Public Document Pack

Havering
LONDON BOROUGH

AUDIT COMMITTEE
AGENDA

7.00 pm	Tuesday 10 May 2016	Committee Room 3A - Town Hall

Members 6: Quorum 3

COUNCILLORS:

Conservative (2)	**Residents' (1)**	**East Havering Residents' (1)**
Viddy Persaud (Chairman) Frederick Thompson	Julie Wilkes (Vice-Chair)	Clarence Barrett

UKIP (1)	**Independent Residents' (1)**
David Johnson	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 INTERESTS

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

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

4   MINUTES OF THE MEETING (Pages 1 - 8)

To approve as correct the minutes of the meeting held on 2 March 2016 and authorise the Chairman to sign them.

5   2015/16 AUDIT PLAN - ERNST YOUNG (Pages 9 - 28)

6   2015/16 AUDIT PLAN FOR HAVERING PENSION FUND - ERNST YOUNG

Report to follow.

7   HEAD OF INTERNAL AUDIT - QUARTER FOUR PROGRESS REPORT: 4TH JANUARY TO 3RD APRIL 2016 (Pages 29 - 62)

8   OUTSTANDING AUDIT RECOMMENDATIONS (Pages 63 - 72)

9   ANNUAL REPORT OF THE AUDIT COMMITTEE 2015/16 (Pages 73 - 86)

10   URGENT BUSINESS

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

11   EXCLUSION OF THE PUBLIC

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

**Andrew Beesley
Committee Administration
Manager**

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 3B - Town Hall
2 March 2016 (7.00 - 8.40 pm)**

Present:

COUNCILLORS:

Conservative Group	Viddy Persaud (in the Chair)
Residents' Group	Julie Wilkes (Vice-Chair)
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson
Independent Residents Group	Graham Williamson

Apologies were received for the absence of Councillor Frederick Thompson.

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

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

29 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 1 December 2015 were agreed as a correct record and signed by the Chairman.

30 **EXTERNAL AUDITORS**

Debbie Hanson, Audit Director from Ernst & Young the Council's new External Auditors attended the meeting to introduce herself to the Committee and talk through the process which Ernst & Young would adopt in carrying out the audit.

She gave a brief introduction to Ernst & Young explaining that their Government and Public Sector unit had been growing with other 200 clients. She ran through the various stages the audit would pass through and advised that an Audit Plan would be submitted to the next meeting of the Committee in May. In future years the Audit Plan would be available in March.

The Committee thanked Debbie for her presentation.

31 **CLOSURE OF ACCOUNTS TIMETABLE 2015/16**

Officers provided an update on progress on the closure of accounts for 2015/16. Officers had explained that this year we had new auditors and whilst the audit coverage would be similar, the new auditors Ernst & Young would need to form

their own opinion over the council's procedures and there might be detail changes in the work undertaken.

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

The report had identified a number of key issues, which had included:

- The change of external auditors with Ernst & Young taking over from PricewaterhouseCoopers with effect from April 2015. Ernst & Young would need to form their own opinion on Havering's systems and processes, and would not be able to rely on work carried out in previous years.

  Ernst & Young would also be auditing Newham's accounts: this could give scope for harmonising processes across the two authorities (particularly once Newham was on-board with One Oracle), but this potential was mitigated in the short term by Ernst & Young having a separate team at Newham.

- As previously advised by officers the statutory deadline for having the draft accounts available for audit was being brought forward from 30th June to 31st may with effect from 2017/18, and the deadline for the completion of the audit and publication of the accounts was being brought forward from 30th September to 31st July. This would create challenges for both the Council and the external auditors.

  In order to speed up the year-end closedown process, it would be necessary to estimate the end position. This might apply to a number of activities but would certainly include requesting data earlier from external parties relating to:

  o The valuation of Assets including Property, Plant and Equipment, on infrastructure assets, to determine for example impairment charges;
  o The valuation of year end pension liabilities from the Pension Fund actuaries.

  Use of these techniques would enable major year-end processes to be started prior to year end: and could bring a heightened risk of material misstatement needing to be addressed during the audit.

- Officers had confirmed that from 2016/17 local authorities would be required to include Highways Infrastructure on their balance sheets at net replacement cost, as opposed to the depreciated balance of previous years. This would have a major impact on the value of net assets for all authorities, but would have no impact on usable resources or the council tax requirement.

  Infrastructure assets had now been valued on the required basis and the related data had been used to provide the Government with the information required in the Whole of Government Accounts. However, there was still a significant amount of work to be done to establish the correct accounting entries in restating the 2015 balance sheet to give the 2016/17 opening

balances.

- The implementation of Service Reviews would impact on responsibilities for specific parts of the accounts, with staff needing to become familiarised with new roles, procedures and systems. The sharing of functions would also impact on the audit coverage, with activity relating to Havering needing to be covered at Newham, and vice versa; the consequences of harmonising audit coverage were being followed up with the new auditors, Ernst & Young.

  Significant areas affected for 2015/16 included the Collection Fund, with Council Tax being administered at Havering and Business Rates being administered at Newham. The Collection Fund impacted on all the prime statements in the accounts and any delay in this data being available would impact on finalisation of the accounts.

- Supporting the April 2016 on-boarding of Newham to One Oracle would potentially necessitate the support of staff pivotal to the successful closure of accounts. Reconciliations needed to be completed by 15 April, and diversion of resources could increase the risk of:
  - o error or misstatement in Havering's accounts;
  - o audit issues being identified, increasing workload in responding to the auditors; and
  - o compromising achievement of the earlier closedown timetable, resulting in earlier closedown not being embedded for 2016/17.

Managers were aware of the accounts timetable and were managing the competing demands by, for example, ensuring reconciliations were completed in a timely manner.

The Committee had **noted** the report.

32   **ACCOUNTING POLICIES 2015/16**

The Committee had been advised that the CIPFA Better Governance Forum had produced a tool-kit for local authority Audit Committees which had recommended that members review accounting policies. Officers had undertaken a review of the existing accounting policies. The report had highlighted recent changes which had included:

- Accruals of Income and Expenditure – policy amended to disclose a de minimus for accruals raised manually of £50,000 for 2015/16 (£25,000 for 2014/15). The note showing the impact on the accounts resulting from the change (a reduction in net accruals raised estimated at around £2 million, which was not material to the overall published accounts) was not part of this accounting policy and would be included in the note on Critical Judgements in the Statement of Accounts.

- Various other minor wording changes to update Havering's accounting policies for changes in the 2015/16 Code of Practice Guidance; these had no practical implications on Havering's policies.

Any further significant changes would be brought to the Committee's attention and highlighted in the Statement of Accounts report in September 2016.

The Committee had **noted** the report.

33 **2014/15 AUDIT REPORT OF GRANT CLAIMS AND RETURNS**

The Committee had been advised that only the Housing Benefit Subsidy claim now required certification. In 2014/15 this had been certified by PricewaterhouseCoopers whom had issued a qualified claim. The cost of this certification had been £21,570.

Although the Government only required certification of one grant other funders required either certification or audit assurance in respect of the grant they had made. In 2014/15 five grants had required audit, only one of which had received a qualified opinion. This had been the DCLG Pooling of Housing Capital Receipts 2014/15 which had been subject to qualification because of discrepancies between data on the return and data held by the authority's housing management system, however, the return had not required amendment. The cost of these five additional audits had been £24,873.

Officers had advised that it was not possible to estimate how mant grant funding bodies would require external audit certification from 2015/16 onwards and as such the Council might be exposed to the risk of increased audit fees.

The Committee had **noted** the report.

34 **INTERNAL AUDIT DRAFT PLAN AND STRATEGY**

Officers had prepared a draft Audit plan for 2016/17 for the Committee's approval. The oneSource audit team deliver an integrated service to both Havering and Newham and the plan included audit reviews within oneSource partners. The work of the team was underpinned by the Audit Charter and Strategy.

The service restructure has been delayed to accommodate a third partner. Officers had indicated that efficiencies would be achieved in the forthcoming year by delivering a total of 395 days of joint reviews across two partners.

The draft plan contained 1,900 days of which 602 had been allocated solely to Havering together with half of the 395 days for oneSource reviews. This was in line with last year's total planned days.

The Committee was informed that the plan was risk based and flexible and could be adjusted in-year to take account of any emerging risks.

Once the third partner joined, it might be necessary to revisit the Audit Plan.

The Committee had **approved** the Audit Plan for 2016/17 as presented.

35   **COMBINED INTERNAL AUDIT AND ASSURANCE UPDATE QUARTER 3**

The Committee had received a report on the work of the internal audit team during the period 5th October 2015 to 3rd January 2016. At the December meeting of the Committee the Head of Audit had given her opinion that based upon the work undertaken in quarter 2 of 2015.16 she could give a reasonable assurance that the internal control environment had been operating adequately. Based on the work undertaken in quarter 3, no material issues had arisen, which had impacted on this opinion.

An officer from the Manor Green Pupil Referral Unit had attended the meeting to address the Committee's concerns following the systems audit undertaken in 2015. At the time of the follow up audit, 21 of the original 27 recommendations had been implemented, with another having been superseded. The Officer had been able to give the Committee an assurance that all but two of the outstanding recommendations had now been implemented. An explanation had been provided regarding the final two recommendations and the Committee had recognised that more time had been required for these to be fully implemented and expressed their satisfaction with the steps taken so far.

Of the 6 system/computer audits completed in the third quarter three had received a Limited assurance. One of these was discussed in more detail. The Committee had agreed that management be allowed time to respond to the report and assess how the issue would be affected by the review of the Council's Document Retention Strategy. If it was felt that matters had not progressed in the next 6 months the Committee had asked that the appropriate officer should attend the next meeting thereafter to report on progress in addressing the issues raised in the audit.

The Committee considered how best to report fraud information as this often could present an unintended negative message and had asked officers to reconsider how they present the reports to ensure this was considered and a more balanced approach achieved in line with other councils.

Subject to the above comments the Committee had **noted** the report.

36   **UPDATE CORPORATE RISK REGUISTER**

Officers had provided the Committee with a report updating the broad Corporate Risks the organisation faced, the ratings applied to them and the mitigations and planned actions identified and documented through the risk management activity of the council.

The review of the Risk Management Policy and Strategy had been delayed as part of the review and restructure of the Audit and Risk Service. The Policy and Strategy had now been revised and had been presented for approval.

Risk Management would also be considered as part of the current CIPFA and SOLACE consultation on 'Governance' expected late April 2016. This might impact on the future risk management approach.

The Committee had questioned the risk rating given for Business Continuity and Disaster Recovery Failures. Even after the mitigating actions/controls had been taken into account the Committee had still considered the rating to be high. Officers explained that they had taken a cautious approach. An exercise had been planned to test the efficiency and resilience of the plans. The Deputy Chief Executive and Group Director Communities and Resources assured the Committee that this would not be a major issue.

The External Auditor suggested that it might be helpful to include an additional column in the plan to indicate direction of travel.

The Committee had **noted** the report and the addition of the direction of travel.

37   **REVIEW OF RISK MANAGEMENT POLICY AND STRATEGY**

The oneSource audit team currently delivered an integrated service to both Havering and Newham and the Risk Management Policy and Strategy would be applicable to both councils and future partners joining oneSource.

The revised Policy and Strategy has adopted a roles and responsibilities model identifying roles for members, officers and forums sets out their responsibilities in robust risk management. The Audit Committee had a key role in overseeing the Council's Risk management Arrangements and setting the tone to be followed to help embed this across the organisation.

The Committee had **adopted** the Risk Management Policy and Strategy on behalf of Havering Council.

38   **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.

39   **TREASURY MANAGEMENT UPDATE QUARTER 3**

The Committee had received a report on performance of the Treasury Management Strategy in quarter 3. The level of funds available for investment in quarter 3 had been greater than that in quarter 2 but officers had indicated that this would decrease in quarter 4.

Good investments in quarter 3 had seen the level of Investment Interest earned outperform the budgeted Rate of Return and the Rate of return achieved in

quarters 1 and 2. Officers had indicated that the timing of making the investments had been crucial to this good result.

The Committee had **noted** the report.

Chairman

This page is intentionally left blank

AUDIT COMMITTEE
10 May 2016

Subject Heading:	External Audit Plan
CMT Lead:	Andrew Blake-Herbert Chief Executive
Report Author and contact details:	Contact: Mike Board Designation: Corporate Finance & Strategy Manager Telephone: (01708) 432217 E-mail address: mike.board@havering.gov.uk
Policy context:	This report introduces the external audit plan of Ernst and Young the Audit Committee.
Financial summary:	The cost of the audit is contained within existing budgetary provision.

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

Havering will be clean and its environment will be cared for   []
People will be safe, in their homes and in the community   []
Residents will be proud to live in Havering   [x]

SUMMARY

Our external Auditors, Ernst and Young will present their audit plan for the coming financial year for consideration by the committee.

RECOMMENDATIONS

The Committee is asked to:

a) Note that a separate paper will be presented to the Committee by Ernst and young setting out their audit plan for the year.

b) Consider any issues arising from the plan and raise any questions directly with the auditors.

REPORT DETAIL

Our external Auditors, Ernst and Young will present their audit plan for the coming financial year for consideration by the committee.(as included in the attached appendix)

IMPLICATIONS AND RISKS

Financial Implications and risks:

The cost of the audit of the main accounts is meeting from the General fund. The Pension Fund meets the cost of the Pension Fund audit.

Legal Implications and risks:

There are direct legal implications.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

London Borough of Havering

Year ending 31 March 2016

Audit Plan

April 2016

EY
Building a better
working world

Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire LU1 3LU

Tel: + 44 1582 643 000
Fax: + 44 1582 643 001
ey.com

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

28 April 2016

Dear Members

2015/16 Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks. We welcome the opportunity to discuss this Audit Plan with you on 10 May 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson
Executive Director
For and behalf of Ernst & Young LLP
Enc

Contents

EY | i

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

► Our audit opinion on whether the financial statements of the London Borough of Havering give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and

► Our conclusion on the Council' arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

► Strategic, operational and financial risks relevant to the financial statements;

► Developments in financial reporting and auditing standards;

► The quality of systems and processes;

► Changes in the business and regulatory environment; and,

► Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

We will provide an update to the Audit Committee on the results of our work in our report to those charged with governance scheduled for delivery in September 2016.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of revenue recognition. We will undertake specific testing to address this risk.	We will ► Review and test revenue and expenditure recognition policies. ► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias. ► Develop a testing strategy to test material revenue and expenditure streams. ► Review and test revenue cut-off at the period end date. ► Test capital expenditure on property, plant and equipment to ensure it meets the definition of capital expenditure as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).
Risk of management override	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	Our approach will be to: ► Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ► Review accounting estimates for evidence of management bias. ► Evaluate the business rationale for significant unusual transactions.
Valuation of investment property and property, plant & equipment	
The Council undertakes an annual exercise to revalue property assets (including its social housing stock and investment property assets). The valuation of property assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and will have a significant impact on the Council's financial statements. IFRS 13: Fair Value Measurement has been introduced into the Local Authority Accounting Code for the first time in 2015/16. This requires investment assets to now be valued at highest and best use based on what someone would pay for the asset. The Council will need to ensure that its investment assets have been appropriately valued in accordance with IFRS 13.	Our approach will be to: ► Test management's arrangements for assessing the work of its valuation expert, including the key assumptions underpinning valuations. ► Utilise the work of experts commissioned by the National Audit Office, and our own valuation specialists, to validate the work of the valuation experts engaged by the Council. ► Test the reliability of the information provided by the Council to its valuer. ► Test the accounting treatment applied to changes in valuation. ► Test how management has satisfied itself that the element of the property, plant and equipment portfolio not subject to a formal revaluation as at 31 March 2016 is materially correct.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the

EY | 2

oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

► Identifying fraud risks during the planning stages;

► Enquiry of management about risks of fraud and the controls to address those risks;

► Understanding the oversight given by those charged with governance of management's processes over fraud;

► Consideration of the effectiveness of management's controls designed to address the risk of fraud;

► Determining an appropriate strategy to address any identified risks of fraud, and,

► Performing mandatory procedures regardless of specifically identified risks.

Page 16

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. For 2015/16 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;

- Deploy resources in a sustainable manner; and

- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment considers both the potential financial impact of the issues we have identified, and the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. The work we have completed to date, which has focused on the Council's financial management arrangements, has identified the following significant risk which we view as relevant to our value for money conclusion.

We will keep our risk assessment under review throughout our audit and communicate to the Audit Committee any revisions to this assessment and any additional local risk-based work we may need to undertake as a result.

Significant risks (including fraud risks)	Our audit approach
Sustainable resource deployment: Achievement of savings needed over the medium term	
The Council is responding to the financial pressures arising from recent spending reviews. The Council does, however, face significant financial challenges over the next three years, with an underlying budget gap of £12.5m to close in the period to 2018/19. Given the scale of the savings needed, there is a risk that the savings plans to bridge this gap may not be robust and/or achievable.	Our approach will focus on: ▶ The adequacy of the Council's financial management arrangements. ▶ The robustness of assumptions used in medium-term financial planning. ▶ The approach to prioritising resources while maintaining services. ▶ The savings plans in place, and whether these plans can provide the required savings and efficiencies.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

► Financial statements

► Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Processes

Our intention is to undertake a fully substantive audit. We believe this to be the most efficient approach to gaining assurance over the Council's financial statements. Although we are not intending to rely on the control processes established within individual systems, the overarching control arrangements established by the Council form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

► Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests

► Give greater likelihood of identifying errors than random sampling techniques.

Internal audit

► We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in

the year, in our detailed audit planning, where they identify issues that could impact on the Council's year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property valuations	Management's expert (Wilks Head and Eve); EY valuation team.
Pension fund liability	Management's expert (pension fund actuary); EY pension team.
Fair value of short and long-term borrowing	Management's expert (Public Works Loan Board).

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

► Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;

► Assess the reasonableness of the assumptions and methods used;

► Consider the appropriateness of the timing of when the specialist carried out the work; and

► Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

► Addressing the risk of fraud and error;

► Significant disclosures included in the financial statements;

► Entity-wide controls;

► Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;

► Auditor independence.

Page 19

Procedures required by the Code

► Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

► Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4   Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for our audit of the Council's financial statements is £12,191k. We have based our calculation of materiality on 2% of the Council's gross revenue expenditure. We will communicate uncorrected audit misstatements greater than £609k to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5   Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative scale fee for our audit of the London Borough of Havering is £151,844.

4.6   Your audit team

The engagement team is led by Debbie Hanson. Debbie has significant local government experience, and is the engagement lead for a number of EY's local government audits across the east of England. Debbie is supported by Stephen Bladen who is responsible for the day-to-day direction of audit work and is the key point of contact for the Council's finance team.

4.7   Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	April 2015		Audit Fee Letter
Risk assessment, setting of scope, and testing routine processes.	January – March 2016	May 2016	Audit Plan
Year-end audit	July – August 2016		
Completion of audit	September 2016	September 2016	Report to those charged with governance via the Audit Results Report
			Audit report (including our opinion on the financial statements and overall value for money conclusion).
			Audit completion certificate
			Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	December 2016	Annual Audit Letter
Certification work	October – November 2016	March 2017	Annual certification report.

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

Page 21

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications | |
Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, PSAA's Terms of Appointment. and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, the audit engagement Director, and the audit engagement team have not been compromised.

5.3   Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015

Appendix A   Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Scale fee 2014/15[1] £	Explanation
Opinion Audit and VFM Conclusion	151,844	151,844	202,459	The reduction in fees reflects the reduced overheads of PSAA compared to the Audit Commission.
Total Audit Fee – Code work	151,844	151,844	202,459	
Certification of claims and returns	15,080	15,080	21,570	

[1] 2014/15 fees were payable to the Council's previous auditor, PwC.
All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

► The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;

► Officers meeting the agreed timetable of deliverables;

► Our accounts opinion and value for money conclusion being unqualified;

► Appropriate quality of documentation is provided by the Council;

► There is an effective control environment; and

► Prompt responses are provided to our draft reports.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B   UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process	► Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Report to those charged with governance
Fraud ► Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	► Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	► Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Report to those charged with governance
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	► Report to those charged with governance

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence	▶ Audit Plan ▶ Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	▶ Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	▶ Report to those charged with governance
Fee Information ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit	▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
Certification work ▶ Summary of certification work undertaken	Annual Report to those charged with governance summarising findings from grant certification work, and Annual Audit Letter if considered necessary

Page 26

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

This page is intentionally left blank

AUDIT COMMITTEE
10 05 2016

Subject Heading:	Head of Internal Audit - Quarter Four Progress Report: 4th January to 3rd April 2016
CMT Lead:	Jane West, Managing Director oneSource
Report Author and contact details:	Sandy Hamberger, Interim Head of Internal Audit. Tel: 01708 434506 E-mail: sandy.hamberger@onesource.co.uk
Policy context:	To inform the Committee of progress on the assurance work undertaken in quarter four of 2015/16.
Financial summary:	N/A

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

Havering will be clean and its environment will be cared for   [x]
People will be safe, in their homes and in the community   [x]
Residents will be proud to live in Havering   [x]

SUMMARY

This report advises the Committee on the work undertaken by the internal audit team during the period 4th January to 3rd April 2016.

RECOMMENDATIONS

1.   To note the contents of the report.

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

<div style="border: 2px solid black; display: inline-block;">

REPORT DETAIL

</div>

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

Section 1   **Introduction, Issues and Assurance Opinion**

Section 2   **Executive Summary** A summary of the key messages from quarter four.

Section 3   **Appendices** Provide supporting detail for members' information

Appendix A Detail of Quarter Four Internal Audit Work (4th January to 3rd April 2016)
Appendix B Summary of Audit Reports
Appendix C List of High Priority Audit Recommendations

<div style="border: 2px solid black; display: inline-block;">

IMPLICATIONS AND RISKS

</div>

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 and ultimately good governance. 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 obliged 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.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

N/A

Section 1: Introduction, Issues and Assurance Opinion

1.1   Introduction

1.1.1   This composite report brings together all aspects of internal audit and anti-fraud work undertaken in quarter four, 2015/16, in support of the Audit Committee's role.

1.1.2   The main body of the report provides the Head of Internal Audit's ongoing assurance opinion on the internal control environment and highlights key outcomes from audit and anti-fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide greater detail for the committee's information.

1.1.3   The 2015/16 planned audit days is 800, which has reduced by 8% (67 days) compared to 2014/15. This is line with the 2013/14 London average of 900 days.

1.1.4   The oneSource service transformation restructure was formally launched on the 15th April; this included the new partner-Bexley. It is anticipated that the structure will go live late August. This will deliver additional resilience and savings and efficiencies required in line with the Joint Committee Business Case.

1.1.5   The Audit service is required to make £1,393m of savings per annum. The proposed structure for three partners will see a net reduction in the service from the 2015/16 combined staffing levels (post Fraud phase one required in April 2015 due to the statutory transfer of Housing Benefit Investigators to the DWP) from 57FTEs to 39FTEs. In anticipation of the restructure vacancies have been maintained.

1.1.6   Subject to the consultation phase, the savings will be £744k from reduction in staffing levels, £50k from the reduction of legal expenditure and £150k required "other" non-staffing elements to be reviewed. This is in addition to the £449k already delivered by the Fraud 2015 restructure.

1.17   The proposed Target Operating Model has been agreed by all three partner statutory 151 Finance Officers. The combined proposed staffing element cost from 2017/18 is £1,864,000.

1.2   Current/Future Key Issues

1.2.1   The new Accounts and Audit Regulations 2015 for local Authorities in England that came into effect on 1st April 2015 are being followed.

1.2.2   The requirement to have internal audit has been amended to require local authorities to *"…undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance"*.

1.2.3   The Relevant Internal Audit Standard Setters (RIASS) have adopted two additions to the UK PSIAS from 1 April 2016, namely the Mission of Internal

Audit and Core Principles for the Professional Practice of Internal Auditing.

1.2.4   The Head of Internal Audit chairs the officer working group, which seeks to strengthen the Officer Governance Group; this will include consideration of the assurance perspective and will include the risk management arrangements and any changes that may arise from the current CIPFA/SOLACE consultation paper on the *Framework for Delivering Good Governance in Local Government* that closed at the end of September 2015. The report is expected later in April The Governance Group met in April 2016 and considered progress against the significant governance issues in the 2014/15. The group has considered areas for inclusion for this year's Annual Governance Statement and the Corporate Risk Register which will come to Audit Committee in June.

1.2.5   Organisations are no longer required to undertake an annual review of effectiveness to meet the requirements of the Public Sector Internal Audit Standards but to have an ongoing programme of quality assessment and improvement and an external review every five years. This will form part of the oneSource Audit Charter and Strategy.

1.2.6   With the demise of the Audit Commission from April 2015, councils are required to consider how they will procure External Audit. The LGA have set up a company to oversee the existing contracts and councils will be required to determine if they wish to remain part of that arrangement or look at an alternative. A briefing note will be drafted and discussed with 151 officers for consideration and an update brought to the June committee.

1.2.7   The DCLG funded Fraud Data Sharing Hub is under development across London Boroughs. This enables data to be shared in order to help deter and prevent crime. Havering has signed the required Memorandum of Understanding in order to progress this.

1.2.8   Post the implementation of the oneSource restructure of Internal Audit, there will be a "one Policy, Strategy and Procedure" approach, in line with the principles in the Business case that will ensure duplication is removed and partners receive the same service standard. The Audit Committee is reminded that it agreed the oneSource Anti-Fraud and Corruption Strategy at the September 2015 meeting.

1.3   Level of Assurance

1.3.1   At the March Committee meeting, Members received the Head of Internal Audit's opinion based upon the work undertaken in quarter three of 2015/16, which concluded that reasonable assurance could be given that the internal control environment is operating adequately.

1.3.2   Based upon the work undertaken since the last update to Members, no material issues have arisen, which would impact on this opinion. There has been one Limited assurance report issued this quarter.

Section 2. Executive Summary of work undertaken in quarter four, 2015/16

2.1.1 There have been three deletions and one addition to the 2015/16 Audit Plan in quarter four. (Appendix A, Section 1.1.6 sets out these alterations).

2.1.2 In quarter four there has been one Limited assurance report issued, this being:
- 3rd Party Connections

A follow up of this area will be included in the 2016/2017 Audit Plan.

2.1.3 Of the 83 audit recommendations, 26 (Appendix C sets out the list) were categorised as "High Priority". Nineteen of these have been completed, one has been superseded and six are in progress.

2.1.4 Whilst the percentage delivery of the Audit Plan has exceeded target, there has been some delay in the issuing of reports. This is due to a long-term sickness absence and work on revising policies and procedures required for restructure.

2.2.1 There has one amendment to the Proactive Audit Work Plan for 2015/16 in quarter four, shown within Appendix A, Section 2.1. This being the inclusion of a proactive review into the use of Corporate Purchase Cards.

2.2.2 The NFI Council Tax 'Single Person Discount' and 'Approaching 18' matches have been reviewed.
- Two thousand seven hundred and eighty eight Council Tax 'Single Person Discount' matches were identified and 283 investigations are currently in place to establish whether Single Person Discount applies.
- Three hundred and twenty five 'Approaching 18' matches were identified and so far has resulted in recharges applied totalling £17,284.07.

2.2.3 The reactive auditor received eight new investigator referrals in quarter four; four were passed to the criminal investigation team.

2.2.4 From the start of the year a number of significant cases have been investigated and reported to the Audit Committee, these are shown in table 2.3.2 (Appendix 1). Over the course of the year 127 recommendations have been made.

2.3.1 During quarter four the criminal investigations team:
- Recovered two properties with a nominal value of £36k
- Had forty four Right to Buy applications withdrawn;
- Had ten Notice to Quits served and are currently being pursued through the appropriate channels; and have
- Fifteen cases been booked in for 'Interview under Caution'.

Appendix A: Quarter Four Internal Audit Work (4th January to 3rd April 2016)

1.1.1 Excluding the Interim Head of Internal Audit, the established structure of the team delivering this work is six full time equivalent posts. The structure of the team is used to determine the number of days in the Audit Plan.

1.1.2 The team:
  ➢ Undertake risk based systems audits;
  ➢ Review grant claims;
  ➢ Provide consultancy advice for new and developing systems;
  ➢ Provide assurance with regard to compliance with policy and procedure;
  ➢ Undertake school probity audits;
  ➢ Undertake audit health checks on schools, on behalf of the Head of Learning and Achievement, which generates an income for the team; and
  ➢ Undertake proactive and reactive audits/investigations as required

1.1.3 With the transfer of Havering counter fraud employees to the Department for Work and Pensions (DWP), the residual workload has been incorporated into the team and has been classified into four headings:
  ➢ Proactive audit investigations;
  ➢ Reactive audit investigations;
  ➢ Criminal / fraud investigations and
  ➢ HR investigations.

1.1.4 In June 2015 the Audit Committee approved an Annual Audit Plan for the 2015/16 financial year totalling 560 days for Havering Audits, 110 days for auditing oneSource services across both authorities and 185 days for proactive audits (800 audit plan days).

1.1.5 The table below provides a summary of the audits removed from, and added to, the 2015/16 approved Audit Plan during quarter four and the reason for the change; this is a common occurrence within audit services. For some audits the budget is not required or is exceeded; this is closely monitored for performance management purposes.

Audit Title	Orig. Days	Rev. Days	Reason
capitalEsourcing	20	2	New front end system being implemented and not fully integrated into process, therefore carried forward to 16/17 Plan
Declaration of Interests	10	0	Delay in the implementation of a new online system, therefore moved to 16/17 plan.
Careers Group Payments	0	10	Added to 15/16 following concerns raised by Interim Head of Internal Audit
Governance Risk Control Compliance (GRC)	5	0.5	GRC not yet fully implemented, therefore moved to 15/16 Plan
Direct Payments	25	35	Increase in budgeted days due

Audit Title	Orig. Days	Rev. Days	Reason
			to significant risk area and increased scope.

1.2   Risk Based Systems and School Audits

1.2.1   As at 3rd April 2016, 17 assignments had been completed and 17 were in progress but had not reached final report stage. The table below details the final reports issued in quarter four.

Report	Assurance	Recommendations				Ref
		High	Med	Low	Total	
System / Computer Audits						
i-Procurement	Substantial	0	1	0	1	B (1)
Service Manager - ICT	Substantial	0	2	0	2	B (2)
Pupil Place Planning	Substantial	0	0	0	0	B (3)
Troubled Families Grant - January 2016 Claim	N/A	N/A	N/A	N/A	N/A	B (4)
3rd Party Connections	Limited	6	3	0	9	B (5)
Total		**6**	**6**	**0**	**12**	

1.2.2   Management summaries for the four systems and one computer report are included under Appendix B: Audit Report Summaries.

1.2.3   There are no schools audit summaries included in this quarter's report as the health checks are not included in the same way as the tri-annual audits completed by the team. During quarter four there were 12 school health check audits completed and reports issued. There were also another five schools that had received health checks and draft reports issued but not finalised.

1.2.4   Work nearing completion at the end of March included four risk based systems audits and two computer audits. It is anticipated that these audits will be reported on at next audit committee.

1.3   Key Performance Indicators

1.3.1   The table below details the profiled targets and the performance to date at the end of March 2016. The total number of audits, where there will be a standard approach to deliverables for 2015/16 is 45.

Performance Indicator	Quarter 4 Target	Quarter 4 Actual	Quarter 4 Variance
Percentage of Audit Plan Delivered	99	107	+8
Number of Briefs Issued	45	3	-2
Number of Draft Reports Issued	45	33	-12
Number of Final Reports Issued	43	32	-13

1.4   Outstanding Audit Recommendations Update

1.4.1   Internal Audit follow 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.

1.4.2   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.

1.4.3   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.

1.4.4   The list of what the High Priority Risks are is shown in Appendix C; the current level of implementation is shown in the table below.

Audit Year	Area Reviewed	Director / HoS Responsible	Assurance Level	No. of Recommendations in the Original Report			Position as at 03/04/16	
				H	**M**	**L**	Complete	In Progress
12/13	iProcurement	Internal Shared Services	Limited	0	2	1	2	1 ◆
12/13	Transport	Asset Management	Substantial	1	4	2	6	1
12/13	Accounts Payable	Internal Shared Services	Substantial	0	1	0	0	1 ◆
			2012/13 Totals	**1**	**7**	**3**	**8**	**3**
13/14	Tenancy Management	Homes & Housing	Limited	0	14	0	13	1
			2013/14 Totals	**0**	**14**	**0**	**13**	**1**
14/15	Gas Safety (Building Services)	Homes & Housing	Substantial	1	4	3	5	3
14/15	TMO's	Homes & Housing	Limited	3	4	0	6	1
14/15	PARIS System	Exchequer & Transactional Services	Limited	3	1	0	3	1
14/15	Manor Green PRU	Children's Services	Nil	17	10	0	22	5
14/15	Responsive Maintenance	Homes & Housing	Substantial	1	6	0	0	7
			2014/15 Totals	**25**	**25**	**3**	**36**	**17**
15/16	Accounts Payable	Exchequer & Transactional Services	Substantial	0	2	0	1	1
15/16	Accounts Receivable	Exchequer & Transactional Services	Substantial	0	3	0	2	1
			2015/16 Totals	**0**	**5**	**0**	**3**	**2**
			Totals	**26**	**51**	**6**	**60**	**23**

1.5 Outstanding Audit Recommendations

◆ Implementation of these recommendations are being delayed due to the development of joint oneSource procedures etc.

2.1 Proactive Audit Investigations

2.1.1 A revised proactive work plan for 2015/16 is shown below:

Description	Risks	Plan days	Quarter 2 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	On Hold
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	Completed
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
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
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	In progress

Description	Risks	Plan days	Quarter 2 Status
Purchase Card	Members request into the Council expenditure via Purchase Cards following National Newspaper headlines reporting inappropriate expenditure in Council's	8	In progress
Whistleblowing	All whistleblowing referrals. 8 reported.	10	Completed
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation. 127 recommendations made of which 27 are not yet due and all others are implemented	15	Completed
Freedom of Information Requests	To undertake all Freedom of Information Requests relating to Internal Audit Investigations.	5	Completed
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. 17 calls received 2 remain under investigation with the Counter Fraud Team.	5	Completed
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. 31 cases received and completed.	15	Completed
Advice to Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. 23 cases assisted.	15	Completed
	TOTAL	**185**	

2.1.2 The proactive audit investigation work comprises three elements:
> Co-ordinating the Authority's investigation of the National Fraud Initiative (NFI) data; and
> A programme of proactive audit investigations;
> Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.

2.1.3 The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud and is conducted every two years. The 2014 NFI matches are available in 2015 and comprise of 11,329 High Risk matches. 2,788 Council Tax 'Single Person Discount' matches were identified and 283 investigations are currently in place to establish whether Single Person Discount applies. 325 'Approaching 18' matches were identified and so far resulted in recharges applied totalling £17,284.07.

2.2   Reactive Audit Investigation Cases

2.2.1   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 4 2015/16						
Cases at start of period	Referrals received	Referred To Criminal Fraud Team	Referred to HR	Audit Investigations		
				Not Proven Cases	Successful Cases	Cases at end of period
5	8	4	0	1	8	0

2.2.2   The table below provides information on the sources of Audit Investigation referrals received.

Source and Number of Referrals Quarter 4 2015/16	
Number of Referrals/ Type	IA Reports Qtr 4
Anonymous Whistleblower	0
External Organisations / Members of the Public	3
Internal Departments	5
Total	**8**

2.2.3   The table below shows the number and categories of Audit Investigation cases at the end of the Quarter 4, compared to the Quarter 3 totals.

Reports by Category		
Audit Investigation Category	Previous Cases Qtr 3	Current Cases end of Qtr 4
PC – Misuse and Abuse	1	0
Breach of Code of Conduct	1	0
Breach of Council Procedures	2	0
Misuse of Council Time	0	0
Direct Payments	0	0
Theft	1	0
Disabled Facility Grant	0	0
Procurement Fraud	1	0
Money Laundering	0	0
Total	**5**	**0**

2.2.4   The table below shows the case outcomes for the Internal Audit Investigations from December to March 2016.

Case Outcomes	
Outcome	Qtr 4
Management Action Plan	5
Resigned	2
Disciplinary	1
No case to answer	1
Withdrawn Application	0
Total	**9**

2.3 Savings and Losses

2.3.1 The investigations carried out by Audit Investigations 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.

2.3.2 The table below shows significant cases identified during 2015/16.

Case details	Savings Identified & Recoverable	Actually Recovered Savings	Details
Overcharge Gas Safety 2013	£866.00	£866.00	Contractor overcharge and poor internal check and control.
Overcharge Gas Safety 2014	£912.00	£912.00	Contractor overcharge and poor internal check and control
NFI	£6,159.23		NFI death pension report identifies total gross overpayment that Pensions will now recover.
NFI	£574.13		NFI death pension report identifies total gross overpayment that Pensions will now recover.
NFI	£18,000.00		Housing Waiting List to Immigration Status no right to housing report 236. Housing application removed and notional £18k applied as instructed via Cabinet Office.
Council Tax Debts to Council Employees	£841.32		Council Tax currently making an attachment of earnings.
Duplicate Payments	£2,055.00	£2,055.00	Duplicate payment found and stopped.
Approaching 18's	£17,284.07	£17,284.07	NFI flexible data matching and Council Tax Teams recovery process have @ 31 December 2015 removed 62 SPD and imposed back payments totalling £11,646.82

Case details	Savings Identified & Recoverable	Actually Recovered Savings	Details
Pensions to Payroll	£1,932.16	£1,932.16	NFI Flexible data matching overpayment now in recovery as sundry debtor raised.
Blue Badge Deaths	£32,000.00		Cabinet Office valuation £1k per badge. 32 valid blue badges returned following intervention which cannot be fraudulently used or sold on.

2.4   Audit Investigation Recommendations

2.4.1 In 2014/15 there were 15 'Recommendations Not Yet Due' carried forward. One hundred and twenty seven recommendations were made at the end of March 2016 of which twenty seven are 'Not Yet Due' and all ninety six are implemented.

Quarter 3 Audit Investigation Recommendations	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Total Recommendations	54	89	96	127
Recommendations Implemented	34	69	81	96
Recommendations Not Yet Due	20	19	8	27
Recommendations Slipped	1	3	3	0
Of Which High Priority	0	1	1	0

3.1 Criminal Investigations Team

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

C/F from Q3	Referrals				Concluded Prosecutions	Cases Closed		Cases O/S
	Received	Allocated	Passed to DWP	Rejected		No Fraud*	Fraud Proven**	
71	174	174	0	0	0	37	16	61

* Eleven closed – No Fraud proven, 26 Closed – No Further Action.
** Five cases where keys have been returned to LA, includes10 Notice to Quit issued and one awaiting eviction

3.2 During the quarter the majority of resource has been focused on the Tenancy Fraud Project. Outcomes for the quarter include the following;
  - Two properties were recovered with a nominal value of £36k
  - Forty four Right to Buy applications were withdrawn.
  - Ten Notice to Quits were served and are currently being pursued through the appropriate channels.
  - Fifteen cases have been booked in for 'Interview under Caution'.

Appendix B Summary of Audit Reports

Service Manager (Transactional Services)	Schedule B (1)

1.1 Introduction

1.1.1 The audit of iProcurement forms part of the 2015/2016 Internal Audit plan.

1.1.2 Self-service iProcurement ('iProc') was implemented throughout the Council on 1 January 2013.

1.1.3 To support the use of the iProcurement system, a policy of 'No P.O., No Pay' was implemented.

1.1.4 All purchase orders, bar some exceptions, must now be placed via the iProc system. Exceptions to this policy are currently restricted to:
  - purchases via an existing embedded system e.g. Swift, Tranman;
  - purchases via central Government bodies;
  - payments to utility companies;
  - net payments to construction industry standard ('CIS') suppliers (however gross payments to CIS suppliers can be made via iProc); and
  - payments to overseas suppliers which are not made in £Sterling; and
  - Some named companies.

1.1.5 For the period April 2015 – October 2015 iProcurement was used to complete purchases with a value in excess of £29.5m.

1.1.6 This audit has not assessed the controls and limitations of the iSupplier system. An additional audit regarding this system will be carried out to cover the system controls and weaknesses for iSupplier during 2016/17.

1.1.7 For the period November 2015 – January 2016 there were 7061 payments to commercial suppliers. These were made up of 2898 (35.95%) payments through Accounts Payable and 5163 (64.05%) payments through iProcurement.

1.2 Objectives and Scope

1.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance that:
  - Compliance with Procurement legislation and the organisations policies and procedures;
  - Payments to suppliers are bona fide; and
  - Management information is relevant and accurate and monitored regularly.

1.2.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:
  - Non-compliance with EU procurement rules;
  - The organisations policies and procedures are not being followed;
  - Staff lack adequate training;
  - Access to the system is not controlled;
  - Payments to suppliers are not accurate;

Page 45

- Payments to suppliers are not appropriate;
- The system does not support the production of suitable management information;
- Management information is not produced and utilised to monitor achievement of the service objectives and drive key decisions; and
- Poor performance is not acted upon.

1.3   Summary of Audit Findings

1.3.1   The Councils Financial Framework is available on the intranet and sets out how the Financial Procedures rules should be applied. Section T of the Framework relates to procurement, purchasing and corporate contracts. Within this section is detail on how and when to use e-procurement. The e-procurement system pre-dates the iProcurement system and therefore this information is no longer relevant.

1.3.2   A recommendation has been raised as part of a previous audit which relates to updating the Financial Procedures and Framework. The implementation of this recommendation has been on going and therefore no further recommendations have been raised as part of this report.

1.3.3   With the launch of iProcurement the council adopted a 'No PO No PAY' policy. This was designed to ensure that all possible suppliers were set up within iProcurement. Suppliers that aren't on the system are contacted when an invoice is received to promote the use of iProcurement. Due to the legal obligation, of paying the invoice within a specific timescale to avoid fines, the application of the 'No PO No PAY' policy is limited to only those suppliers that express an interest in using the iProcurement system.

1.3.4   A working party has been set up to aid the implementation of One Oracle for the London Borough of Newham. As part of this working group they will be considering ways to embed the 'No PO No PAY' policy.

1.3.5   Included on the Councils intranet is a page dedicated to iProcurement. Included within that page are various links and documents relating to training, staff champion, basic user guides, expense rules and iSupplier terms and conditions. A review of the links/ documents attached to the iProcurement page found that some either didn't work or contained out of date information.

1.3.6   During the audit the UPK training was removed from the intranet site and added to the Learning Homepage within One Oracle for all staff to be able to access.

1.3.7   When purchase orders are raised on the system it transfers to the iSupplier system for the supplier to accept / 'flip' the order, which results in an electronic invoice being created within the system. It is possible for the order to be completed without the supplier accepting / 'flipping' within the system, however, the payment for the goods/ services cannot be made until this process has been completed.

1.3.8   The system does not issue any reminders through iSupplier to accept orders within the system. As this is the responsibility of the supplier to complete there is no risk to the Council for orders that remain within the system. A review of all

unpaid orders is due to be undertaken in 2016 that will highlight any suppliers that have orders within the system that need to be 'flipped', therefore no recommendation has been raised

1.3.9 Some suppliers still send in invoices for the services provided even though they are on iProcurement. This is largely related to services where the cost may not be known until the service has been provided. In these instances the details from the invoice are used to raise an order on the iProcurement system retrospectively.

1.3.10 The system will allow multiple requisitions to be made through one purchase order. This may result in multiple invoices being paid through one order. In these instances it is the responsibility of the individual service to monitor that invoices haven't been paid more than once.

1.3.11 Following a report from a supplier regarding invoices being paid in duplicate a reactive review was completed which highlighted in excess of £50,000 in duplicate payments to a single supplier. Following this review a recommendation was raised that users most only raise one requisition (invoice) per purchase order. This would then minimise the potential to enter duplicate payments.

1.3.12 There are no system controls that would limit the user's ability to enter multiple requisitions per order and the guidance had been written and added to the intranet page for iProcurement prior to this audit review taking place. Due to this guidance and the lack of available system controls no further recommendations have been raised as part of this review. An extended proactive review was however completed during this review; the results of this review are detailed below.

1.3.13 As part of this audit it was found that there are instances where suppliers who have been set up on iProcurement are being paid through both the iProcurement and Accounts Payable systems. A review will be carried out separately concentrating on one supplier. The reasons for the split of payments will be investigated as well as any recommendations to ensure that there is a standard practice implemented for suppliers set up on the iProcurement system.

1.4 Proactive Review:

1.4.1 A further review has been carried out to identify whether there was a significant issue with users of the system paying invoices multiple times.

1.4.2 For the additional review reports were run of purchases raised through iProcurement from April 2014 – November 2015. These reports detailed all purchase orders raised within this period, as well as all requisitions (invoices) raised.

1.4.3 Due to the findings of the previous review these reports were focused on Children and Adult services. The purchases included within the report had a total of 6031 requisition orders with a value of £6.7m. The duplicates from the original review were excluded from this follow up due them already being identified.

1.4.4 Purchase order descriptions were compared to highlight any potential duplicate payments. The invoice report was reviewed to highlight any potential duplicate invoices that may have been processed. The two reports where then compared to

confirm whether initial investigations had been correct.

1.4.5 There were multiple invoices where the difference in invoice number related to the additional of a letter (e.g. invoice no 405, 405A). On initial review these would appear as a possible duplicate as the value and dates were the same. When compared across the two reports it became apparent that these were for different pieces of work. The supplier had used the addition of a letter to differentiate the two even if this didn't coincide with the invoice number from the paper invoice.

1.4.6 The review highlighted 38 payments that required further inspection to determine whether they were duplicates. Copies of the invoices were requested from the person that had raised the original purchase order and compared.

1.4.7 Duplicate payments were found in six instances, these related to invoices with a combined total of £289. Action is being taken by the individual services to which these payments relate to retrieve the overpayments.

1.5 Audit Opinion

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

1.5.2 The audit makes one medium priority recommendations which comprise the need for a review of attachments/ documents available on the intranet to be completed to ensure that all links are active and relevant.

Service Manager - ICT	**Schedule B (2)**

2.1 Introduction

2.1.1 The audit of Service Manager (ICT) follows and audit of the Service Manager system as used by oneSource Transactional Services within Havering.

2.1.2 The Service Manager system went live within ICT in April 2012. This replaced the previous system RMS.

2.1.3 The ICT Management took the decision to implement Service Manager with a detailed scope as to the requirements of the system agreed prior to implementation.

2.1.4 This system is used by the oneSource ICT service teams that cover both Havering and Newham.

2.1.5 In the period 1st April 2015 – 16th October 2015 a total of 32,029 calls were created within the Service Manager system.

2.2 Objectives and Scope

2.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance that:
- Staff are adequately trained to use the system;
- Service requests are accurately processed and completed in a timely manner; and
- Service Manager provides meaningful management information that is monitored regularly.

2.2.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:
- Staff lack adequate training;
- Access to the system is not controlled;
- Service requests are not being recorded within the system;
- Service requests are not allocated or are incorrectly allocated;
- Service requests received are not monitored accurately / effectively;
- Service requests are not completed within the timescales detailed within the SLA;
- Management information is not produced and monitored; and
- Poor performance is not acted upon.

2.3 Summary of Audit Findings

2.3.1 All staff using Service Manager undertook training when initially using the software. All staff are due to be given refresher training at the beginning of 2016.

2.3.2 Each service request raised is allocated a severity which dictates the length of time it should be completed in. There are three levels of severity within the system; these are severity 4, severity 5 and severity 6. The deliverable timescale varies from 5 days to no fixed period. The system currently attaches a default of

severity 4, which is notified to the customer at the point of raising the request. Once requests are assigned to staff the severity of the call can be changed to reflect the level of work required to complete the request. Customers aren't made aware of any changes to severity.

2.3.3 When a call is closed all customers are sent a link to complete a customer satisfaction survey. Results of the completed surveys are monitored and those replies where a poor satisfaction has been achieved are investigated. At the time of the audit the outcome of the contact with any customers were not being recorded it was therefore not possible to test whether a suitable outcome had been reached.

2.4   Audit Opinion

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

2.4.2 The audit makes two medium priority recommendations which comprise the need for:
- Customers should be notified when the severity of the Service Request has been amended; and
- A record of the customer contact following a poor satisfaction survey should be recorded against the original call.

Pupil Place Planning	**Schedule B (3)**

3.1 Introduction

3.1.1 The audit of Pupil Place Planning forms part of the 2015/2016 Internal Audit plan.

3.1.2 Under Section 14 of the Education Act 1996 a local authority has a statutory responsibility to ensure that primary and secondary schools in its area are sufficient in number, character and equipment to provide education suitable for the different ages, abilities and aptitudes and special educational needs of pupils of school age.

3.1.3 In addition, the Childcare Act 2006 placed duties on all local authorities to secure sufficient childcare, so far as is reasonably practicable for working parents, or parents who are studying or training for employment, for children aged 0-14 (or up to 18 for disabled children).

3.1.4 Therefore, the London Borough of Havering, as a strategic commissioner, has a responsibility to monitor the supply and demand for places and ensure there is sufficient capacity to meet demand by planning for growth.

3.1.5 The number of primary age pupils is expected to continue rising significantly from 19,834 in 2013-14, to 23,333 in 2018-19, which is more than 3,000 extra pupils over the next five years.

3.1.6 Secondary age pupils (Years 7-11) in Havering schools is expected to rise significantly from 15,038 in 2014-15 to 18,051 in 2023-24. Longer term strategic forecasts indicate a further increase in pupil numbers.

3.2 Objectives and Scope

3.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance that:
- Compliance with relevant Legislation and sector specific guidance;
- Pupil projections/ forecasts are complete, accurate and timely; and
- The agreed plan is being implemented.

3.2.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:
- Lack of Strategy/ Forward planning;
- Base data is incomplete, inaccurate and/ or out of date;
- Pupil Number Projections/ Forecasts are incomplete and/ or inaccurate;
- Pupil Projections/ Forecasts are not produced in a timely manner;
- The delivery of additional pupil places is not being implemented; and
- Additional pupil places being planned do not accurately reflect the future need.

3.3 Summary of Audit Findings

3.3.1 The approval for all school expansions has to go through Cabinet approval via an Executive Decision. This process cannot be progressed until the Cabinet Report

regarding the next phase has been approved. Due to the timescale following the agreement of the Cabinet Report and the need for the school places to be realised the process regarding the Executive Decision has not always been followed in full.

3.3.2   An audit of Capital Works in Schools is currently being undertaken and therefore this issue will be covered in more detail as part of that audit. Therefore no recommendations have been raised.

3.4   Audit Opinion

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

3.4.2   The audit makes no recommendations.

| **Troubled Families Grant – January 2016 Grant** | Schedule B (4) |

4.1 Introduction

4.1.1 The Troubled Families programme was first launched in 2012 and has been further expanded into Phase 2 which began during 2015/16. To be eligible for the expanded programme each family must meet two out of the six national or local criteria as detailed in the Troubled Families Outcomes Plan (TFOP). A payment by results (PBR) claim can be submitted as soon as the turnaround of the troubled family can be determined under the significant and sustained progress / outcomes as detailed in the TFOP and evidenced by relevant sources.

4.1.2 For this phase a Financial Framework for the Expanded Troubled Families Programme has been issued by the Department for Communities and Local Government (DCLG) which outlines a specific role for Internal Audit. This included consultation during the development of the TFOP and also some on-going sample testing, checks and verification prior to each claim being made.

4.1.3 Some initial work was carried out in November 2015 to review the documents, forms and processes in place to ensure that there are sufficient controls to prevent invalid claims being submitted.

4.2 Objectives and Scope

4.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee assurance regarding the validity of the claim.

4.2.2 This review selected a representative sample for testing from the claims that are due to be submitted for the January 2016 claim window. A total of 61 claims are due to be submitted and a sample of 10 was selected for testing.

4.3 Audit Findings

4.3.1 There were no significant issues arising from the sample testing carried out. A small number of housekeeping issues were identified including:
   - Ensuring confirmation that the family member is still in employment; and
   - Where more than two criteria are identified on the nomination form that only those that have been successfully turned around are updated on the claim form.

An exit meeting was held with the Troubled Families Business Support Manager and the above issues highlighted. Action was taken immediately by the manager so as a result no recommendations are being raised.

4.4 Conclusion

4.4.1 The sample testing found no issues with the validity of the claim for January 2016.

3rd Party Connections	Schedule B (5)

5.1 Introduction

5.1.1 Direct connections to external entities are sometimes required for business operations. These connections are typically to provide access to suppliers, customers or partners for service delivery. Since the council's security policies and controls do not extend to the users of the third parties' networks, these connections can present a significant risk to the network and thus require careful consideration.

5.1.2 Technologies that allow greater interconnectivity, such as dialup access or the internet, bring new threats from outside of the organisation. Third parties must, therefore, be engaged as part of the process in controlling network security.

5.1.3 The council has a number of third party organisations that can access the council's systems via the VPN 3000 Concentrator to perform different tasks, at various levels.

5.2 Objectives and Scope

5.2.1 To confirm that there is an adequate control environment that enables third party users to access the council's systems, without allowing our systems to be compromised from internal or external threats.

5.3.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:
- Agreements may not be signed by officers with the relevant authority thus acting ultra vires;
- Third parties may not be aware of their roles and responsibilities when accessing the council's network;
- Third party organisations may not provide adequate assurances that they are compliant with the terms of the CoCo agreement;
- Access to the council's network may be provided to organisations that have not been risk assessed;
- Risk assessments performed on third party organisations may not be sufficient;
- A listing of all third party organisations with a connection to the council's network may not be maintained;
- Unclear ownership;
- Adequate segregation of an organisation's access to the council's network may not have been performed;
- Users may not have a unique log-on identifier;
- Firewalls may not be located in the most effective location;
- The firewalls are not configured to provide adequate protection to the council from unwanted intrusion;
- Access to the council's network is not sufficiently restricted by the use of tokens;
- Access by third party organisations may not be promptly terminated when an organisation no longer requires access;

- Without multifactor authentication the network may not have a secondary layer of security to provide protection from unauthorised access;
- Traffic flowing between the council and third parties may not be suitably encrypted;
- An adequate and effective audit trail may not exist; and
- Exception reporting may not be performed to monitor and review exceptional items

5.3   Summary of Audit Findings

5.3.1   Code of Connection agreements are not always signed and dated; neither does any monitoring take place to ensure that this is being done.

5.3.2   There were no specific procedures or policies in place detailing how third parties should be setup, managed, monitored etc.

5.3.3   Protocols to ensure and monitor that access was promptly terminated where a third party no longer required access to the council's network were not inadequate.

5.3.4   A list of all third party organisations that can access the council's network including the maintenance of the key contact for each organisation was not fully up to date and 10 third party usernames with access to the council's network could not be verified as either organisations or individuals with legitimate business needs to access the network.

5.3.5   Sufficient management, monitoring and examination of the statements made by third party organisations, to confirm their compliance is not within expected standards.

5.3.6   One third party user was identified with access to the council's "Domain Admins" group, which allows users of that group to have domain administrator access to the council's network and 20 third party users were identified with access to 31 key task/role groups within the council's network, which ultimately allowed them access to critical areas of the network

5.3.7   Examination of the 17 organisations with CoCos in the SharePoint portal identified that the Risk Assessments section of the agreement was not always either completed or fully completed by third parties neither was the compliance assessment always completed by council staff and relevant action taken where required as a result of non-compliance.

5.3.8   Third party individuals accessing the council's network do not all have a unique username and a password that is only known to them. There were numerous generic usernames that were in use by third party organisations for accessing the council's network; and third party usernames are prefixed with the letters "Adm", which is also the prefix used to identify officers with system administrator access.

5.3.9   At the time of the audit it was noted that the VPN 3000 Concentrator which is used to provide third parties with access to the council's network, was not configured to enable multi-factor authentication.

5.4   Audit Opinion

5.4.1   A **limited assurance** opinion has been issued for the following reasons:
- On a fundamental level, the system of control is weak and there is evidence of non-compliance with the controls that do exist.
- High risk weaknesses have been identified in relation to:
  - Authorisation and review of Code of Connection agreements (CoCos);
  - Roles and responsibilities;
  - Termination of network access;
  - Third party organisation contacts;
  - Clauses and assurances within CoCo agreements; and
  - Network access.

5.4.2   ITIL Process Maturity Rating:

The control environment for third party connection was identified as most closely aligning with the **repeatable stage** (please see Appendix 1 for further information). Third party connection is recognised and resource and focus is allocated to it; however, some activities are un-coordinated, irregular and lack direction.

5.4.3   The audit makes six high and three medium priority recommendations which comprise the need for:

High
- All third party organisations requiring access to the council's network should have a signed and dated CoCo agreement with the council. CoCo agreements require some knowledge of ICT protocols. Therefore sufficient information should be provided to ensure that officers from third party organisations who sign these agreements are suitably designated to do so.
- A policy document should be drawn up that clearly sets out the roles and responsibilities of officers and the expected process to be followed when setting up third party access. This should be cascaded to all relevant members of staff.
- A review of third party users with access to the council's network should be performed as soon as possible. Third party users with access to the council's network should have their credentials monitored at least every six to twelve months to ensure that users no longer requiring access have their access rights terminated promptly.
- A list of key contacts from third party organisations should be maintained, annually reviewed and kept up to date. This will aid in managing and monitoring third party access. An investigation should be conducted to identify why there were organisations with third party access that were not on the list maintained on SharePoint. The investigation should include the organisations identified that could not be verified as having legitimate business needs for accessing the network.
- The officer responsible for performing the risk assessment should ensure that all sections of the CoCo are correctly completed by third party organisations prior to providing them with access to the council's network. Consideration should be given to:

- Updating the CoCos with a view to removing the section that requires SME organisations to only answer the three control questions highlighted in blue type font on the CoCo;
- Including the ICT Code of Conduct and the Information Security Policy as part of the pack sent to third party organisations, with a view to them agreeing to adhere to these documents as part of the CoCo agreement; and
- Updating the CoCo agreement with a clause requiring organisations to confirm that they agree not to disclose any personal or sensitive information obtained from the council's network.
- Periodic examination of the access rights granted to third parties should be performed at least annually to ensure that their access rights are in line with business requirements.

Medium

- The officer responsible for performing risk assessments on CoCos should ensure that all sections of the CoCo are correctly completed by third party organisations and the level of compliance section is also appropriately completed prior to providing access to the council's network.
- All third party users requiring access to the council's network should have a unique user name and password that is only know to the individual requiring access. However, where this is not possible, a list of users with access to a generic password should be provided by third party organisations. A unique prefix denoting third party usernames on the council's domain should be adopted as part of the naming convention for third party usernames.
- Consideration should be given to have the VPN 3000 Concentrator enabled as soon as possible to allow multi-factor authentication to be used for third parties accessing the council network.

Appendix C: List of High Risk Recommendations and status

Of the 26 high priority recommendations due, 19 have been completed, 1 has been superseded and 6 remain in progress

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
12/13	Transport	Asset Management	Management should ensure that: • Members of staff should submit CRB renewals prior to expiration; • CRB renewals are followed up if a response has not been received in a timely manner; and • Members of staff should not be permitted to work with vulnerable people if a CRB renewal has not been submitted or a response has not been received in a timely manner.	Complete
14/15	Gas Safety (Building Services)	Housing Services	Procedures are documented and communicated so that contractors know what processes to follow in the event of them finding a property that is over occupied or in an uninhabitable state of repair or if they suspect a vulnerable person is subject to neglect or abuse.	Complete
14/15	TMO's	Housing Services	Management to either utilise the consultant used by the TMOs or enlist some additional, experienced resource to assist in brokering discussions with the TMO to ensure the MMA is updated, fit for purpose and is agreed and signed by all parties as soon as is possible.	Complete
			A process map to map the risks LBH need to manage with regards TMO's areas that require monitoring and starting objectives should be developed prior to agreeing the MMA.	In Progress
			Recognition in the Homes & Housing Risk Register of the potential risk to LBH in the event of a disaster or financial failure by a TMO.	Complete
14/15	PARIS System	Exchequer & Transactional Services	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.	Complete

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			1. Audit trail reports should be extracted from the system and they should be reviewed by an appropriately senior officer on a regular basis. 2. The Senior Team Leader (Systems and Reconciliations) should consider the production and review of regular exception reports. Information that should be monitored includes, but is not limited to, unusual login times, repeated failed logon attempts, repeated daily password changes and unusual high frequency usage.	Complete
			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. As a minimum, the data recovery process should be validated in a test environment.	In Progress
14/15	Manor Green PRU Follow Up	Children's Services	Declarations of Interest should be signed (annually) by all members of the Management Committee and those staff involved in financial processes / making financial decisions for the College.	Complete
			The SFVS for the financial year 2015/16 should be completed and approved by the Management Committee, before being submitted to the Council's LMS Team.	Superseded
			The College's performance targets should be clearly documented, ensuring that sufficient systems are in place to capture the information needed to monitor performance.	Complete
			A College Improvement Plan should be documented and made available to all staff. This plan should clearly identify: · Objectives; · How success will be achieved; · Responsible Officer; and · Any cost / resource implications (linked to the budget).	Complete
			The College should clarify the current arrangements for all campuses and where necessary ensure that appropriate service level agreements are in place setting out responsibilities and applicable costs.	In Progress

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			The College should produce a documented Asset Management Plan setting out remedial and improvement related works across all sites, including: · Priority of the work; · Estimated costs; and · Expected timescale for completion.	In Progress
			Emergency Planning / Business Continuity arrangements covering both the College and the individual campuses should be documented and made available to all staff.	In Progress
			All staff should be required to complete a driving declaration that identifies whether they use their car for work purposes. For those that declare they do use their car for work purposes, the full driving checklist should be completed to verify eligibility.	Complete
			The College must register with the Information Commissioner for Data Protection.	Complete
			The College should ensure that appropriate records are maintained at each campus of all assets. Records should be checked annually for accuracy and results reported to the Management Committee.	Complete
			Formal budget monitoring should be undertaken and documented. This should include explanations of variations to projected spend and should be submitted to Committee members in advance of meetings to ensure sufficient time is available for the information to be analysed before the meeting.	Complete
			Bank reconciliations should be: · Completed regularly (in line with Financial Regulations / Finance Policy); and · Appropriately signed by the Executive Head; and Submitted to LMS by the deadline.	Complete
			The College should drive down the number of retrospective orders being placed, to allow funds to be committed against the budget at the earliest opportunity and ensuring the accuracy of budget monitoring processes.	Complete

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			Key procurement documents to be in place and signed by an appropriate authorised signatory in line with corresponding financial limits.	Complete
			The College should ensure that all petty cash and charge card procedures have been embedded at each of the campuses and that all documents are sufficiently completed / signed to evidence compliance with these procedures.	Complete
			Timesheet information should be supplied to the Business Manager to allow checks on the payroll report to include checks on these payments.	Complete
			The College should engage with the Council to explore the possibility of using Personnel Links to allow efficient and effective monitoring of payroll related payments.	Complete
14/15	Responsive Maintenance	Housing Services	Work should be undertaken to investigate and resolve the issues with the data interface between systems to ensure that only accurate information is being used.	In progress

This page is intentionally left blank

Havering
LONDON BOROUGH

AUDIT COMMITTEE
10 May 2016

Subject Heading:	Outstanding Audit Recommendations
CMT Lead:	Jane West, Managing Director oneSource
Report Author and contact details:	Phil Harris, Principal Auditor (Systems & Risk Management) Tel: 01708 432616 Email: phil.harris@onesource.co.uk
Policy context:	To advise the Committee on progress to implement the recommendations raised in prior years by Internal Audit.
Financial summary:	N/A

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

Havering will be clean and its environment will be cared for	[X]
People will be safe, in their homes and in the community	[X]
Residents will be proud to live in Havering	[X]

SUMMARY

As part of the quarterly composite Audit report, the Audit Committee receives an update on the number of outstanding audit recommendations from audits undertaken. This report presents the annual review of recommendations undertaken and is presented to the Committee to enable members to consider the risk arising from recommendations due but not implemented.

Auditors are responsible for audit recommendations until they are implemented. The report detail includes information about this year's process to update the recommendations and Appendix 1 contains the full list of outstanding recommendations.

RECOMMENDATIONS

1.   To note the contents of the report.

2.   To raise questions for management regarding progress and risk presented from the recommendations not being implemented.

REPORT DETAIL

The annual full review of recommendations has taken place; all recommendations have been reviewed and updated. The auditors who raise the recommendations are responsible for monitoring and obtaining an update when the deadline is reached. The Principal Auditor (Systems and Risk Management) is responsible for quality review of this work.

Management are asked to provide updates regarding recommendations and a sample is confirmed as complete via audit testing.

Following this year's annual review there are 23 recommendations on the outstanding list (5 High, 16 Medium and 2 Low risk recommendations).

3 relate to 2012/2013.
1 relate to 2013/2014.
17 relate to 2014/2015 (5 High recommendations).
2 relate to 2015/2016.

The recommendations will continue to be followed up on a quarterly basis and summary tables presented to the other quarterly Audit Committee meetings.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report

<div style="border:2px solid black; display:inline-block; padding:10px; text-align:center; font-weight:bold;">BACKGROUND PAPERS</div>

Update reports provided quarterly to the committee

This page is intentionally left blank

Year	Audit Ref.	Name of Audit	Rec No	Recommendation	Priority	Responsible Officer	Implementation Date		Position / Progress to Date
							Original	Latest Revised	
12/13	FC0108	iProcurement	1	The Financial Framework should be updated to take into account the existence of iProcurement and the role this plays in procuring goods/services.	Low	Operational Manager ISS	31/12/13	30/06/16	**July 2013 Update -** Will not be progressed until clear on One Oracle processes and have a stable system in place. **September 2014 Update -**The Financial Framework is being reviewed following the formation of oneSource. The review will take into account the alignment of processes within Havering and Newham and the implications of the One Oracle implementation. **April 2015 Update -** Followed up as part of the Budgetary Control Audit. In the process of updating all documents. Phil Gable is leading a focus group to update the Financial Framework alongside Operational Finance staff **March 2016 Update -** The budget monitoring section of the Financial Framework/Guidance has been updated to reflect the importance and use of iProcurement and encumbrance information. Work is on going to ensure this is reflected in other relevant areas of the guidance, but the completion of this has been delayed with the delay in implementing One Oracle at Newham and the consequent alignment of processes.
12/13	FC0104	Transport	1	Procedure Manuals should be developed and maintained for all processes within the administration of the Transport Section. All process documentation should be subject to regular review and appropriate version control should be established documenting the author and date of review.	Med	Fleet Manager	31/07/13	31/12/16	A procedure manual / protocol for Vehicle Fleet replacements has been completed. Other procedure manuals are still in progress. **August 2014 Update -** Revised implementation dates due to Transport Standards (policy) changing in line with FORS Bronze & Van Excellence. **April 2015 Update -** Revised implementation dates due to Transport Standards (policy) changing in line with FORS Bronze & Van Excellence. Delayed due to restructuring and change in staff roles, expected new manuals by December 2015. **December 2016 Update -** No update received. **March 2016 Update -** Key procedures have been documented, resulting in the service retaining its FORS Van Excellence accreditation. However, resourcing and other priorities are such that it will not be realistic to draft a procedures manual for all remaining activities until later this year.
12/13	FC0109	Accounts Payable	1	Financial Framework to be updated to include processes for payments through Internal Shared Services.	Med	Operational Manager ISS	30/04/14	30/06/16	**April 2015 Update -** Followed up as part of the Budgetary Control Audit. In the process of updating all documents. Phil Gable is leading a focus group to update the Financial Framework alongside Operational Finance staff **March 2016 Update -** The update to the Financial Framework/Guidance is on going but has been delayed due to the delay in implementing One Oracle at Newham and the consequent alignment of processes

Year	Audit Ref.	Name of Audit	Rec No	Recommendation	Priority	Responsible Officer	Implementation Date		Position / Progress to Date
							Original	Latest Revised	
13/14	HH0027	Tenancy Management	11	The updated Management Agreement with TMOs to be formally agreed and signed off by all relevant parties.	Med	Community Support Services Manager.	31/01/14	31/07/16	**October 2013 Update -** The timeline for agreeing the revised management agreement has been moved back to the end of December. **January 2014 Update -** Some issues with TMOs (previously highlighted to audit) have delayed. Still believed to be imminent. **IA F. UP 01/10/14 -** The Modular Management Agreement (MMA) has still not been amended, agreed and signed by all relevant parties. This recommendation has been covered as part of that audit in greater detail but does currently remain outstanding. **January 2015 Update -** The MMA is nearly completed and in consultation with the TMOs. A meeting should be held within the next couple of weeks to look at finalising. **April 2015 Update -** The MMA is nearing completion with the progress of each chapter as follows: Chapter 1 - Needs site plans, Update of supervision notice policy and procedure, TMOs providing current constitution. Chapter 2 - Revising wording on condensation. Chapter 3 - Finalised. Chapter 4 - Adding a paragraph on CCTV then finalised. Chapter 5 - Awaiting schedules 2 & 3 from TMO consultant, Calculations – answered question on uplift on 23 April. Chapter 6 - Sending Marina's comments to TMOs 24 April. Chapter 7 - Awaiting response regarding complaints procedure from Corporate Complaints. Chapter 8 - KPIs – Review at meeting on 30 April. **Sept 2015 update -** The allowance for the TMOs are to be revised and this work is not yet completed. The TMOs will be issued with the revised allowance for 2016/17 by 31 December 2015. Re negotiations on the new management agreements can then resume and we expect to complete this by 31/3/16. **March 2016 Update -** Revised implementation date 31/07/16.
14/15	CAH001	Gas Safety (Building Services)	1	The Landlords Gas Safety Policy should be reviewed and updated to ensure it is line with current legislation and service requirements and to be LBH Homes and Housing Gas Safety Policy. The Policy document should then be submitted to and approved by the Head of Service.	Med	Building Services Engineer	31/12/14	31/12/15	**December 2014 -** This is with legal services as they are looking at a way to get our officers authorised warrant holders under EPA without the need to change the Constitution but will require delegation from the public protection area. Waiting for further advice. Would need to speak to Stephen Doye of Legal Services for a revised date. I have chased on several occasions. **April 2015 Update -** The new procedures relating to the EPA method of gaining entry too hard to access properties have yet to be agreed. The EPA method has been approved by both our legal and environmental health departments. I have sent my Senior Manager the notice of delegation of responsibility for functions document which needs to be signed by Andrew Blake Herbert, Group Director, Assistant Director or Head of Service delegating functions. I will send you the delegation of responsibility for functions attachment on a separate e-mail. As soon as this has been approved and signed by the appropriate officers, I will arrange to respond to these recommendations and include timeframes. **August 2015 Update -** Still waiting for approval of the EPA. **October 2015 Update -** The EPA has recently been agreed and we are currently liaising with the new Shared Services Legal team and the Newham Gas Team in order to set up this new process. We have started revising the new Gas Safety Policy & Procedure to reflect this process. Once completed this will be forwarded to the head of service for approval. If all goes to plan, I estimate it will take approximately 2-3 months from now before the Policy & Procedure is updated & signed off. **December 2016 Update -** No update received. **March 2016 Update -** No update received.
14/15	CAH001	Gas Safety (Building Services)	2	The updated Landlords Gas Safety Policy should be included on the Councils / Homes and Housing internet page.	Low	Building Services Engineer	31/01/15	31/12/15	
14/15	CAH001	Gas Safety (Building Services)	3	Building Services Team Procedures to be reviewed and updated to take account of current service requirements.	Med	Building Services Engineer	31/12/14	31/12/15	

| Year | Audit Ref. | Name of Audit | Rec No | Recommendation | Priority | Responsible Officer | Implementation Date | | Position / Progress to Date |
							Original	Latest Revised	
14/15	SC0088	TMO's	6	Expectations over calculation of leaseholder charges should be made in the MMA and guidance provided to TMOs to ensure uniformity of charging.	Med	TMO Co-ordinator / Home Ownership Manager	28/02/15	31/07/16	**April 2015 Update**- Not yet started, **December 2015 Update**- All the information has been collated from the TMOs and from the Home Ownership Team. Now the Home Ownership Team have finished sending out and dealing with the enquiries from the actuals work can be completed on ensuring continuity in the TMO information and included in the MMA. New target date 31 December 2015. **February 2016 Update** - A calculation sheet is being designed for each of the TMOs to complete so that there is continuity across the board. This will then be included in the MMA with guidance notes for future reference. Revised implementation date 31/3/2016. **March 2016 Update -** Revised implementation date 31/07/16.
14/15	CM0087	PARIS	3	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. As a minimum, the data recovery process should be validated in a test environment.	High	ICT Applications Manager	31/12/15	30/04/16	**December 2015 Update** - A service request has been raised with Northgate to kick off the process required to carry out this request (the SR is to back up our current live into test). Once this has been completed our ICT will be carrying out a full data recovery into our test environment. **March 2016 Update -** There has been a delay and the reason due to development work going on in the test system. This would be overwritten when we do the restore. We should be able to perform the restore around mid April assuming that testing goes to plan.
14/15	CAH011	Manor Green College	5	The Colleges Financial Policy and Procedures document should be: · Reviewed to ensure the document is complete; · Updated to reflect current staff and processes; · Approved by the Management Committee; and · Distributed to all staff.	Med	Head of College	31/07/15	01/05/16	**September 2015 Update -** A Temporary Working Structure has been agreed and staff are currently being recruited. The School Business Manager will be amending the Finance Policy once all posts have been filled and processes around the revised structure have been established. **December 2015 Update -** Following recruitment to several posts and a restructure of the chart of accounts to facilitate effective devolved budget management, this recommendation is scheduled to be completed on time. **March 2016 Update -** However, an IEB has since been implemented which have amended the Management structure of the college. A meeting has been set up for 11th April with the chair to discuss budgets, budget holders and financial policies. Therefore, the deadline has been put back.
14/15	CAH011	Manor Green College	7	The College should clarify the current arrangements for all campuses and where necessary ensure that appropriate service level agreements are in place setting out responsibilities and applicable costs.	High	Head of College	31/07/15	01/05/16	**September 2015 Update -** A meeting was due to take place between the Head Teacher of Oglethorpe School and the School Business Manager in July 2015. This meeting was postponed to allow the School Business Manager to carry out interviews for the vacant posts. The meeting has been rearranged. Any agreement would now relate to the use of the space in the following financial year. **December 2015 Update -** The college is still waiting for Oglethorpe School to arrange a meeting to discuss on-going arrangements. However, it is apparent that any such SLA will now be superseded by the pending transition to academy status. Nevertheless, it has yet to be confirmed with the college, what financial contribution it is expected to make to the school for 2015-16. The college also occupies buildings owned by LBH at Birnam Wood and Green Vale. No SLA documents have been provided by the Local Authority for these premises. **March 2016 Update -** A meeting took place on 23/3/16 with JO School and LBH. The school will circulate an SLA to all stakeholders in April for their consideration. The recharge for 2015-16 has also been agreed between the school and the college. A further meeting between the college and The Robert Beard Centre regarding premises occupying their site has been arranged for April 2016.

| Year | Audit Ref. | Name of Audit | Rec No | Recommendation | Priority | Responsible Officer | Implementation Date | | Position / Progress to Date |
							Original	Latest Revised	
14/15	CAH011	Manor Green College	8	The College should produce a documented Asset Management Plan setting out remedial and improvement related works across all sites, including: · Priority of the work; · Estimated costs; and · Expected timescale for completion.	High	Head of College	31/07/15	01/03/16	**September 2015 Update -** A Property Condition Survey was carried out in April 2015 that identified approximately £137k of actions at Manor Green Campus. Action is now needed to pull all actions into a plan identifying when action will be taken and how this will be funded, although there is no surplus budget available for these works to be completed this financial year. **December 2015 Update -** This will be subject to the Academisation process. Following the Stock Condition Survey at Manor Campus, some H&S issues have been addressed, although due to limited budgets and measures implemented by LBH, the majority of works remain outstanding. The Local Authority have made a couple of subsequent inspections and have identified works to be carried out as a matter of urgency.
14/15	CAH011	Manor Green College	9	Emergency Planning / Business Continuity arrangements covering both the College and the individual campuses should be documented and made available to all staff.	High	Head of College	31/07/15	01/05/16	**September 2015 Update -** This recommendation remains outstanding. **December 2015 Update -** This is being compiled and will be in place by the deadline. **March 2016 Update -** The authority are also being consulted on this as it now appears that there is a borough wide plan available than can be utilised
14/15	CAH011	Manor Green College	22	The College should engage with the Councils LMS Team to investigate the potential to use FMS for raising cheques.	Med	Head of College	31/08/15	?	**September 2015 Update -** The College are in the process of introducing the use of BACs as the main method of payment. Work has been undertaken to set all frequent suppliers within the system. Manual cheque books will continue to be used for those instances where BACs is not a viable method of payment. **December 2015 Update -** Partially Complete - All frequent suppliers have been set up on FMS for BACS payments. A robust method of authorisation is still to be completed. This will be addressed in line with the finalisation of the College's Financial Policy & Procedures document. Estimated date of completion January 2016 **March 2016 Update -** With the pending conversion to an Academy, we have been advised by the bank to postpone until this has been finalised.
14/15	CAH004	Responsive Maintenance	1	Work should be undertaken to ensure that all key performance indicators set out within the contract are being monitored and that data is being provided for all indicators within the performance spreadsheet.	Med	Maintenance Manager, Homes & Housing	30/10/15		**December 2016 Update -** No update received.
14/15	CAH004	Responsive Maintenance	2	Work should be undertaken to investigate and resolve the issues with the data interface between systems to ensure that only accurate information is being used.	High	Maintenance Manager, Homes & Housing	30/10/15		**December 2016 Update -** No update received **March 2016 Update -** No update received
14/15	CAH004	Responsive Maintenance	3	Feedback from operatives as to the accuracy of the job order and the priority allocated to be made a mandatory requirement to ensure that sufficient information is available to carry out robust compliance checks.	Med	Maintenance Manager, Homes & Housing	31/12/15		**December 2016 Update -** No update received **March 2016 Update -** No update received
14/15	CAH004	Responsive Maintenance	4	Compliance checking exercises should be established between the Responsive Repairs Team and the Contact Centre to ensure all activity is compliant with expectations and procedures.	Med	Maintenance Manager, Homes & Housing	31/01/16		**March 2016 Update -** No update received
14/15	CAH004	Responsive Maintenance	5	Regular review of duplicate job orders should be undertaken to assess whether these orders are a result of poor performance.	Med	Maintenance Manager, Homes & Housing	31/01/16		**March 2016 Update -** No update received
14/15	CAH004	Responsive Maintenance	6	Regular monitoring of financial reimbursements to tenants by the Council should be undertaken and recharged in a timely manner.	Med	Maintenance Manager, Homes & Housing	31/01/16		**March 2016 Update -** No update received

Year	Audit Ref.	Name of Audit	Rec No	Recommendation	Priority	Responsible Officer	Implementation Date		Position / Progress to Date
							Original	Latest Revised	
14/15	CAH004	Responsive Maintenance	7	Management information needed to carry out contract monitoring should be accessible by the Responsive Repairs Team.	Med	Maintenance Manager, Homes & Housing	31/01/16		**March 2016 Update -** No update received
15/16	RS0017	Accounts Payable	1	A robust process for reporting issues of non-compliance in regards to both the late submission of invoices for payment and approval of invoices by unauthorised signatories should be established.	Med	Head of Transactional Finance Services	31/03/16	31/05/16	**March 2016 Update -** A late payment report will be produced monthly highlighting all invoices received in payments 20 days from receipt or 22 from invoice date. This report will be grouped by cost centre based on HoS responsibility and emailed out to HoS for information and further action. Penalties for late payment will also be charged to relevant cost centres on a monthly basis. The charge will be of a value basis on current known guidelines.
15/16	RS0018	Accounts Receivable	2	Action should be taken to implement the necessary changes suggested in order to reduce the number of payments that are being unnecessarily directed to the lockbox.	Med	Head of Transactional Finance Services	31/03/16	31/05/16	**March 2016 Update -** We have a resolution , which is currently in the test phase, to include the invoice number as part of the receipt information once testing is complete this can be used for all payments going onto the live system.

This page is intentionally left blank

Havering
LONDON BOROUGH

AUDIT COMMITTEE
10 May 2016

Subject Heading:	Annual Report of the Audit Committee
CMT Lead:	Jane West, Managing Director oneSource
Report Author and contact details:	Sandy Hamberger, Interim Head of Internal Audit
	Tel: 01708 434506
	Email: sandy.hamberger@oneSource.co.uk
Policy context:	The Annual report on the work of the Audit Committee.
Financial summary:	N/A

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

Havering will be clean and its environment will be cared for   [X]
People will be safe, in their homes and in the community   [X]
Residents will be proud to live in Havering   [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 2015 to March 2016 and outlines:

- 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 Statement of Accounts, Treasury Management and Role of Audit Committee.

- 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

<div style="text-align: center">

BACKGROUND PAPERS

</div>

None

This page is intentionally left blank

Havering
LONDON BOROUGH

ANNUAL REPORT ON THE WORK OF THE AUDIT COMMITTEE

APRIL 2016

1.   Introduction

1.1   This report covers the period April 2015 to March 2016 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 April 2016)

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

Internal Auditors: oneSource

External Auditors: Ernst & Young (EY)
                    Previously 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 in 2016/17 as part of the oneSource service integration and joining of the third partner.

6.   Work to ensure effectiveness of Committee

6.1   The Committee has received dedicated training and awareness sessions on, the Statement of Accounts, Treasury Management and the Role of the Audit Committee and actions from the 2014/5 review of effectiveness. 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 Audit and Accounts Regulations 2015.

7.4   The Committee will focus on the Risk Management arrangements agreed in the revised Risk Management Policy and Strategy at the March 2015 Committee.

7.5   Fraud prevention and detection will continue to be high on the Audit Committees agenda going forward.

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.

<div align="right">**APPENDIX A**</div>

AUDIT COMMITTEE AGENDA ITEMS - FROM APRIL 2015 TO DATE

June 2015
- Closure of Accounts Timetable 2014/15
- Fraud Progress Report
- Internal Audit Progress Report
- Payments to Contractors (Road and Pavement Defects) 2014/15
- Outstanding Audit Recommendations
- Annual Governance Statement
- Annual Audit report
- Training Plan for Audit Committee
- Forward Plan of the Audit Committee
- Audit Plan for 2015/16
- Anti-Fraud and Corruption Strategy
- Urgent Business

September 2015
- Approval of Annual Statement of Accounts 2014/15
- Report to those charged with Governance
- Response to Auditors' Report to those charged with Governance
- Head of Internal Audit Quarter 1Progress Report
- Update Corporate Risk Register
- Anti-Fraud and Corruption Strategy
- Annual Governance Statement
- Urgent Business

December 2015
- Annual Audit Letter 2014/15
- Internal Audit Progress Report – Quarter 2
- Corporate Governance Update
- Risk Management Update
- Urgent Business
- Semi-Annual Treasury Report 2015/16

March 2016
- Closure of Accounts Timetable 2015/16
- Accounting Polices 2015/16
- 2014/15 Audit report of Grant Claims and Returns
- Internal Audit Draft Plan and Strategy
- Combined Internal Audit and Assurance Update Quarter 3
- Update Corporate Risk Register
- Review of Risk Management Policy
- Urgent Business
- Treasury Management Update Quarter 3

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					
Waste Contract Management	Substantial	1	1	1	3
Council Tax	Full	0	0	0	0
Housing Benefit	Full	0	0	0	0
Members Allowance Payments	Limited	1	0	0	1
Service Charges	Substantial	2	2	2	6
Manor Green Pupil Referral Unit	Nil	17	11	0	28
Payroll	Substantial	0	0	0	0
Pensions	Substantial	0	0	0	0
Budgetary Control	Substantial	0	0	0	0
Accounts Payable	Substantial	2	0	0	2
Accounts Receivable	Substantial	3	0	0	3
Responsive Maintenance	Substantial	1	6	0	7
ID Smart Cards	Substantial	N/A	N/A	N/A	N/A
Service Manager (Transactional Services)	Limited	2	4	1	7
Tenant Incentive Scheme	Limited	1	6	0	7
Off Site Storage	Limited	3	3	0	6
i-Procurement	Substantial	0	1	0	1

Report	Assurance	Recommendations			
		High	Med	Low	Total
Service Manager - ICT	Substantial	0	2	0	2
Pupil Place Planning	Substantial	0	0	0	0
Follow Up Audit					
Housing Rents	Substantial	N/A	N/A	N/A	N/A
TMO's	Substantial	N/A	N/A	N/A	N/A
Gas Safety (Home Ownership)	Substantial	N/A	N/A	N/A	N/A
Manor Green PRU Follow Up	Nil	N/A	N/A	N/A	N/A
Long Term Sick	Substantial	N/A	N/A	N/A	N/A
Members Allowance Payments	Full	N/A	N/A	N/A	N/A
Computer Audit					
Malware	Substantial	N/A	N/A	N/A	N/A
Release of Software Follow Up	Substantial	N/A	N/A	N/A	N/A
3rd Party Connection	Limited	6	3	0	9
Schools Audit					
Ardleigh Green Infant School	Full	0	1	3	4
Ardleigh Green Junior School	Substantial	1	4	4	9
Corbets Tey School	Full	0	0	1	1
Crowlands Primary School	Substantial	0	2	2	4
Elm Park Primary School	Substantial	2	2	1	5
Hilldene Primary School	Substantial	0	5	1	6
Hylands Primary School	Substantial	2	7	1	10
La Salette RC Primary School	Substantial	0	3	2	5
Nelmes Primary School	Substantial	1	6	6	13
Parklands Infants School	Substantial	0	3	3	6
Rainham Village Primary	Full	0	2	6	8
Scargill Junior School	Substantial	1	4	3	8
Scotts Primary School	Substantial	1	0	4	5
St Josephs RC Primary School	Substantial	2	6	4	12
St Peters RC Primary School	Full	0	1	3	4
St Ursulas RC Infants School	Substantial	0	6	5	11
Suttons Primary School	Substantial	1	2	1	4
The James Oglethorpe Primary School	Substantial	2	2	5	9
The RJ Mitchell Primary School	Substantial	1	3	2	6
Whybridge Infant School	Substantial	0	5	2	7

AUDIT COMMITTEE MEMBERS TRAINING / AWARENESS

Timescale	Session	Coverage	Attendance
September	Finance	Statement of Accounts	Cllr Viddy Persuad Cllr Julie Wilkes Cllr Clarence Barrett Cllr Frederick Thompson Cllr Graham Williamson
December	Finance	Treasury Management	Cllr Viddy Persuad Cllr Julie Wilkes Cllr Clarence Barrett Cllr Frederick Thompson
March	Audit	Role of the Audit Committee	Cllr Viddy Persaud Cllr Julie Wilkes Cllr Clarence Barrett Cllr David Johnson Cllr Graham Williamson

<div align="right">

APPENDIX D

</div>

AUDIT COMMITTEE – FORWARD PLAN / TRAINING

FORWARD PLAN	AGENDA ITEM	PLANNED TRAINING
June 2016	• Internal Audit Annual report 2015/16 • Annual Governance Statement 2015/16 • Committee Forward Plan • Member Training Plan • Accounts Closure Update • Treasury Management Annual Report	Review of Training Needs for Year & Horizon scanning
September 2016	• Annual Statement of Accounts • Report to those charged with Governance • Response to Auditors Report to those charged with Governance • Assurance Progress Report • Treasury Management Update Q1	Accounts
November 2016	• Annual Audit Letter • Closure of Accounts Timetable • Assurance Progress Report • Governance Update • Annual Review of Fraud & Corruption • Annual Review of Risk Management • Treasury Management Update Q2	Fraud Risks
March 2017	• 2015/2016 Audit Report of Grant Claims and Returns • External Audit Plan 2016/2017 • Update of Corporate Risk Register • Internal Audit Draft Plan and Strategy. • Internal Audit Charter and Terms of Reference • Assurance Progress Report Q3 • Annual Review of Audit Committee Effectiveness • Treasury Management Update Q3 • Closure of Accounts Timetable 2016/17 • Accounting policies 2016/17	Procurement
May 2017	• Assurance Progress Report Q4 • Treasury Management Update Q4 • Outstanding Audit Recommendations • Annual Report of Audit Committee	Risk Management

This page is intentionally left blank