • To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and • To respond appropriately to fraud or suspected fraud identified during the audit. 	<p>Management's responsibilities in relation to fraud are:</p> <ul style="list-style-type: none"> • To design and implement programmes and controls to prevent, deter and detect fraud; • To ensure that the entity's culture and environment promote ethical behaviour; and • To perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation. 	<p>Your responsibility as part of your governance role is:</p> <ul style="list-style-type: none"> • To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and • To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

Conditions under which fraud may occur



Your views on fraud

We enquire of the Audit Committee:

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

Your PwC team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector. We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you.

The core members of your audit team are:

Audit Team	Responsibilities
<p><i>Engagement Leader</i> Ciaran McLaughlin 020 7213 5253 ciaran.t.mclaughlin@uk.pwc.com</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Audit Code (including agreeing the Audit Plan, ISA 260 Report to Those Charged with Governance and the Annual Audit Letter), quality of outputs and signing of opinions and conclusions.</p>
<p><i>Engagement Director – Pension Fund audit</i> Josephine Maguire 0113 289 4085 josephine.p.maguire@uk.pwc.com</p>	<p>Engagement Director responsible for directing the Pension Fund audit, specifically in respect of audit quality.</p>
<p>Audit Team</p> <p><i>Engagement Senior Manager</i> Chris Hughes 020 7804 3392 chris.hughes@uk.pwc.com</p>	<p>Responsibilities</p> <p>Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA 260 report and Annual Audit Letter.</p>
<p><i>Engagement Team Leader – Main audit</i> Olesya Chikina 0751 152 1825 olesya.chikina@uk.pwc.com</p>	<p>Team leader on the main audit responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs.</p>
<p><i>Engagement Team Leader – Pension Fund</i> Ed Nobbs 077 1317 1132 edward.w.nobbs@uk.pwc.com</p>	<p>Team leader on the Pension Fund audit responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs.</p>

Your audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2015.

No changes to the work programme have been proposed therefore scale audit fees for have been set at the same level as the fees applicable for 2013/14.

Our indicative audit fee compared to the actual fee for 2013/14 is as follows:

Audit fee	Actual fee 2013/14 £	Indicative fee 2014/15 £
Audit work performed under the Code of Audit Practice	220,859 (i)	202,459 (ii)
- 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		
Pension Fund	24,645 (iii)	24,000 (iv)
Certification of Claims and Returns	22,565	21,570
Total Audit Code work	268,069	246,729
Planned non-audit work (outside of the scope of the Code of Audit Practice)	0	37,750
Total fees (audit and non-audit work)	268,069	284,479

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to use, as planned, the work of internal audit;
- We do not review more than 3 iterations of the statement of accounts;
- We are able to obtain assurance from your management controls;
- No significant changes being made by the Audit Commission to the local value for money work requirements; and
- Our value for money conclusion and accounts opinion being unqualified.

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

Other explanations for the fees in the table are as follows:

- The 2013/14 fee includes £16,029 which is yet to be agreed by the Audit Commission.
- The 2014/15 fee is the scale fee set by the Audit Commission and does not include any additional fees to be agreed with management in respect of the work we need to undertake to obtain comfort over the new single instance of Oracle. We will update the Audit Committee once this matter has been discussed further with management.
- The 2013/14 fee includes £3,645 which is yet to be agreed by the Audit Commission.
- Our 2014/15 fee includes £3,000 which is yet to be agreed by the Audit Commission. This relates to Additional audit work in relation to the additional risk in relation to pooled investment vehicles.
- Planned non audit work is summarised on pages 19 to 20 below.

Appendices

Appendix A: Independence threats and safeguards

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. We have set out below the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

Other services

Support provided by PwC	Value	Threats to independence and safeguards in place
Certification of claims and returns within scope of the Audit Commission Code of Audit Practice (Housing Benefit Subsidy)	22,565	<p>Self-Review Threat: The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors.</p> <p>There is no self-review threat as we are certifying management completed grant returns and claims.</p> <p>Self-interest threat: fees are not material in relation to the audit fees and PwC's total income.</p> <p>Management Threat: PwC is not required to take any decisions on behalf of management as part of this work.</p> <p>Advocacy Threat: We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.</p> <p>Familiarity Threat: Work complements our external audit appointment and does not present a familiarity threat.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat.</p>
Work outside the scope of the Audit Commission Code of Audit Practice – procedures on the 2013/14 Teachers' Pensions Return	9,750	<p>Self-interest threat: fees are not material in relation to the audit fees and PwC's total income.</p> <p>Self-review threat: this does not arise as the work we undertook provided reasonable assurance over the accuracy of the teachers' pension return for 2013/14 and will not be relied upon by the PwC audit team as part of the audit of the main accounts for 2014/15.</p>

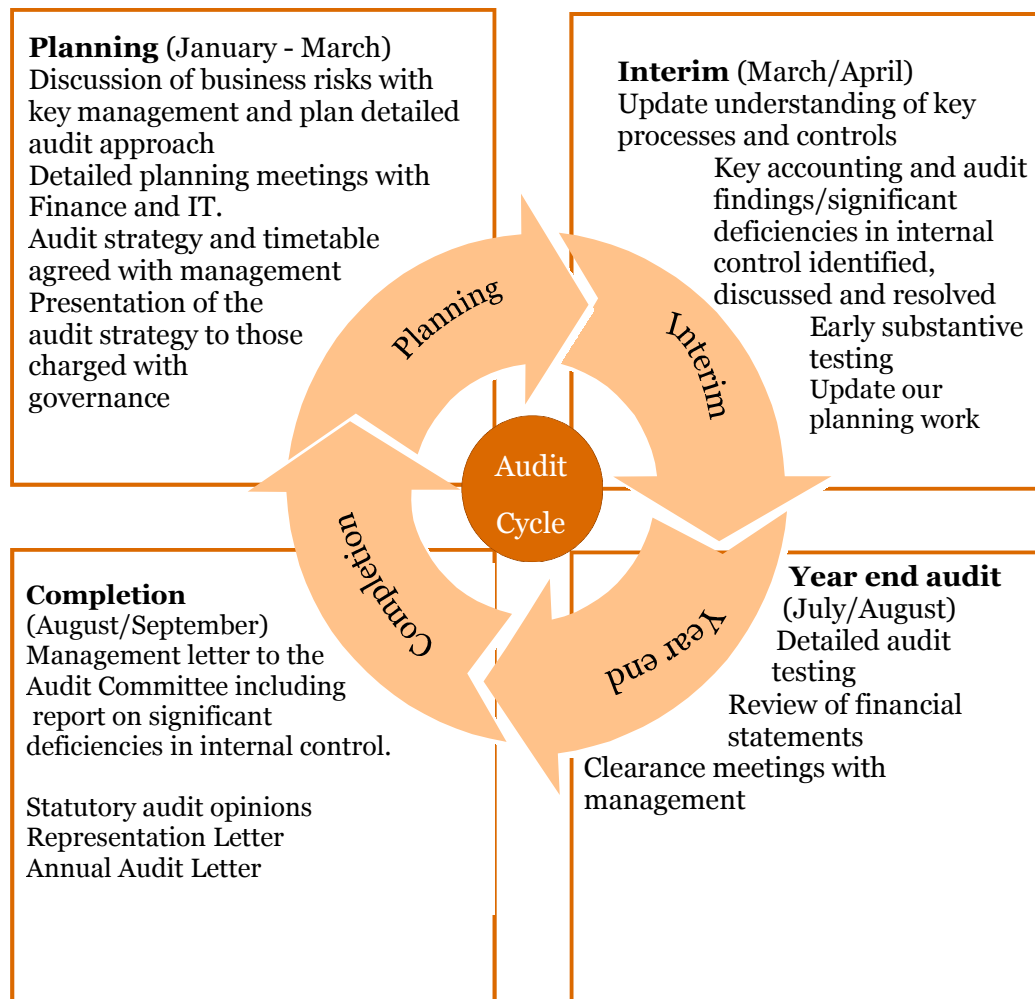
Work outside the scope of the Audit Commission Code of Audit Practice – agreed upon procedures on the 2013/14 Decent Homes funding	8,000	<p>Management threat: this does not arise as PwC are not taking decisions which are the responsibility of management.</p> <p>Advocacy threat: this does not arise as the work will be limited to the testing of information provided by the Client and does not result in advocacy. PwC are carrying out reasonable assurance procedures and not providing assurance or advocacy on behalf of the client.</p> <p>Familiarity threat: this does not arise as a separate team from the audit team is being used to carry out this work.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat.</p>
Work outside the scope of the Audit Commission Code of Audit Practice – ORACLE gate review	20,000	<p>Self-interest threat: fees are small in relation to the audit fees and PwC's total income.</p> <p>Self-review threat: this does not arise as the work we undertook was agreed upon procedures in respect of the Decent Homes funding and will not be relied upon by the PwC audit team as part of the audit of the main accounts.</p> <p>Management threat: this does not arise as PwC are not taking decisions which are the responsibility of management.</p> <p>Advocacy threat: this does not arise as the work will be limited to the testing of information provided by the Client and does not result in advocacy. PwC are carrying out reasonable assurance procedures and not providing assurance or advocacy on behalf of the client.</p> <p>Familiarity threat: this does not arise as a separate team from the audit team is being used to carry out this work.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat.</p> <p>Self-interest threat: fees are not material in relation to the audit fees and PwC's total income.</p> <p>Self-review threat: The work does not involve provide advice on a particular accounting treatment or audit standards. While the audit team will have regard to the outcome of the review to assess whether there are any implications for the audit, the audit team will not perform an audit over PwC's work.</p> <p>Management threat: this does not arise as PwC are not taking decisions which are the responsibility of management.</p> <p>Advocacy threat: this does not arise as the work will be limited to the testing of information provided by the Client and does not result in advocacy. PwC are carrying out reasonable assurance procedures and not providing assurance or advocacy on behalf of the client.</p> <p>Familiarity threat: this does not arise as a separate team from the audit team is being used to carry out this work.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat.</p>

Relationships and Investments

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

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

Appendix B: Communications Plan



Continuous Communication

- Continuous proactive discussion of issues as and when they arise; 'no surprises'
- Continuous evaluation and improvement of the audit
- Bringing you experience of sector and best practice

Appendix C: Audit quality

Quality is built into every aspect of the way that we deliver the Authority audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team that has extensive experience and relevant training.

The table below sets out some of the key ways in which we ensure we deliver a high quality audit.

Procedure	Description
People	Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. We invest significant amounts of time and money for the training and development of our audit professionals. Every new team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support the Authority audit.
Client acceptance and retention	Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.
Audit methodology	The same audit methodology is used for all Local Authority audit engagements, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is regularly reviewed and evaluated. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are constantly updated for new professional developments and emerging issues, needs and concerns of the practice.
Technical consultation	Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and clinical quality issues. In addition, we regularly consult with our industry specialists in the Local Government Centre of Excellence and our accounting technical experts that sit on the Audit Commission Auditors' Group.

Procedure	Description
Technical updates	<p>PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance.</p> <p>These include:</p> <ul style="list-style-type: none"> • A weekly publication covering the week's accounting and business developments; • A periodic publication providing in-depth analysis of significant accounting developments; and • A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting. <p>We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year.</p>
Independence standards	<p>PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work.</p>
Ethics	<p>Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources.</p>
Independent review	<p>Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2014 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT.</p> <p>As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2013/14 audits are expected in 2015 and will be publicly available on the Audit Commission's website should you wish to take a look.</p>

People

We deploy quality people on your audit, supported by a substantial investment in training and in our industry programme. The members of staff deployed on your audit have been primarily taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge both of the Authority and the local government sector.

Key members of the audit team including the engagement leader, engagement directors and engagement senior manager have been involved in the audit of the Authority for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

We use dedicated IT specialists on the audit and share their insight and experience of best practices with you.

Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2014/15 we anticipate the work will include testing manual journals using data analytics, ensuring we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.

The use of our delivery centres frees up your audit team to focus on other areas of the audit.

We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring. Further information is included in Appendix E.

Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities.

Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key Authority audit cycles.

Appendix D: Other engagement information

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

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

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

Electronic communication

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

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

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

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or

in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

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

Appointed auditor

Ciaran McLaughlin, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although Ciaran McLaughlin is not a partner.

Access to audit working papers

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

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in India and Poland for the facilitation of basic audit tasks. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

- When work is off-shored the firm delivering the audit remains entirely responsible for the conduct of the audit. As such the data will be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.
- All firms within the PricewaterhouseCoopers network, including the PwC Service Delivery Centres, have signed an intra-group data protection agreement which includes data protection obligations equivalent to those set out in the EU model contract for the transfer of personal data to data processors outside of the European Economic Area.
- We shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Data Protection Act 1998.
- Your audit team members will remain your key audit contacts, you will not need to communicate with our overseas delivery teams.
- The audit team members are responsible for reviewing all of the work performed by the overseas delivery teams.
- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

If you have any questions regarding this process or if you require further information then please contact Ciaran McLaughlin.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

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

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



Appendix E: Use of service centres

Private & Confidential

London Borough of Havering
Town Hall
Main Road
RM1 3BB

February 2015

Dear Andrew,

Working more efficiently

As you know the Audit Commission recently tendered the audit work previously delivered by the District Audit service. This realised significant savings which have been passed on to your organisation in a reduction to your scale fee of around 40%.

As a result of this tender, suppliers have sought for opportunities to increase efficiency, whilst maintaining the level of quality. One principle which has recently been established is that certain basic parts of the audit can be off-shored. This is common practice in the private sector. When work is off-shored the firm delivering the audit and thus your audit team, remains entirely responsible for the conduct of the audit. As such the data would be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.

Examples of the work that can be off-shored are:

- Request for confirmations (Receivables, Bank or Payables);
- Verification/vouching of information to source documentation (e.g. agreeing a payable balance to invoice);
- Financial statements review;
- Mathematical accuracy checks of data;

London Borough of Havering

PwC • 32

- Research; and
- Preparation of lead schedules.

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted above. We have agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring.

If you have any questions regarding the above, please do not hesitate to get in touch.

Yours sincerely

Ciaran McLaughlin
Engagement Leader



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.

© 2015 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