



# Havering

L O N D O N   B O R O U G H

## AUDIT COMMITTEE AGENDA

<b>7.00 pm</b>	<b>Wednesday 21 June 2017</b>	<b>Committee Room 3B - Town Hall</b>
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Members 6: Quorum 3

### COUNCILLORS:

**Conservative  
( 2 )**

Viddy Persaud (Chairman)  
Frederick Thompson

**Residents'  
( 1 )**

Julie Wilkes (Vice-Chair)

**East Havering Residents'  
( 1 )**

Clarence Barrett

**UKIP  
( 1 )**

David Johnson

**Independent Residents'  
( 1 )**

Graham Williamson

**For information about the meeting please contact:  
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## **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 - 6)

To approve as correct the minutes of the meeting held on 19 May 2017 and authorise the Chairman to sign them.

### **5 ANNUAL GOVERNANCE STATEMENT 2016/17** (Pages 7 - 28)

### **6 ACCOUNTS CLOSURE UPDATE** (Pages 29 - 32)

### **7 ASSURANCE PROGRESS REPORT QTR 4** (Pages 33 - 50)

### **8 INTERNAL AUDIT ANNUAL REPORT 2016/17** (Pages 51 - 66)

### **9 TREASURY MANAGEMENT ANNUAL REPORT** (Pages 67 - 84)

### **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.

**Andrew Beesley**  
**Committee Administration**  
**Manager**

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**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Committee Room 3B - Town Hall  
9 May 2017 (7.00 - 8.00 pm)**

**Present:**

**COUNCILLORS:**

<b>Conservative Group</b>	Viddy Persaud (in the Chair) and Frederick Thompson
<b>Residents' Group</b>	Julie Wilkes (Vice-Chair)
<b>East Havering Residents' Group</b>	*Alex Donald
<b>UKIP Group</b>	David Johnson
<b>Independent Residents Group</b>	Graham Williamson

Apologies were received for the absence of Councillor Clarence Barrett (Alex Donald substituting) .

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

**33 DISCLOSURE OF INTERESTS**

There were no declarations of interest.

**34 MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 1 March 2017 were agreed as a correct record and signed by the Chairman.

**35 ANNUAL REPORT OF THE AUDIT COMMITTEE 2016/17**

Officers submitted the draft Annual Report, covering the period April 2016 to March 2017, for the Committees approval. The key highlights from the report were:

- The Committee had maintained its usual work plan based on its Terms of Reference;
- The Committee had received briefings on Statement of Accounts, Treasury Management and Role of Audit Committee;
- The Committee had approved accounts compiled in accordance with the International Financial Reporting Standards;

- The Committee had approved the Annual Governance Statement.

A challenge for the Audit Team had been the restructuring of the Audit, Risk and Fraud Teams during 2016/17 as part of oneSource, together with the integration with a third partner, the London Borough of Bexley.

Despite the challenges the Team had successfully delivered against its work plan for the year and responded to management requests for proactive audits. 15 system audits had been completed and 13 school audits completed.

The Committee **agreed** to Annual Report for submission to the Council in June.

### 36 **CORPORATE RISK REGISTER UPDATE (12 MONTHS)**

The Committee received the annual report which provided members with an opportunity to consider the Council's corporate risk register. Risks were managed by individual officers and those which presented the highest risk to the Council's objectives were included in the corporate risk register.

The Senior Leadership Team reviewed the corporate risk on a quarterly basis. As part of that review process the Senior Leadership Team had recently undertaken a risk review workshop to refresh the corporate risk register.

The results from that review had been incorporated into the risk register and an updated version was appended at Appendix A to the report.

The Committee raised concern that digital security had not been identified as a corporate risk. Officers advised that one of the system audits planned for oneSource related to digital security. A specialist outside company would undertake this work. If a risk was identified the Senior Leadership Team would have the opportunity to review the register at its quarterly review.

The Committee noted the report.

### 37 **AUDIT PLAN**

Officers advised the Committee that the Accounts and Audit Regulations required the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) or guidance.

Internal audit was a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provided a simple framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the system's owner
- Third line – independent assurance (Internal audit forms the Council's third line of defence)

An independent internal audit function would, through its risk-based approach to work, provide assurance to each Council's Audit Committee and senior management on the riskier and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

The work of internal audit was critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and formed the basis of the annual opinion provided by the Head of Assurance which contributed to the Annual Governance Statement. It could also perform a consultancy role to assist in identifying improvements to the organisation's practices.

Officers of the Assurance Service had been involved in work with the Section 151 Officer and with senior management to update the Corporate Risk Register. Horizon scanning work had already taken place with Heads of Audit, and through the Croydon Framework to identify common risk and audit themes. These, along with manager requests and audit cumulative knowledge and experience, had formed the basis of the plan. Combined plans had been compiled for the three oneSource member councils. These identified target resources and some common audit themes. These allowed for some efficiency to be driven by utilising acquired skills across boroughs where there were common risks. However, each borough had its own unique objectives and approach to achieving these and these would be audited individually.

The plan was exclusive of Counter Fraud investigations but there was provision for Internal Audit staff to support Counter Fraud work across the 3 authorities on system related work. This a statement of intent and could be revised or amended at any time should higher priority risks or issues be identified, and there was provision to address emerging risk.

The work of the oneSource Internal Audit Team was underpinned by the Audit Charter and Strategy. This had been revised and updated and is attached as an Appendix to these minutes.

The Committee raised questions around the number of hours allocated to each of the three councils and OneSource. Officers explained that the allocation was based on the historical numbers of hours each Council had allocated prior to the creation of oneSource. The intention was that after the first two years the allocation would be reviewed to ensure an equitable allocation. The oneSource Management team had reviewed the number of hours required for oneSource work, across shared services and were satisfied with the allocation.

The Committee approved the Audit Plan, Charter and Strategy.

## **38 ANNUAL FRAUD PLAN UPDATE**

Officers informed the Committee that the counter fraud section produced a work plan annually which detailed the broad areas of work that would take place. The plan had to be responsive to demand as it was not possible to predict precisely the areas that would require investigation. In developing the plan consideration was given to the national fraud picture both in terms of estimated fraud losses, the areas of emerging fraud risks and the local control environment.

The counter fraud team carried out investigations to a criminal standard with the aim of applying a suitable sanction and enabling the council to recover any losses. The audit service also had a role to play in assisting in providing assurance over the control framework and might carry out specific pieces of work that supported the counter fraud agenda.

Historically, the Audit Commission had produced more detailed work covering local government in their publications around Protecting the Public Purse. Unfortunately, the Audit Commission team had been disbanded and the survey used to populate Protecting the Public Purse was no more. However, CIPFA had published a document 'CIPFA Fraud and Corruption Tracker', based on survey responses from a large number of local authorities.

The largest type of fraud according to value was Housing related. This was true in Havering and the Housing Tenancy Counter Fraud project had delivered real results in this area.

The largest source of fraud in pure numbers of attempt related to Council Tax discounts and Housing Benefits. In recent years, councils had shifted their focus from benefit fraud to non-benefit fraud due to the transfer of all benefit investigation from councils to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions.

CIPFA recommended the following:

Public sector organisations should carry out fraud assessments regularly and have access to appropriately qualified counter fraud resources to help mitigate the risks and effectively counter any fraud activity.

All organisations should undertake an assessment of their current counter fraud arrangements.

In line with the Fighting Fraud and Corruption Locally Board suggestion, local authorities should examine and devise a standard and common methodology for measuring fraud and corruption. Once it had been agreed, local authorities should use the measure to estimate levels of fraud and corruption.

It was as important to prevent fraud that had no direct financial interest, such as data manipulation and recruitment, as it was high value fraud

Organisations should develop joint working arrangements where they could with other counter fraud professionals and organisations.

Public bodies should continue to raise fraud awareness in the procurement process, not only in the tendering process but also in the contract monitoring element



Authorities should ensure that anti-fraud measures within their own insurance claims processes are fit for purpose and that there was a clear route for investigations into alleged frauds to be undertaken.

Taking all these considerations into account officers had produced a Fraud Plan for 2017/18.

This was year 3 of the Fraud Team being a oneSource shared service and the Fraud Plan for 2016/17 had seen a new partner join the team in the form of London Borough of Bexley.

This brought extra resources into the team and the added benefit of sharing best practice across all the partners building on the experience of sharing across Newham and Havering that had built up over the past year

The plan for 2017/18 encompassed the three themes taken from the government's fraud strategy Fighting Fraud Locally and takes account of the estimated fraud losses and emerging fraud trend. The three themes were:

- Acknowledge - *Assessing and understanding fraud risks, committing support and resource to tackling fraud, maintain a robust anti-fraud response.*
- Prevent - Making better use of information technology, enhancing fraud controls and process, developing a more effective anti-fraud culture.
- Pursue - *Prioritising fraud recovery and the use of civil sanctions, collaborating across local authorities and with local law enforcement agencies.*

Counter fraud resources would be stretched again in 2017/18 although we had now recruited to the agreed establishment and had been utilising temporary workers where necessary. The sections resources were organised to enable data matching and data analysis to take place to try to detect frauds at the earliest stage possible. This year would see us uploading data sets from Havering's data warehouse onto a system known as IDIS and performing matching exercises from this data to offer a level of assurance as well as an investigative pool of work.

Most of the resources were devoted to carrying out investigations to a criminal standard. The team also had capacity for financial investigations which were undertaken in accordance with the Proceeds of Crime Act and could enable the council to claw back funds from criminals in certain circumstances.

The Committee **noted** the Fraud Plan for 2017/18.

## 39 TREASURY MANAGEMENT UPDATE QTR.4

The Committee received an update on the performance of the Treasury Management Strategy during quarter 4. Officers advised that the average level of funds available for investment purposes in quarter 4 was lower than in quarter 3 but this was as anticipated. For the fourth successive quarter the Council had achieved a higher rate of return than that budgeted for, earning an extra £0.275m.

With the UK Bank rate at just 0.25% the Council will face a challenge to achieve a reasonable yield in 2017/18. On the advice of the council's Treasury Management

advisors the Council will have to consider investing additional cash in secure liquid investments with duration exceeding 364 days. In addition, the S151 Officer would ensure that all for investments, security and liquidity was paramount, before yield.

The Council was in the process of reviewing its Treasury Management Strategy in the light of these challenges.

The Committee considered the detail of deposits as at 31<sup>st</sup> March 2017 and questioned officers around these. Officers agreed to provide further information as requested.

The Committee **noted** the report.

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**Chairman**



## **AUDIT COMMITTEE**

**21 June 2017**

**Subject Heading:**

Annual Governance Statement

**CMT Lead**

Jane West  
Managing Director oneSource

**Report Author and contact details:**

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**Policy context:**

This report presents the 2016/17 Annual Governance Statement for comment and approval.

**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 provides the background for the requirement to produce an Annual Governance Statement (AGS).

The report will update the Committee on progress against the significant governance issues monitored during 2016/17, the status of these issues and the new issues arising from 2016/17 AGS for monitoring in 2017/18.

## RECOMMENDATIONS

1. To comment on the 2016/17 Annual Governance Statement, attached as Appendix 1.
2. To agree the 2016/17 Annual Governance Statement subject to any changes to the draft made as a result of recommendation one.

## REPORT DETAIL

1. The Accounts and Audit Regulations (England) 2015 require the Council to conduct at least annually a review of the effectiveness of its system of internal control and to approve an Annual Governance Statement, prepared in accordance with proper practices in relation to internal control.
2. The Annual Governance Statement is prepared in accordance with the requirements of 'Delivering Good Governance in Local Government: Framework' (CIPFA/SOLACE, 2016).
3. The Council must review its systems of internal control and governance annually and assure itself that its internal control environment is effective. The assurance framework sets out the sources of assurance that are relied upon on to enable preparation of the Annual Governance Statement. These include the work of the internal auditors and of directors and managers within the Council who have responsibility for the development and maintenance of the internal control environment, and also the comments made by the external auditors and other review agencies and inspectorates. The Head of Audit opinion set out in the internal audit annual report forms a key element of the review, as does the Council's work on risk and performance management.
4. The Annual Governance Statement covers all significant corporate systems, process and controls, spanning the whole range of the Council's activities, including in particular those designed to ensure that:
  - the Council's policies are implemented in practice;
  - high quality services are delivered efficiently and effectively;
  - the Council's values and ethical standards are met;
  - laws and regulations are complied with;
  - required processes are adhered to;
  - financial statements and other published performance information are accurate and reliable;
  - human, financial, environmental and other resources are managed efficiently and effectively.
5. The AGS is required to disclose any issues that the Council consider to be significant governance issues. The two issues identified in the 2015/16 Annual Governance Statement, **Scheme of Delegation (LB Havering)** and

**Commissioning and Contracts (including compliance with procurement rules)** are considered to be ongoing issues during 2016/17 that require more actions to be taken during 2017/18. There is also the addition of three other significant issues raised in 2016/17: **Mercury Land Holdings, Projects and Programme Management; and Information Technology and Information Governance**. Actions to address each of these governance issues are set out in the statement and progress will be monitored throughout 2017/18 by the Governance and Assurance Board.

6. Approval of the Annual Governance Statement should be at a corporate level and should be confirmed by the most senior officer (CE) and member (Leader) signing the statement on behalf of the Council. The Council's Constitution delegates the responsibility for approving the AGS to the Audit Committee. The Audit Committee is required as part of its role to consider any corporate governance related issues that need to be referred to the Governance Committee for review.
7. The Annual Governance Statement is subject to audit alongside the Statement of Accounts. The auditors do not give an opinion on the statement as such, but consider whether it reflects their understanding of the Council's governance arrangements obtained through all aspects of their work. They also form a view as to whether the statement adequately discloses any significant governance issues.
8. A draft version of the AGS is attached as appendix 1.

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

There are no financial implications arising directly from commenting on/agreeing the Annual Governance Statement. However implementation of the planned actions set out in the AGS may have financial implications. The expectation is that these will be contained within existing resources. Where this is not the case issues will be raised through the appropriate channels.

Failure to produce a robust AGS could result in adverse comments from the Council's External Auditors.

**Legal implications and risks:**

The Authority is statutorily obliged to conduct a review into the effectiveness of its systems of internal control prepared in accordance with proper practices and to prepare an Annual Governance Statement, which must be approved by the relevant committee (Regulation 6 Accounts and Audit Regulations 2015). Approval of the Annual Governance Statement (subject to any comments on the draft) complies with that requirement.

**Human Resources implications and risks:**

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

**Equalities implications and risks:**

None arising directly from this report.

**BACKGROUND PAPERS**

*Delivering Good Governance in Local Government 2016 (CIPFA/SOLACE).  
2016/17 Annual Governance Statement.*

## **ANNUAL GOVERNANCE STATEMENT**

This statement, from the Leader and Chief Executive, provides reasonable assurance to all stakeholders that within the London Borough of Havering, processes and systems have been established which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to everyone who is served by the Borough.

The Annual Governance Statement is co-ordinated within the Assurance Service and the production and progress of the statement is monitored by the officer Governance and Assurance Board.

### **Scope of responsibility**

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Havering is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The London Borough of Havering is committed to operating in a manner which is consistent with the seven principles of the CIPFA/SOLACE\* *Delivering Good Governance in Local Government Framework 2016 Edition*. This statement explains how the London Borough of Havering has complied with these principles and also meets the requirements of regulations 6(1) (a) and (b) of the Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

### **The purpose of the governance framework**

The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework (detailed in Appendix A to this statement) has been in place at the London Borough of Havering for the year ended 31 March 2017 and up to the date of approval of the statement of accounts.

### **Review of governance effectiveness**

Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based. A further, more detailed, description of our governance framework is included in Appendix A to this statement.

### **Constitution**

The Monitoring Officer keeps the Constitution under continual review, having delegated powers to make amendments arising from organisational changes and legal requirements and to correct errors. Other amendments are considered by the Governance Committee and Council.

### **Governance and Assurance Board**

The London Borough of Havering has an established officer governance group which was reviewed and refreshed for the start of 2016/17 and renamed the Governance and Assurance Board. Membership now includes the S151 officer, the Deputy Director Legal and Governance, the Head of Assurance and the Director of Finance (oneSource) with option to extend membership to meet the demands of the work programme. This Board is charged with reviewing the governance arrangements, overseeing the production of the Annual Governance Statement, monitoring progress against significant issues raised as part of this and reviewing arrangements for Risk Management including having oversight of the Corporate Risk Register.

### **Corporate Leadership Team**

A new Chief Executive was appointed in May 2016, following the retirement of the previous Chief Executive. The Corporate Management Team (CMT) underwent a restructure that saw the deletion of the two previous Deputy Chief Executive roles and creation of Director roles for the following services: Neighbourhoods, Children's Services, Adult Services & Health and Chief Operating Officer incorporating the role of Chief Finance Officer (s151 officer). CMT was re-designated as the Senior Leadership Team (SLT) as a result of the restructure. The back office services are managed for Havering, Newham and Bexley by the Managing Director of oneSource, with eight members of the Corporate Leadership Team (CLT) having a dual role across Havering and Newham and three members across all three.

### **Governance Committee**

The Council's Governance Committee, attended by the Leader of the Council and other Group Leaders, is charged with overseeing the organisation's governance arrangements including the Code of Conduct for Members. During 2016/17 the Governance Committee was given specific delegation by Council to review staff terms and conditions and implement any changes



## **Audit Committee**

The Audit Committee is responsible for monitoring the adequacy and effectiveness of internal audit, the risk management environment, fraud and corruption arrangements and the provision of the external audit service. They receive regular reports in line with this remit and agree the annual audit plan, Annual Governance Statement and revisions to related policies. This monitoring is integral in the process to compile a robust Annual Governance Statement, which is approved by the Audit Committee. Significant governance issues are escalated to the Governance Committee by the Chair of the Audit Committee as required. Approval of the annual Statement of Accounts also falls under the remit of the Audit Committee.

## **Adjudication and Review Committee**

The Adjudication and Review Committee is made up of ten Councillors and is politically balanced. The committee provides members for panels to consider complaints against councillors and also to make up 'Member review' panels (which is the default panel for considering complaints made by members of the public at Stage Three of the Corporate Complaints procedure through a paper exercise). Should a Member Review Panel consider that a complaint warranted a formal hearing it would adjourn and reconvene to hear the matter with the parties present. The Adjudication and Review Committee is also responsible for overseeing and confirming the appointment of 'Independent Persons' or the Independent School Appeal panels which are convened to review permanent pupil exclusions.

## **Overview and Scrutiny**

The Overview and Scrutiny function reviews decisions made by the Executive and other bodies, e.g. National Health Service organisations and the police. The focus of their role is to provide a challenge to decisions made by the Executive and to assist in the development of policy.

In late 2014 a review of the Overview and Scrutiny arrangements was undertaken which led to a revision of its governance structure.

An overarching Board has been established which undertakes all call-in functions and acts as a vehicle by which the effectiveness of scrutiny is monitored and where work undertaken by themed sub-committees is co-ordinated to avoid duplication and to ensure that areas of priority are being pursued.

The Board has subsumed the role of the former Value Scrutiny Committee which oversaw general management matters. The remaining six Overview and Scrutiny Committees have become 'sub-committees' of the new Overview and Scrutiny Board. The Board's membership is politically balanced but includes the Chairmen of the Overview and Scrutiny sub-committees amongst others.

The Overview and Scrutiny Board and the sub-committees have the opportunity to consider performance information within their area of responsibility using monthly Members packs and other relevant performance data.

Each year Overview and Scrutiny is tasked with identifying areas of the Council's work that it wishes to consider in detail, for which purpose task groups comprised of members of the

Board and its sub-committees are set up to research the issue with the assistance of officers and sometimes external bodies and report their findings and recommendations.

### **Local Pension Board**

During 2016/17 the Local Pension Board was formed which oversees the governance of the Pension Fund by the Pensions Committee.

### **Internal Audit (Assurance Services)**

Internal Audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risk. In doing so Internal Audit supports the Chief Finance Officer in their statutory role as Section 151 Officer. Annually the Head of Internal Audit Opinion and annual report provides assurance to officers and Members regarding the system of internal control; this assurance has also been considered in the production of this statement.

The Internal Audit service is part of the oneSource shared arrangement and until July 2016 had an Interim Head of Internal Audit across both boroughs. The review of the audit and assurance function was identified as a significant issue in the 2014/15 Annual Governance Statement. The planned restructure was delayed until 2016/17 to enable the London Borough of Bexley to be included in the review.

In August 2016 the Internal Audit, Counter Fraud and Risk Management Services of all three boroughs were combined and restructured under the Head of Assurance post. There is a close working relationship between the Audit, Counter Fraud, Risk Management & Insurance. If there are perceived weakness in control identified by Counter Fraud or Insurance, Internal Audit are made aware.

### **Risk Management**

The revised Risk Management Policy and Strategy was agreed by the March 2016 Audit Committee. This saw the adoption of a roles and responsibility approach inclusive of the Mayor / Leader, various boards and forums down to an individual level.

The strategic risks to the achievement of the Authority's objectives are captured within a Corporate Risk Register which is overseen by the Governance and Assurance Board and reported to Audit Committee during 2016/17. The Corporate Risk Register was last reviewed and approved by SLT in March 2017, before being presented to the Audit Committee in May 2017.

### **External Inspectors**

The Council is subject to review and appraisal by a number of external bodies; results of such reviews are considered within the performance management framework. The work of the Council's External Auditor, currently Ernst and Young (E&Y) is reported to the Audit Committee. The Committee received a copy of the Audit Letter issued by Ernst & Young following completion of the 2015/16 audit. They had issued unqualified opinions on both the Council's and Pension Fund's financial statements. The Audit Results Report had been issued on 26 September 2016 and the certificate of completion had been issued on 28 October 2016 once they had completed the WGA and Pension Fund work.

The External Auditors were required to consider whether the Council had put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This was known as the value for money conclusion. Ernst & Young had issued an unqualified value for money conclusion on 30 September 2016.

### **Information Governance and Security**

The council's ICT infrastructure is subject to external and independent scrutiny mandated by the government. The Public Sector Network (PSN) compliance is required and managed by the Cabinet Office. The council carried out penetration tests in May 2016 and remedial actions required have been carried out.

There were three incidents relating to disclosure of information investigated by the ICO in 2016/17. These incidents were investigated by the Information Commissioner's Office (ICO) and each case was found to have been caused by an administrative error. Controls and procedures in place at the time of each incident were considered by the ICO to be adequate and aside from some improvements that were recommended and implemented for the incident in May 2016, no further action was taken.

### **Significant governance issues 2015/16**

The issues identified in the 2015/16 Annual Governance Statement have been monitored by management and the Governance and Assurance Board throughout the year with review periodically to challenge actions and progress by both the Senior Leadership Team and the Audit Committee.

1. Scheme of Delegation – This primarily related to the oneSource joint Scheme of Delegation which was originally raised as a 2014/15 significant issue following the decision to delegate functions to the Joint Committee. The Joint Committee agreed a consolidated Scheme of Delegation to oneSource officers on 22nd January 2016 which is now available on the intranet. This exercise apparently highlighted some issues with the LB Havering Scheme of Delegation and was raised as a significant issue going forward for 2015/16. A provisional review of the Constitution and the delegation arrangements was undertaken in the autumn 2016. Further review and decisions on how the Scheme of Delegation arrangements could be improved will be prioritised for 2017/18 and this has been placed on the Governance and Assurance Board agenda as a standing item to review progress.
2. Commissioning and Contracts – This was highlighted as a significant issue for 2015/16 as there were instances identified of failings by officers to comply with procurement rules. A number of actions have taken place during 2016/17 to deal with this including; a full review of the contracts register against spend, new thresholds introduced to One Oracle, audit work to provide assurance and the formation of a Joint Commissioning Unit to service Adult Social Services, Children's Services, Housing, Public Health and Learning and Achievement. There are ongoing issues identified during 2016/17 which has led to this remaining as a significant issue going forward in 2017/18.

**Significant governance issues 2016/17 (to be addressed in 2017/18)**

<b>Significant Issue and action already taken</b>	<b>Planned action</b>	<b>Target date for completion</b>	<b>CMT Lead</b>
<p><b>1. Scheme of Delegation</b></p> <p>A review of the Scheme of Delegation was identified following the amendments to include oneSource.</p> <p>A provisional review of the Constitution and the delegation arrangements was undertaken in the Autumn 2016. While the current Scheme enables lawful decision making, a further review will be undertaken and decisions made on how the Scheme of Delegation arrangements could be improved</p>	<p>➤ Review of the arrangements and format of the Scheme of Delegation ;</p>	<p>September 2017</p>	<p>Monitoring Officer</p>

<b>Significant Issue</b> and action already taken	<b>Planned action</b>	<b>Target date for completion</b>	<b>CMT Lead</b>
<p><b>2. Commissioning and Contracts (including compliance with procurement rules).</b></p> <p>There have been instances identified of failings by officers to comply with the Procurement rules.</p> <ul style="list-style-type: none"> <li>➤ New thresholds (all orders over £25k and collectively over £164k that do not have a contract in place) introduced to One Oracle</li> <li>➤ A programme of audit work to provide assurance</li> <li>➤ Links established with Cabinet report approval process to ensure procurement oversight</li> <li>➤ The formation of a Joint Commissioning Unit to service Adult Social Services, Children's Services, Housing, Public Health and Learning &amp; Achievement.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Introduction and embedding of the Procurement Board</li> <li>➤ Quarterly reports to SLT</li> <li>➤ Strengthening checkpoint process compliance</li> <li>➤ Continued programme of audit work to provide assurance</li> </ul>	<p>July 2017</p>	<p>Managing Director, oneSource</p>

Significant Issue and action already taken	Planned action	Target date for completion	CMT Lead
<p><b>3. Mercury Land Holdings (MLH)</b></p> <ul style="list-style-type: none"> <li>➤ It has been identified that a review of the governance arrangements in relation to MLH is required as the business moves forward.</li> </ul> <p>Mercury Land Holdings is a newly established company and as that company develops it is advisable to review and update the governance arrangements to ensure they are efficient and robust</p>	<ul style="list-style-type: none"> <li>➤ To review the governance, decision-making and Shareholder arrangements and to recommend or make such changes as are considered appropriate</li> </ul>	<p>September 2017</p>	<p>Monitoring Officer and S151</p>
<p><b>4. Projects and Programme Management</b></p> <ul style="list-style-type: none"> <li>➤ The Councils has a significant number of large scale and complex projects and programmes to deliver over the medium term and needs to ensure it can deliver these with appropriate governance arrangements.</li> </ul> <p>It is important that the Council reviews it's arrangements and capacity to manage the high number</p>	<ul style="list-style-type: none"> <li>➤ To review the Councils project and programme management arrangements to ensure they sufficient to meet the increasing number of projects over the medium term</li> </ul>	<p>July 2017</p>	<p>Chief Operating Officer</p>

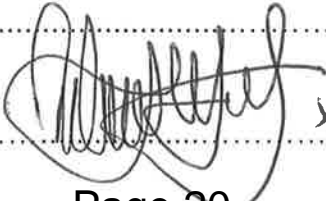

of projects and programmes to meet the agreed and desired outcomes.			
<p><b>5. Information Technology &amp; Information Governance</b></p> <p>➤ The Council urgently replaced a large element of its core information and technology infrastructure in 2016 and therefore an underlying review of the infrastructure needs to take place</p> <p>There are also increased risks generally in both the public and private sector around cyber security. In addition the new General Data Protection Regulation (GDPR) changes will come into effect in May 2018 and the organisation will need to respond, requiring a detailed focus on the information security.</p>	<p>➤ To review the Councils IT security arrangements to mitigate the risk to the Council</p> <p>➤ To ensure all officers are aware and briefed on changes to the Data Protection legislation</p> <p>➤ To carry out a review of the IT budgets to ensure that appropriate investment is being put into IT infrastructure</p> <p>➤ To implement GDPR changes across the council through detailed and planned process.</p>	March 2018	Managing Director, oneSource

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:**

Leader of the Council

Chief Executive



## Appendix A

### **The governance framework**

The key elements of the systems and processes that comprise the Council's governance arrangements are described in more detail below.

#### **Our Vision for the Borough 2016/17 – Clean, Safe and Proud**

During 2016/17 the Council had a three point vision for Havering:

- Havering will be clean and its environment looked after for future generations.
- People of all ages will be safe, in their homes and in the community.
- Residents will be proud to live in Havering, where we respect each other, value our traditions and work together to improve our quality of life.

To achieve this vision, the Council will support the local community with direct investment in the services and projects that matter most to local people, use its influence to attract investment to Havering, while preserving 'green Havering' and its quieter communities, and lead by example, by running a low cost, high standard local authority.

#### **The organisation's Values**

The work of the Council and its staff is anchored in the organisation's Values:

- Be Positive;
- Respect Others; and
- Work Together.

#### **Codes of Conduct**

The Council has Employee and Member Codes of Conduct supported by the requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade or who hold specific decision making and procurement positions. All officers, regardless of their employment status, are required to adhere to the Code of Conduct and to decline gifts and hospitality to ensure that they are not inappropriately influenced. Members are required to register within their declaration of interest any gifts and hospitality accepted. The Codes and related policies and procedures are communicated via induction sessions and are available via the intranet. The Employee Code of Conduct was updated and re-launched in 2014/15 to ensure that there is awareness of all requirements and of responsibilities. The relevant SLT member is tasked with ensuring that appropriate arrangements are in place for declarations and the systems are reviewed periodically by internal audit.

#### **Corporate Performance Framework**

The Corporate Performance Framework has been updated during 2016/17. The overall aim of the document is to generate a consistent, goal focused approach to performance management at all levels across the organisation. It provides information on the corporate performance monitoring and reporting process; clarifies roles and responsibilities with regards to this, and serves as a frame of reference for any activity linked to improving performance. By adhering to the guidance and parameters set out in the Corporate

Performance Framework, officers of the Council will ensure that their work is ultimately geared towards the realisation of corporate objectives.

The Council's Corporate Plan 2016/17 has been at the heart of the Corporate Performance Framework. It sets out the overall priorities and objectives of the organisation and outlines the key activities that will be undertaken as well as the measures put in place to monitor delivery.

Sitting beneath the Corporate Plan are individual service plans, which outline in more detail the work that will be undertaken to achieve the corporate objectives. A number of improvements were made to the service plan template for 2016/17, specifically:

- The narrative at the beginning of service plans has been more focused on the outcomes the service is seeking to achieve and on clarifying the 'golden thread' between the Corporate Plan, the service's target outcomes and what this means for individual teams within services.
- A section has been added analysing key volumetrics and recent trends in demand for services as well as projecting forward how demand for services is expected to change in the future and setting out the service's plans for mitigating / managing this.
- Increased use of benchmarking to inform target setting.
- The introduction of a more sophisticated approach to performance thresholds, with the blanket approach of  $\pm 10\%$  replaced by the setting of specific tolerances for each individual performance indicator as part of the annual service planning process.
- More robust scrutiny and challenge of performance indicators and targets, with the Council's new Overview and Scrutiny Board participating in this process for the first time in readiness for 2016/17.
- The introduction of a quarterly review, progress monitoring and change control process, making Service Plans 'live' documents that will be revisited and refreshed throughout the year in light of changing and emerging priorities.

The Corporate Performance Framework operates at a number of different levels throughout the organisation. In addition to the Senior Leadership Team (SLT) and Members scrutinising the quarterly Corporate Performance Reports, individual performance management takes place as part of the supervision and Performance Development Review (PDR) process for each member of staff. Directorate Management Teams also receive and discuss monthly performance packs detailing performance against the key performance indicators in their respective service areas. The Overview and Scrutiny Board and its six sub-committees also consider the quarterly Corporate Performance Reports, together with any other reports that they have commissioned, and carry out their own independent reviews. Other key boards and forums (such as the Corporate Parenting Panel and Child Safety Performance Board) also receive regular performance packs specifically tailored to their remits. During 2016/17, work has also commenced on the implementation and rollout of "Power BI", a corporate performance

management tool which will visualise data better and enable leaders and managers to drill down deeper into the data presented in order to establish likely reasons for strong or poor performance.

During 2015/16 a particular issue was identified with the arrangements for reporting performance to Members and, as a result, improvements have been made to the reporting cycle in 2016/17. Under the arrangements for 2015/16, the quarterly and annual corporate performance reports were reported to Cabinet first, then the Overview and Scrutiny Board and then the various Overview and Scrutiny sub-committees. Depending on the corporate meetings schedule for any given quarter, this resulted in the whole cycle of reporting taking between four and seven months to complete. During 2016/17, reports have been presented to the sub-committees first, then to the Overview and Scrutiny Board and finally to Cabinet, which has reduced the time taken to complete the entire reporting cycle.

During 2016/17, the Council also developed and approved its first Business Intelligence Strategy. This sets out how the Council will gather and make best use of business intelligence in order to manage demand better, identify savings and make more accurate forecasts in terms of both finance and performance. It outlines areas that are integral to improving the assembly and use of business intelligence, including transparency and open data, customer insight, operational intelligence and data quality and how the Council plans to take these forward in the period up to 2019. Towards the end of 2016/17, consultation also commenced on a restructure of the Policy, Performance and Community service designed to resource delivery of the new Business Intelligence Strategy through the creation of a new Business Intelligence team.

A Data Quality Policy is appended to the Business Intelligence Strategy and staff throughout the organisation have been reminded of the importance of data quality and completeness through internal communication tools such as Core Brief. Methodology statements are in place in respect of all the corporate performance indicators in order to ensure that changes in personnel do not impact on the manner in which performance data is collected and analysed, and any performance data can be subject to either internal or external audit. Regular data quality reports are produced and regular data cleansing is carried out in respect of key areas such as Adults' and Children's Social Care.

During 2016/17, the Chief Executive has generated momentum in increasing the transparency of the Council. In line with this, an audit has been undertaken of the Council's adherence to the Local Government Transparency Code 2015 and swift action taken to rectify areas of non-compliance identified (for example, by ensuring that relevant information is produced and published in the required format).

### **Financial Rules and Regulations**

The Council has Financial and Contract Procedure Rules, Policies and Guidance, along with other procedural documents. These guide officers in their everyday duties and ensure appropriate processes and controls are adhered to. The iProcurement system makes use of authorisation limits which are built into the management hierarchies rather than being manually checked before transactions are processed. Transactions are gradually being migrated onto this new system. Compliance with the various financial rules and regulations is monitored by management and considered during audits of systems and processes. Reports are available to managers through the One Oracle dashboards to enable monitoring and transparency of specific financial delegations.

## **Effective Audit Committee**

The Audit Committee operates in accordance with the relevant CIPFA guidance. The Committee's terms of reference set out in the Constitution contain responsibilities relating to internal control, external audit and internal audit. Members are expected to serve a four year term on the Committee to ensure consistency; they also nominate named substitute members who receive the same level of induction and on-going training to ensure there is sufficient expertise at every meeting to challenge officers. During 2016/17 six members sat on the Audit Committee representing the Conservative, Residents', East Havering Residents', UKIP and Independent Residents' Groups of the Borough. The membership mirrors the political make-up of the Council. The Audit Committee met five times in 2016/17 and has an annual work plan made up of regular and specific agenda items.

## **Compliance with laws, regulations and internal policies**

The Constitution sets out the framework for decision making and the publication of those decisions. There is a scrutiny system in place to ensure that the work of the Council complies with all appropriate policies and achieves value for money. Overview and Scrutiny has the power to call in and challenge all decisions of Cabinet and individual Cabinet Members and key decisions of staff. Legal, finance and human resources staff, as well as the Corporate Diversity Advisor, review every Cabinet, Council and Committee report and every Cabinet Member decision for compliance with laws, policies and regulations. The statutory officers also provide advice to Members at all appropriate times. Internal policies and procedures exist to guide officers and ensure compliance with legislation and proper practice.

## **Counter Fraud and Confidential Reporting**

The Council has a corporate strategy for the prevention and detection of fraud and corruption. The oneSource Fraud Structure has been in existence since 1st April 2015. Responsibility for investigating and prosecuting housing benefit fraud has moved to the Department for Work and Pensions with effect from 1 April 2015.

The work of the service and achievement of the corporate fraud strategy is monitored by the Audit Committee. Proactive promotion of the strategy takes place throughout the year as part of the fraud strategy action plan. Integral to these arrangements is a suite of policies and strategies including; Confidential Reporting (also known as Whistleblowing) Policy, Bribery and Corruption, Money Laundering and a revised Anti-Fraud and Corruption Strategy which was agreed at the September 2015 Audit Committee. Each policy and strategy is communicated to staff via induction, the intranet and awareness raising initiatives. The effectiveness of arrangements is reviewed annually as part of a wider review of anti-fraud and corruption. The results of fraud investigations are publicised to further promote the arrangements in place, as appropriate.

The Council also undertakes and participates in a number of data matching exercises including the National Fraud Initiative (NFI). The 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 2016 NFI matches are available in 2017.

The council has signed a memorandum of understanding with London Councils to join the London Counter Fraud Hub, which is currently being piloted by 5 Boroughs, although we are not part of the initial pilot. The hub will enable all 33 councils in London to share their data in order to prevent and detect fraud in such as areas of business as council tax, business rates, and housing tenancies. It will operate on a payment by results commercial model, requiring no-up-front investment by the council.

In addition, the council has extended its housing fraud work, targeted at illegal sub-letting of council houses, RTB fraud and fraud associated with its homelessness operation.

### **Complaints**

The Council's Corporate Complaints Policy and procedure has been in place since 1<sup>st</sup> April 2015. The Policy sets out a clear definition of a complaint, and encompasses robust auditing and performance monitoring procedures. Appropriate procedures are also in place to ensure that statutory complaints relating to adults' and children's social care are dealt with in accordance with the relevant regulations. The procedures are supported by the relevant technologies to ensure efficiency and streamlined processes and include an escalation procedure if a complainant remains dissatisfied.

### **Ombudsman**

The Council comes within the jurisdiction of the Local Government Ombudsman. In 2016/17, the Ombudsman found nine cases of maladministration against the Council. Eight cases were "maladministration & injustice" and one was "maladministration, no injustice".

### **Training and Development**

The Council has a commitment that every member of staff has an ongoing Performance Development Review (PDR) throughout the year as well as formal timescales for agreeing targets and objectives and outcomes.

The Council's One Oracle system captures performance, development and training information within modules meaning that system generated management information is available for both strategic and operational management of resources and decision making. It also allows for senior management to ensure that there is compliance within the organisation with corporate policy in this area and efficiently provides assurance that mandatory training, required for officers to competently fulfil their roles, has been completed.

The Council's expectations and demands on managers are high; a behavioural competency framework is in place and annually all people resources are assessed against the competencies as part of the annual Performance Development Review which also rates progress towards objectives. This has been carried out offline during 2016/17 due to some issues with the PDR section on Oracle.

The Council has attained the Member Development Charter. A development programme to keep Members up to date with changes and support their individual training needs is provided, with training is tailored to individual roles. Training is supplemented by information through briefings and bulletins.

## **Communication and Engagement**

The Council strives to identify and develop new effective mechanisms to communicate and consult with the community. A wide number of fora take place to consult with members of the community, particularly targeting 'hard-to-reach' groups, such as the Over 50s forum, the BME (Black and Minority Ethnic) forum and the Inter Faith forum. The Council also has a small Community Development Team which focuses on community development but also supports and seeks to maximise engagement in key corporate consultation exercises.

The Council maintains a website to provide information and services to the residents of the Borough. The publication 'Living in Havering' is distributed to all households six times a year, promoting access to services and raising the profile of the work done by the Council and local people to make Havering a good place to live. This is augmented with regular emailed bulletins on a host of subjects including 'Living In Havering' branded e-newsletters to over 130,000 subscribers, as well as communication through a host of other channels, from social media to poster sites and the local press.

Consultation is carried out as part of the development of the MTFS and annual budget. Views are sought through various media and the budget itself is subject to scrutiny through Cabinet and Overview and Scrutiny Committees.

The public are also consulted on the Council's future priorities. In 2017 budget consultation the council asked residents about their priorities for the borough and the Council's intention to increase Council Tax including a precept for Adult Social Care to support services for vulnerable adults. There has also been comprehensive consultation and ongoing communications with residents in the Council's sheltered accommodation with proposals to completely re-provide those services over the next few years.

In 2017 the Council launched its new vision for the borough, Havering – making a Greater London. This encompasses four themes, Communities making Havering, Places making Havering, Opportunities making Havering and Connections making Havering. These four themes are outcome led with measurable targets against each.

## **Transformation**

A number of new programmes/projects have been initiated to deliver savings required to close the budget gap over the medium term. In many cases these comprise a change to the way services are delivered or reduction in grant funding. All activity and savings are the responsibility of the Director or Assistant Director of the relevant service area. A new project and programme management system was implemented in late 2016 to ensure transparency and a consistent approach to reporting activity. This delivers 1) visibility to the Senior Leadership Team (SLT) and the Cabinet, 2) enables interdependencies between projects to be managed; and 3) ensure slippage is identified at an early stage and mitigations effectively managed. Monthly oversight of the transformation programme takes place at the SLT Transformation Management Meeting. SLT also monitors the position on budgets and delivery of the MTFS to ensure any risks are identified early and mitigations put in place.

Budget development and challenge sessions are also to be held with Members to consider and plan for the Council's priorities. A series of new initiatives are also being evaluated to assess the benefits of new ways of working to support the financial position and promote a stable workforce.

## **Partnerships and Collaborative Working**

There are a number of partnership boards in place such as the Community Safety Partnership, the Health and Wellbeing Board and the Children's Trust. There are also a number of other fora in existence in Havering including the Culture Forum, a range of equality and diversity forums and many others.

The Council has for a number of years worked closely with neighbouring boroughs to share good practice and efficiency success. In response to the reduced funding for local government this work has expanded to consider stronger relationships that will yield cost savings to all parties. These initiatives have in the past involved shared procurements, information technology developments and shared management posts.

### **oneSource**

In April 2014 the Council's shared back office service with the London Borough of Newham was launched. This arrangement is comprised of 22 services, 1350 staff and an agreed business case to save £40m over five years. This resulted in significant changes to the governance framework. A Joint Committee of six Members, three from each Council, was established to oversee the partnership arrangements and a shared management structure established with officers from each council having executive responsibilities delegated to them within the two Constitutions via the Scheme of Delegation.

The London Borough of Bexley has subsequently joined the shared service and delegated its finance and exchequer services to oneSource from 1 April 2016 through its Constitution and Scheme of Delegation. One Member from Bexley has joined the Joint Committee.

### **Mercury Land Holding**

Mercury Land Holding has been established as a wholly owned subsidiary of LBH. In July 2016 the company embarked on its first development and the council has provided both equity and loans to the company to cover both development costs and company overhead and received income in the form of Loan Arrangement Fee, Commitment Fee, Lenders Agency Fee and Interest.







## AUDIT COMMITTEE 21 June 2017

<b>Subject Heading:</b>	Statement of Accounts 2016/17
<b>CMT Lead:</b>	Debbie Middleton
<b>Report Author and contact details:</b>	Radwan Ahmed Head of Financial Control and Corporate Systems Tel: (020) 3373 0934 Email: Radwan.ahmed@onesource.co.uk
<b>Policy context:</b>	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2016/17
<b>Financial summary:</b>	There are no direct financial implications to the report.

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

### SUMMARY

As required by the Accounts and Audit Regulations 2011, the Council's Statement of Accounts must be approved and signed by the Chief Finance Officer (s151 officer) no later than 30 June 2017. The accounts must be published after the conclusion of the external audit of accounts, no later than 30 September 2017.

<b>RECOMMENDATIONS</b>
------------------------

The Committee is asked to note that:

- a) The Council's Statement of Accounts must be approved and signed by the Council's Chief Financial Officer no later than 30 June 2017,
- b) A verbal update on progress in preparing the statement of accounts will be given by officers at the meeting,
- c) The draft statement of accounts will be published on the Council's website on 30 June 2017,
- d) The accounts are planned to be considered and approved by the Audit Committee on 21 September 2017, and
- e) The accounts must be published following the conclusion of the audit, no later than 30 September 2017.

<b>REPORT DETAIL</b>
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**1. Statement of Accounts 2016/17**

- 1.1. At the time of preparing the report management are reviewing the preliminary draft statement of accounts, and officers are confident of achieving the the statutory timetable for publication and approval. A verbal update on progress will be given to the Committee at the meeting.
- 1.2. As previously reported to the Committee, the significant changes to the code of practice affecting the 2016/17 accounts are the amendment to service lines presented within the Comprehensive Income and Expenditure Statement, and the new Expenditure Funding Analysis. Both of these changes aim to provide a direct and accessible reconciliation between the way local authorities are funded and prepare their budget to the financial information reported within the Statement of Accounts.
- 1.3. In addition to the change brought by the Code, the 2016/17 accounts will include Group Accounts due to the need to incorporate the Council's interest in Mercury Land Holdings Ltd.
- 1.4. In accordance with the Accounts and Audit (England) Regulations 2011. The Completed accounts will need to be approved and signed by the Chief Financial Officer no later than 30 June 2017.
- 1.5. The draft accounts will then be subject to audit by the Council's external auditors Ernst & Young. Following the conclusion of the audit, the accounts must be approved by the Audit Committee and published no later than 30 September 2017.

## IMPLICATIONS AND RISKS

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

There are no direct financial implications arising from the publication of the 2016/17 Statement of Accounts.

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

Production of the Statement of Accounts for financial year 2016/17 satisfies Regulation 8 of the Accounts and Audit (England) Regulations 2011 which requires the approval and publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30 September 2017.

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

None arising directly from this report.

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

None arising directly from this report.

## BACKGROUND PAPERS

*None*

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## AUDIT COMMITTEE

### 21 June 2017

<b>Subject Heading:</b>	Interim Head of Assurance – Quarter Four Progress Report
<b>CMT Lead:</b>	Jane West Managing Director oneSource
<b>Report Author and contact details:</b>	Jeremy Welburn Interim Head of Assurance. Tel: 01708 432610 / 07976539248 E-mail: jeremy.welburn@onesource.co.uk
<b>Policy context:</b>	To inform the Committee of progress on the assurance work undertaken in quarter four of 2016/17.
<b>Financial summary:</b>	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 & counter fraud teams during quarter four 2016/17, and includes the overall outturn for 2016/17.

### RECOMMENDATIONS

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

**REPORT DETAIL**

This progress report contains an update to the Committee regarding Internal Audit activity. 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

**Appendix B:** Current Status of 2016/17 Audit Plan

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

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

By maintaining an adequate internal audit service, 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 The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) and other guidance.
- 1.1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the policy or system owner / sponsor
- Third line – independent assurance.

The Council's third line of defence includes Internal Audit, who should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

- 1.1.3 An independent internal audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Committee and senior management on the higher risk and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.
- 1.1.4 The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the annual governance statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.
- 1.1.5 Members of the Assurance Service have been involved in work with the Section 151 Officer, Monitoring Officer and Director of Finance for oneSource to refresh the Governance Group arrangements and the approach to collating evidence for the Annual Governance Statement. They have also been working with senior management to update risk registers, and to integrate Audit and Counter Fraud Plans with those. Horizon scanning work has already taken place with other Heads of Audit and through the Croydon Framework to identify common risk and audit themes. Updated Risk Registers and Audit Plans for 2017/18 were approved by the Audit Committee in May, which reflected this revised approach.
- 1.1.6 Members will be aware that the full range of Assurance Services; Internal Audit, Counter Fraud, Risk Management & Insurance, are now delivered by a shared service with LB Bexley and LB Newham as part of oneSource. The new structure has started to deliver additional resilience, financial savings and the operational efficiencies required in challenging financial times. This has been



achieved by sharing management posts, removing management duplication, and by improving the effectiveness and efficiency of processes.

- 1.1.7 Members were previously advised that 2016/17 will be a transitional year whilst the service develops a consistent approach, in line with the principles in the business case that will ensure duplication is removed and partners receive the same service standard. A number of other authorities have expressed an interest in the model and any controlled expansion of the arrangements would benefit the member Boroughs.
- 1.1.8 This composite report brings together all aspects of internal audit and anti-fraud work undertaken in quarter four, 2016/17, in support of the Audit Committee's role. It also summarises the overall outturn position against the 2016/17 audit plan.
- 1.1.9 The report supports the Head of Assurance'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 specific detail of outputs for the Committee's information.

## **1.2 Level of Assurance**

- 1.2.1 At the March Committee meeting, Members received the Head of Assurance opinion based upon the work undertaken in quarter three of 2016/17, which concluded that reasonable assurance could be given that the internal control environment is operating adequately.
- 1.2.2 Based upon the work undertaken since the last update to Members, no material issues have arisen, which would impact on this opinion. No limited assurance reports were issued in quarter four.

**Section 2. Executive Summary of work undertaken in quarter four, 2016/17**

- 2.1.1 There have been ten reports issued in quarter four; five of these were given substantial assurance and five were given moderate assurance. There were no reports with limited assurance.
- 2.1.2 Of the 43 recommendations raised in the reports issued in quarter four; there were four high risk recommendations, 29 medium and 10 low. Details of all outstanding (ie. those not implemented) recommendations raised in 2016/17 audits are provided in Section 3.5 of Appendix A.
- 2.1.3 Appendix B shows the current status of the 2016/17 audit plan.
- 2.2.1 The Audit Partner (Pro-Active Audit & Counter Fraud) received three new referrals in quarter four.
- 2.2.2 Five cases have been completed during the quarter resulting in:
- One resignation;
  - One dismissal; and
  - Three No Case to Answer.
- 2.3.1 During the quarter the investigations team:
- Recovered six properties with a notional value of £108,000; and
  - Had Ten Right to Buy applications withdrawn with a notional value of £870,000.
- 2.3.2 The total net savings for the Tenancy Fraud Project from October 2015 to March 2017 is £4.011m.

## **Appendix A**

### **3. Quarter Four Internal Audit Work**

#### **3.1 Risk Based Systems and School Audits**

- 3.1.1 The table below details the ten final reports issued in quarter four. It should be noted that no limited assurance reports were issued in quarter four. It should also be noted that the Direct Payments (Adults) follow up shows an improvement in the control issues identified in the full audit conducted in the year and the assurance level was lifted from Limited to Moderate to reflect this improvement.

Report	Assurance	Recommendations			
		High	Med	Low	Total
<b>System Audits</b>					
Corporate Property Portfolio Management	Substantial	0	0	0	0
Troubled Families Grant - January 2017 Claim	Substantial	n/a	n/a	n/a	n/a
Disabled Facilities Capital Grant	Substantial	n/a	n/a	n/a	n/a
Direct Payments (Adults) Follow Up	Moderate	2	3	0	5
Third Party Connections Follow Up	Substantial	0	0	0	0
<b>School Audits</b>					
Clockhouse Primary	Substantial	0	2	2	4
Hacton Primary	Moderate	0	6	2	8
Harold Wood Primary	Moderate	1	7	2	10
Mawney	Moderate	0	4	3	7
Towers Infants	Moderate	1	7	1	9
<b>Total</b>		<b>4</b>	<b>29</b>	<b>10</b>	<b>43</b>

The high risk recommendations raised in Quarter 4 are detailed below:

<b>Audit</b>	<b>Recommendation</b>
Direct Payments (Adults) Follow Up	The Children's Direct Payment and Adults Direct Payments Policies should be put in place and approved. (Children's is included here because the policy that was used during the audit included both Children's and Adults so the recommendation raised is to ensure there will be 2 separate policies going forward).
Direct Payments (Adults) Follow Up	Clients who are financially assessed as not eligible for a direct payment should be requested to reimburse the full amount paid.
Harold Wood Primary	Self Employment checks should be completed including: <ul style="list-style-type: none"><li>• Self Employment Checklists should be completed before individuals are engaged for the provision of goods / services;</li><li>• HMRC ESI Online Tool Checks should be</li></ul>

	<p>completed before an individual is engaged for the provision of goods / services;</p> <ul style="list-style-type: none"><li>• Decisions sheets should be completed before an individual is engaged for the provision of goods / services; and</li><li>• Decision sheets should be approved by an appropriately authorised signatory.</li></ul>
Towers Infants	The School should ensure that the composition of the Governing Body complies with the Constitutional Regulations.

<b>Key to Assurance Levels</b>	
Substantial Assurance	There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
Moderate Assurance	Whilst there is basically a sound system of control within the areas reviewed, a need was identified to enhance controls and/or their application and to improve the arrangements for managing risks.
Limited Assurance	There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

3.1.2 During quarter four there were 12 school health check audits completed and reports issued comprising:

- Gidea Park Primary;
- Scargill Junior;
- Crownfield Junior;
- Branfil Primary;
- Towers Junior;
- Engayne Primary;
- St Peter's Catholic Primary;
- Harold Court Primary;
- St Patrick's RC Primary;
- James Oglethorpe;
- Ardleigh Green Junior; and
- Whybridge Junior.

### **3.2 Key Performance Indicators**

3.2.1 As previously advised to Members, the Audit Service was restructured during 2016/17. This restructure has inevitably had some impact on available capacity to deliver the audit plan during the year and as a result the plan was revised to ensure a focus on key risks. The re-profiled plan for 2016/17 consisted of 48 general audits and advisory reviews. As at 30<sup>th</sup> April, 43 audits have been

completed / draft reports issued. The remaining five audits (details provided in Appendix B) are currently in progress and it is anticipated that the results of these audits will be reported on at the next audit committee in September.

<b>Performance Indicator</b>	<b>Outturn Target</b>	<b>Outturn Actual</b>
Percentage of Audit Plan Delivered	90%	90%

### **3.3 Client Satisfaction Rating**

3.3.1 The table below illustrates the responses received from client satisfaction surveys that are issued with the final assurance report for 2016/17:

Rating	Number of Ratings*	%
5 (Very Good)	299	71
4 (Good)	84	20
3 (Satisfactory)	23	6
2 (Poor)	0	0
1 (Very Poor)	0	0
0 (No Rating)	14	3
Totals	420	100

\*rating refers to the response to each individual question in survey (15 questions per survey).

The overall level of 97% of returns at a satisfactory level and above remains consistent with the previous year. As a comparator, the table below illustrates the responses received from the client satisfaction survey from the previous year ( 2015/16)::

Rating	Number of Ratings	%
5 (Very Good)	328	73
4 (Good)	78	18
3 (Satisfactory)	23	5
2 (Poor)	0	0
1 (Very Poor)	0	0
0 (No Rating)	19	4
Totals	448	100

### **3.4 Outstanding Audit Recommendations Update**

3.4.1 Internal Audit follows up all non-school audit recommendations with management when the deadlines for implementation are due. 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 provided, is verified through a follow up audit review.

3.4.2 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.

- 3.4.3 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.

- 3.4.4 The status of the high risk recommendations raised during 2016/17 is outlined within the table below.

Number of high risk recommendations raised during 2016/17	<b>13</b>
Number of high risk recommendations due to be implemented by 31/05/2017	<b>11</b>
Number of high risk recommendations fully implemented	<b>9</b>
Number of high risk recommendations partially implemented	<b>2</b>
Number of high risk recommendations not implemented	<b>0</b>

- 3.4.5 The list of outstanding and partially implemented high risk recommendations is shown in the table below:

**3.5 List of High Risk Recommendations and status:**

**Of the 11 high priority recommendations due, nine have been completed and two are partially implemented.**

<b>Audit Year</b>	<b>Area Reviewed</b>	<b>HoS Responsible</b>	<b>Recommendation and current progress</b>	<b>Status</b>
16/17	Direct Payments (Adults)	Adult Services	<p>The Children's Direct Payment and Adults Direct Payments Policies should be put in place and approved.</p> <p>April 2017 Update Work is currently underway to review the arrangements for Direct Payments in children, at the moment the adults policy covers Direct Payments for children's, but as part of the review a separate policy is required and this will be developed by July.</p>	Partially Implemented (in progress with revised deadline of July 2017)
16/17	Disaster Recovery	ICT	<p>The DR plan should be tested periodically, if not annually at least every two years and results of the tests should be formally communicated to ICT's SMT and CLT and any remedial action required should be performed as necessary.</p> <p>May 2017: A two yearly DR test will be scheduled; there are currently dependences on the new infrastructure going live and generator &amp; UPS upgrade in Dockside.</p>	Partially Implemented

Partially implemented recommendations will continue to be monitored and any instances of non-implementation reported to the Audit Committee in the future.

### **3.6 Proactive Investigations**

3.6.1 Proactive work undertaken during quarter four is shown below:

<b>Description</b>	<b>Risks</b>	<b>Quarter 4 Status</b>
Whistleblowing	All whistleblowing referrals.	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	Completed
Freedom of Information Requests	To undertake all Freedom of Information Requests relating to Internal Audit Investigations.	Completed
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately.	Completed
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance	Completed
Advice to Local Authorities	All Data Protection Act requests via Local Authorities, Police etc.	Completed

3.6.2 The proactive audit investigation work comprises two elements:

- A programme of proactive investigations; and
- Following up the implementation of recommendations made in previous corporate fraud investigation and proactive reports.

3.6.3 A proactive review was undertaken during Quarters Three and Four of Town Hall parking permit holders with the number of days paid for compared to the number of days the permit was used to access the Town Hall car park. The review identified that 54 members of staff had used the car park in excess of the number of days they had paid for. This amounted to an underpayment of £2,680.

### **3.7 Reactive Investigation Cases**

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

<b>Caseload Quarter 4 2016/17</b>						
<b>Cases at start of period</b>	<b>Referrals received</b>	<b>Referred To Criminal Fraud Team</b>	<b>Referred to HR</b>	<b>Audit Investigations</b>		
				<b>Not Proven Cases</b>	<b>Successful Cases</b>	<b>Cases at end of period</b>
7	3	1	0	3	2	5



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

<b>Source and Number of Referrals Quarter 4 2016/17</b>	
<b>Number of Referrals/ Type</b>	<b>IA Reports Qtr. 4</b>
Anonymous Whistleblower	0
External Organisations / Members of the Public	0
Internal Departments	3
<b>Total</b>	<b>3</b>

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

<b>Reports by Category</b>		
<b>Audit Investigation Category</b>	<b>Previous Cases Qtr 3</b>	<b>Current Cases end of Qtr 4</b>
Breach of Code of Conduct	1	1
Breach of Council Procedures	0	0
Falsification of Records	1	0
Miscellaneous	1	1
Misuse of Council Time	3	0
Procurement	1	0
Theft	0	1
<b>Total</b>	<b>7</b>	<b>3</b>

3.7.4 The table below shows the case outcomes for the Investigations from December to March 2017.

<b>Case Outcomes</b>	
<b>Outcome</b>	<b>Qtr 4</b>
Management Action Plan	0
Resigned	1
Disciplinary	1
No case to answer	3
<b>Total</b>	<b>5</b>

### **3.8 Savings and Losses**

3.8.1 The investigations carried out 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.

3.8.2 The table below shows significant cases identified during quarter four

<b>Case details</b>	<b>Savings Identified &amp; Recoverable</b>	<b>Details</b>
Town Hall Parking Permit Holders	£2,680	Car park used in excess of the number of days paid for. Recovery proceedings are underway.

### **3.9 Investigation Recommendations**

- 3.9.1 Any recommendations raised as part of proactive or reactive investigation reports are recorded and their implementation monitored as part of a follow up programme. 66 recommendations were made and agreed during 2016/17, with the details of implementation rates in the table below:

<b>Total 2016/17 Proactive Investigation Recommendations</b>	
Total Recommendations as at Quarter 4	66
Recommendations Implemented	63
Recommendations Not Yet Due for implementation	1
Recommendations Date Reset	2

### **3.10 Criminal Investigations Team**

- 3.10.1 During the quarter the majority of resource has been focused on the Tenancy Fraud Project. The tables below show the work undertaken on the project during quarter four.

<b>Housing Investigations – Visiting Team</b>						
<b>Month</b>	<b>Tenancy Audit Visits</b>	<b>Tenancy Audits (Checks completed)</b>	<b>PSL Tenancy Audit Visits</b>	<b>PSL Tenancy Audit (Checks completed)</b>	<b>Referrals from Audit to Fraud</b>	<b>NFA'D</b>
<b>Jan</b>	1,215	518	74	26	8	510
<b>Feb</b>	969	400	918	354	5	395
<b>Mar</b>	501	175	1201	448	2	173
<b>YTD*</b>	17,036	5,300	2,219	832	152	6,695

\* April 2016 to March 2017

<b>Investigation Team</b>					
<b>Month</b>	<b>Cases Under Investigation (open cases)</b>	<b>Closed</b>	<b>Total Properties Recovered</b>	<b>Cases referred for HB Fraud</b>	<b>RTB cancelled through audits</b>
<b>Jan</b>	75	18	2	0	2
<b>Feb</b>	86	11	2	0	3
<b>Mar</b>	96	2	2	0	5
<b>YTD*</b>	N/A	153	23	6	28

\* April 2016 to March 2017

3.10.2 Outcomes for the quarter include the following:

- Six properties were recovered with a nominal value of £108,000;
- Ten Right to Buy applications were withdrawn with a notional value of £870,000; and,
- The total net savings for the project from October 2015 to March 2017 is £4.011m.

**Appendix B: Current Status of 2016/17 Audit Plan**

	<b>Audit Title</b>	<b>Opinion</b>	<b>Status</b>
<b>one Source</b>	NNDR valuation and liability	Moderate	Complete
	Disaster recovery	Substantial	Complete
	Talent Link Application	Substantial	Complete
	Council Tax Collection	Limited*	Complete
	NNDR Billing and Collection	TBC	Underway
	One Oracle	TBC	Draft Report
<b>LBH Systems Audits</b>			
	Capital Works in Schools	Moderate	Complete
	Catering	Moderate	Complete
	NEPRO	Moderate	Complete
	Direct Payments	Limited	Complete
	Car Pool Scheme	Moderate	Complete
	Troubled Families Claim Window 1	Substantial	Complete
	Troubled Families Claim Window 2	Substantial	Complete
	Corporate Property Portfolio Management	Substantial	Complete
	Disabled Facilities Capital Grant	Substantial	Complete
	SWIFT	Substantial	Complete
	Payment in Error (HSE)	n/a	Complete
	ID Card Activation	n/a	Complete
	Cheque Processing	Moderate	Complete
	Careers Group	n/a	Complete
	Mayors Appeal Fund Annual Review	n/a	Complete
	Missing Planning Cheque	n/a	Complete
	Declaration of Interests	TBC	Draft Report
	Children's Commissioning	TBC	Underway
	Contract Monitoring – Streetcare	TBC	Underway
	Grants to Voluntary Organisations	TBC	Underway
<b>Schools</b>	Broadford Primary	Limited	Complete
	Clockhouse Primary	Substantial	Complete
	Dame Tipping	Moderate	Complete
	Gaynes	Moderate	Complete
	Hacton Primary	Moderate	Complete
	Harold Wood Primary	Moderate	Complete
	Langtons Infant	Substantial	Complete
	Marshalls Park	Moderate	Complete
	Mawney	Moderate	Complete
	Mead Primary	Limited	Complete
	Newtons	Moderate	Complete
	Parsonage Farm Primary	Moderate	Complete
	Royal Liberty	Moderate	Complete
	Sanders	Limited	Complete

	<b>Audit Title</b>	<b>Opinion</b>	<b>Status</b>
Follow Ups	St Ursula Junior	Moderate	Complete
	Towers Infants	Moderate	Complete
	Wykeham Primary	Limited	Complete
	PARIS (Cash Receipting) Follow Up	Substantial	Complete
	Direct Payments Follow Up	Moderate	Complete
	Service Manager Follow Up	Substantial	Complete
	Third Party Connections Follow Up	Substantial	Complete
	Disaster Recovery Follow Up	TBC	Underway

\*this relates to a oneSource Council Tax audit which received a limited assurance opinion due to the number of high risk recommendations, all of which related only to LB Newham's processes and do not impact on LB Havering.

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## AUDIT COMMITTEE 21 June 2017

<b>Subject Heading:</b>	Head of Assurance Annual Report
<b>CMT Lead:</b>	Jane West Managing Director oneSource
<b>Report Author and contact details:</b>	Jeremy Welburn Interim Head of Assurance Tel: 01708 432610 / 07976539248 E-mail: jeremy.welburn@onesource.co.uk
<b>Policy context:</b>	To present a summary of the outcomes of Internal Audit and Counter Fraud work completed during 2016/17 and the Head of Assurance's annual opinion.
<b>Financial summary:</b>	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 brings together all aspects of audit, assurance and counter fraud work undertaken in the 2016/17 financial year, including actions taken by management in response to audit and counter fraud activity, which supports the governance framework of the authority. The report includes the Head of Assurance opinion on the internal control environment for 2016/17. The main body of the report highlights key outcomes from audit & counter fraud work and provides information on wider issues of interest to the Audit Committee.

The information is contained within an Annual Report which is attached as Appendix 1 of this report

**RECOMMENDATIONS**

Members are asked to note the contents of the report.

**REPORT DETAIL**

In accordance with the Accounts and Audit (England) Regulations, this report details the work undertaken to review the system of internal control and provides Senior Management and Members with assurance that an adequate system of internal control is in place within the London Borough of Havering.

The reports summarises the audit and counter fraud work undertaken that supports the assurance provided and well as formally communicating key messages and issues.

This report only aims to summarise overall themes, as the findings of individual audits have also been included within quarterly progress reports presented to Audit Committee during the year.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

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

**Legal implications and risks:**

Regulation 6 of the Accounts and Audit Regulations 2015 requires the Authority to conduct a review of the effectiveness of the system of internal control which must be approved by the relevant committee. This report seeks to comply with that statutory obligation and there are no apparent risks in approving the Report.

**Human Resources implications and risks:**

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

**Equalities implications and risks:**

None arising directly from this report.

**BACKGROUND PAPERS**



2016/17 Internal Audit Report  
2016/17 Quarterly Progress Reports to Committee

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# HEAD OF ASSURANCE ANNUAL REPORT 2016/17



**Havering**  
LONDON BOROUGH

## 1. Introduction

- 1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit (Head of Assurance) is required to provide an annual opinion to the Audit Committee, based upon and limited to the work performed on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is achieved through an audit plan that has been focussed on key strategic and operational risk areas, agreed with senior management and approved by the Audit Committee. The Head of Internal Audit opinion does not imply that internal audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based audit work formulated around a selection of key systems and risks.
- 1.2 This report provides Members of the Audit Committee with:
- The Head of Assurance Opinion for 2016/17;
  - An overview of the Council's risk management processes and its overall system of internal control;
  - A summary of the work undertaken by Internal Audit in 2016/17 that supports the opinion;
  - Review of the outcomes of key internal audit reports.
- 1.3 In line with best practice, Internal Audit prepares, in consultation with senior management, an annual risk based strategic plan. The audit plan is, if necessary, amended during the year to reflect changes within the Council's risk profile.
- 1.4 From the work undertaken during the year, reasonable assurance can be provided that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally applied consistently. The level of assurance, therefore, remains at a level consistent with the assurance provided in 2015/16.
- 1.5 The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments, contained within the Internal Audit risk based plan, that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses. A summary of Audit Opinions is shown in the following table:

Table 1 – Summary of Audit Opinions 2016/17

Category	Substantial	Moderate	Limited
oneSource	2	1	1*
LBH Systems Audits	8	6	1
LBH Schools Audits	2	11	4
<b>Total</b>	<b>12</b>	<b>18</b>	<b>6</b>

\*this relates to a oneSource Council Tax audit which received a limited assurance opinion due to the number of high risk recommendations, all of which related only to LB Newham's processes and do not impact on LB Havering. This has been taken into consideration in the overall assurance opinion.

- 1.6 The table below provides the definitions of the assurance levels provided by internal audit:

<b>Key to Assurance Levels</b>	
Substantial Assurance	There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
Moderate Assurance	Whilst there is basically a sound system of control within the areas reviewed, a need was identified to enhance controls and/or their application and to improve the arrangements for managing risks.
Limited Assurance	There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

- 1.7 Appendix A details all internal audit work undertaken during 2016/17. It should be noted that some of the work undertaken by internal audit does not result in an opinion being provided, such as advisory reviews and grant claims.
- 1.8 It should be noted that the Council is managing a fundamental change in service delivery, and has been reconfiguring services including those for Internal Audit and Finance. It is to be expected that there will be some challenges experienced whilst reconfiguring services, which will ultimately provide more resilience in the longer term. In giving an opinion, it should be noted that the system of internal control can provide only reasonable and not absolute assurance.
- 1.9 Five LBH audits were given a Limited Assurance rating during 2016/17. Detailed summaries of these reports have been provided to the Audit Committee in the quarterly progress updates. The details of these reports, with a summary of the high risk recommendations, are provided below (the implementation of all high risk recommendations will be verified as part of the follow up process):

	Audit Title	High Risk Recommendations Summary
1	Direct Payments (Adults) Please note that this audit was subject to a follow up review during 2016/17.	<ul style="list-style-type: none"> <li>• The Children's Direct Payment Procedure Guidance should be put in place and approved (this was identified as an issue while the Adults services was under review);</li> <li>• Clients who are financially assessed as not eligible for a Direct Payment should be requested to reimburse the full amount paid;</li> <li>• Full Financial Assessments should be carried out every three years to ensure that the client is making the correct contribution towards the cost</li> </ul>

		<p>of their care;</p> <ul style="list-style-type: none"> <li>• Credit checks should be carried out on clients who are not in receipt of benefits or in receipt of DLA only, to ensure that the information supplied by the client is correct. This would include bank accounts &amp; savings, and identify ownership of a property other than where the client is permanently residing;</li> <li>• Documents should be requested over specific periods of time to evidence income received. For example bank statements requested over a three, six and twelve month period will show any income which is received other than on a monthly basis.</li> </ul>
2	Broadford Primary	<ul style="list-style-type: none"> <li>• A documented School Improvement Plan should be produced that sets out academic objectives. The plan should ensure that for each objective, the expected outcome, measurable indicators, expected timescales and any financial or resource costs have been identified. Once produced the plan should be presented to Governors for formal approval;</li> <li>• A documented Asset Management Plan should be produced that sets out premises related works. The plan should ensure that for each task, the expected completion timescale and financial costs have been identified. Once produced the plan should be presented to Governors for formal approval;</li> <li>• Spend from the delegated fund should be linked to the education of the pupils and ensure that the principles of public service, in relation to the use of public funds, can be demonstrated; and</li> <li>• Checks should be carried out on self-employed individuals in advance of them being engaged by the school. These checks should include: <ul style="list-style-type: none"> <li>• Self-Employment Checklists;</li> <li>• HMRC ESI Online Tool Checks; and</li> <li>• Decisions sheet. Decision sheets should then be approved by an appropriately authorised signatory.</li> </ul> </li> </ul>

3	Mead Primary	<ul style="list-style-type: none"> <li>• Formal budget monitoring meetings to be implemented;</li> <li>• All staff and Governors to be subject to a DBS check every three years in line with the Councils expectations; and</li> <li>• A review of the inventory to be undertaken to ensure all assets are recorded and outcome of the inventory check to be reported to Governors.</li> </ul>
4	Sanders School	<ul style="list-style-type: none"> <li>• Authorised signatories and financial limits set out within both the Scheme of Delegation / Delegated Authority and Finance Policy &amp; Procedures to align;</li> <li>• Appropriate checks to be undertaken to ensure staff using their car for work purposes, are legally entitled to do so;</li> <li>• Emergency Planning and Business Continuity arrangements to be formally documented;</li> <li>• Checks to be carried out on self-employed individuals in advance of them being engaged by the school;</li> <li>• The details, including serial number, or Items of equipment purchased to be clearly documented and items stored securely until such time that the item is added to the inventory and allocated a location; and</li> <li>• The circumstances regarding the missing iPads, the absence of investigation into the potential theft and lack of reporting to the police to be formally reported to Governors for recording in the meeting minutes.</li> </ul>
5	Wykeham Primary	<ul style="list-style-type: none"> <li>• Checks should be undertaken on all staff to ensure that those that drive for business use have the relevant insurance and driving documentation.</li> <li>• The budget should be subject to regular monitoring in order to identify and address potential overspends / discrepancies.</li> <li>• Keys should be held in a safe and secure location.</li> <li>• A clearly defined procurement process to be developed and followed by all staff when purchasing goods/ services.</li> <li>• Quotes / tenders should be obtained for all contracts in excess of thresholds.</li> <li>• The School Fund Account should be regularly reconciled.</li> <li>• The School Fund Account should be subject to independent audit on a regular basis.</li> </ul>

		<ul style="list-style-type: none"> <li>• Efforts should be made to find the missing personnel files, or to re-gather the information to be held by the school</li> <li>• Access to personnel information should be adequately restricted.</li> <li>• Payroll should be checked on a monthly basis.</li> <li>• A process should be designed to monitor and maintain an effective control of inventory.</li> <li>• A review of the inventory should be completed annually.</li> <li>• A record of equipment on loan should be maintained.</li> </ul>
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### 1.10 Follow up Work

The Internal Audit Team track the completion of all non-school audit recommendations. Information regarding outstanding recommendations is reported as part of the quarterly update provided to the Audit Committee. Annually the Audit Committee receive a full list of all outstanding high risk recommendations. The status of the high risk recommendations raised during 2016/17 is outlined within the table below.

#### **Non School Audits**

Number of high risk recommendations raised during 2016/17	<b>13</b>
Number of high risk recommendations due to be implemented by 31/05/2017	<b>11</b>
Number of high risk recommendations fully implemented	<b>9</b>
Number of high risk recommendations partially implemented	<b>2</b>
Number of high risk recommendations not implemented	<b>0</b>

The details of recommendations which are not yet fully implemented are provided below:



Area Reviewed	Head of Service Responsible	Recommendation and current progress	Status
Direct Payments (Adults)	Adult Services	<p>The Children's Direct Payment and Adults Direct Payments Policies should be put in place and approved.*</p> <p>April 2017 Update Work is currently underway to review the arrangements for Direct Payments in children, at the moment the adults policy covers DP for children's, but as part of the review as separate policy is required and this will be developed by July 2017.</p> <p>*Note that while Children's was not part of the scope of this review it was decided to include this recommendation as part of the findings of this review since the policies were linked together at the time of the audit.</p>	Partially Implemented (in progress with revised deadline of July 2017)
Disaster Recovery	ICT	<p>The DR plan should be tested periodically, if not annually at least every two years and results of the tests should be formally communicated to ICT's SMT and CLT and any remedial action required should be performed as necessary.</p> <p>May 2017: A two yearly DR test will be scheduled; there are currently dependences on the new infrastructure going live and generator &amp; UPS upgrade in Dockside.</p>	Partially Implemented

Partially implemented recommendations will continue to be monitored and any instances of non-implementation reported to the Audit Committee in the future.

### **School Audits**

School audit recommendations have previously been followed up as part of the financial health checks, which are referred to under the schools programme detailed in Section 2 below, or reviewed as part of the triennial school reviews. From 2017/18 onwards, high risk school recommendations will be included in the overall follow up process, to ensure that implementation can be monitored more effectively.

## **2. Schools Programme**

- 2.1 There are currently 52 borough maintained schools within Havering with 39 schools having received a triennial audit between the financial years 2014/15 – 2016/17. Of the remaining 13 schools, all have received at least one Health Check since their last triennial visit, and are scheduled to be reviewed as part of the 2017/18 audit plan. In addition to assessing the implementation of recommendations raised following the previous audit, the Health Check also reviews the perceived high risk areas, including those common themes noted in paragraph 2.3 below.
- 2.2 Assurance opinions are given for each school report. Of the 17 schools receiving a triennial audit in 2016/17, two received Substantial Assurance, eleven received Moderate Assurance and four received Limited Assurance. Details of the schools given Limited Assurance ratings are provided in paragraph 1.9 above.
- 2.3 Recommendations raised during the 2016/17 audits produced some common themes found across multiple schools:
- Procurement; specifically due to schools raising orders on the SIMS Finance system retrospectively upon receipt of an invoice. This creates issues with budget monitoring processes for the schools as they are potentially unaware of spend before the invoice arrives.
  - Self Employment; schools need to ensure they are completing the relevant HMRC checks prior to employing self employed individuals.
  - Inventory controls; the need for an inventory to be maintained, reviewed at least annually and reported to the Governing Body.
  - Safeguarding; the need for all staff and governors to be subject to a DBS check every three years.
- 2.4 During 2016/17 the service delivered 26 Health Checks, generating a revenue of £13,000.
- 2.5 The Schools Financial Value Standard (SFVS) is designed to assist schools in managing their finances and to give assurance that they have secure financial management in place. As Governing bodies have formal responsibility for the financial management of their schools, the standard is aimed primarily at governors. The SFVS returns are used to inform the internal audit programme. All schools within Havering completed and submitted their copies of the SFVS to the LA within the agreed timescales.

### **3. Counter Fraud**

#### **Corporate Fraud**

- 3.1 The Council has a zero tolerance approach to fraud and the work of the Fraud Team supports this priority.
- 3.2 Working closely with services we have introduced a number of initiatives, such as ID verification scanners, for front line services to ensure stronger verification checks to prevent fraud occurring. The team can offer both a criminal and proactive support service.

- 3.3 The Fraud Team have provided anti-fraud training to members of staff within Transactional Services and Housing's Homeless Team. Five training sessions have been undertaken in 2016/17, with 74 delegates attending.

### **Housing Fraud**

- 3.4 The Proactive Tenancy project saw the recovery of 23 properties and cancelled 28 Right to Buy applications, ensuring Havering's houses were allocated to those with genuine entitlement.
- 3.5 During the year the team have:
- Undertaken 17,306 tenancy visits and completed 5,300 audit checks; and
  - Undertaken 2,219 Private Sector Landlord (PSL) tenancy visits and completed 832 audit checks.

### **Asylum and Immigration Fraud**

- 3.6 The Council is at risk of incurring a fine of up to £20,000 for every person who is employed with no right to work, in addition to them taking a job that should have gone to someone else. Whilst there were no cases identified in 2016/17, we are seeking to strengthen the vetting process, in partnership with HR, via chip scanning of all identify documents in 2017/18.

## **4. Risk Management Arrangements**

- 4.1 The Senior Leadership Team (SLT) reviews the corporate risk register on a quarterly basis. The SLT undertook a risk review workshop at the start of 2017 to review and refresh the corporate risk register. The revised risk register was presented to the Audit Committee at the 9<sup>th</sup> May meeting. The SLT will proactively manage, develop and review the corporate risk register throughout 2017/18.

## **5. Governance Arrangements**

- 5.1 There is an established officer Governance and Assurance Board at LB Havering which the Head of Assurance attends. The work of Internal Audit informs this group and issues brought to the group and identified in the Annual Governance Statement (AGS), inform the annual audit plan. Governance arrangements are routinely considered as part of all internal audit reviews.

### **Audit Committee**

- 5.2 The Audit Committee has had a pivotal role in ensuring the risk management, governance and internal control environment is adequately robust.

## Appendix A – Audit work undertaken during 2016/17

	Audit Title	Assurance Opinion
one Source	NNDR valuation and liability	Moderate
	Disaster recovery	Substantial
	Talent Link Application	Substantial
	Council tax collection*	Limited
LBH Systems Audits		
	Capital Works in Schools	Moderate
	Catering	Moderate
	NEPRO	Moderate
	Direct Payments	Limited
	Car Pool Scheme	Moderate
	Troubled Families Claim Window 1	Substantial
	Troubled Families Claim Window 2	Substantial
	Corporate Property Portfolio Management	Substantial
	Disabled Facilities Capital Grant	Substantial
	SWIFT	Substantial
	Payment in Error (HSE)	n/a
	ID Card Activation	n/a
	Cheque Processing	Moderate
	Careers Group	n/a
	Mayors Appeal Fund Annual Review	n/a
	Missing Planning Cheque	n/a
	Broadford Primary	Limited
Schools	Clockhouse Primary	Substantial
	Dame Tipping	Moderate
	Gaynes	Moderate
	Hacton Primary	Moderate
	Harold Wood Primary	Moderate
	Langtons Infant	Substantial
	Marshalls Park	Moderate
	Mawney	Moderate
	Mead Primary	Limited
	Newtons	Moderate
	Parsonage Farm Primary	Moderate
	Royal Liberty	Moderate
	Sanders	Limited
	St Ursula Junior	Moderate
	Towers Infants	Moderate
	Wykeham Primary	Limited
Follow Ups	Direct Payments Follow Up	Moderate
	Service Manager Follow Up	Substantial
	Third Party Connections Follow Up	Substantial

	<b>Audit Title</b>	<b>Assurance Opinion</b>
	PARIS (Cash Receipting) Follow Up	Substantial

\*this relates to a oneSource Council Tax audit which received a limited assurance opinion due to the number of high risk recommendations, all of which related only to LB Newham's processes and do not impact on LB Havering. This has been taken into consideration in the overall assurance opinion.

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## Audit Committee

21 June 2017

**Subject Heading:**

**Annual Treasury Management Report 2016/17 and proposed change to the 2017/18 Treasury Management Strategy Statement (Appendix 4)**

**CLT Lead:**

**Debbie Middleton**

**Report Author and contact details:**

Miriam Adams Interim Treasury Manager  
Miriam.adams@onesource.co.uk  
01708 432733

**Policy context:**

The code of practice on treasury management 2009 requires a year end report to Members to full Council on the treasury performance

**Financial summary:**

There are no direct financial implications from the report

**Is this a Key Decision?**

No

**When should this matter be reviewed?**

N/A

**Reviewing OSC:**

N/A

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

Communities making Havering	[ ]
Places making Havering	[ ]
Opportunities making Havering	[ ]
Connections making Havering	[X]

## SUMMARY

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function to full Council at least twice yearly (mid-year and at year end).

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the

revenue effect of changing interest rates. This report covers treasury activity, its associated monitoring and control of risk.

In 2016/17 there was no new long term borrowing, while external investment income outturn exceeded the budgeted figure by £0.509m was achieved despite the Bank of England bank rate cut in August 2016 from 0.5% to 0.25% and the benchmark LIBOR falling from 0.5% in Q2 to 0.44% at 31/3/17.

## RECOMMENDATIONS

That Audit Committee:

1. **Note** the final 2016/17 Treasury Position set out in this report
2. **Note** the treasury and prudential indicators in this report: and
3. **Note the recommendation** to Cabinet and Council to consider this report and approve changes to the 2017/18 Treasury Management Strategy Statement (TMSS).

## REPORT DETAIL

### Contents

1. Annual Investment Strategy
2. New Borrowing
3. Debt Rescheduling
4. Compliance with Treasury Indicators
5. Compliance with Prudential Indicators; and
6. Other Treasury Related Matters.

### 1. Annual Investment Strategy

- 1.1 The 2016/17 TMSS was approved by the Authority in February 2016 and sets out the investment priorities in order of priority as:
  - Security of Capital
  - Liquidity; and
  - Yield.
- 1.2 The Authority will aim to achieve the optimum return (yield) on investments commensurate with acceptable levels of security and liquidity.
- 1.3 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. As a result of



investing these cash balances, the Authority is exposed to financial risks and the revenue effect of changing interest rates. A breakdown of deposits held in 2016/17 are shown in appendix 1 while investment performance is shown in table 1 below:

**Table 1: Investment performance for 2016/17**

<b>Benchmark</b>	<b>Benchmark Return %</b>	<b>Budgeted Rate of Return %</b>	<b>Actual Rate of Return %</b>	<b>Investment interest Earned* (£m)</b>
<b>Quarter 1</b>	0.58	0.60	0.77	0.237
<b>Quarter 2</b>	0.51	0.60	0.76	0.478
<b>Quarter 3</b>	0.47	0.60	0.69	0.923
<b>Quarter 4</b>	0.44	0.60	0.72	1.469

\*interest on external investments.

\* figures changed slightly from Q4 report given outturn figures (subject to audit) have now been established. .

- 1.4 The UK Bank Rate fell to 0.25% in August 2016 from 0.5% since March 2009, keeping short-term money market rates at historically low levels.
- 1.5 As illustrated in Table 1, at Q4 the Authority outperformed the benchmark by 0.28% and the budgeted rate of return by 0.12%. The external investment interest earned was £1.469m compared to the budget of £0.960m.
- 1.6 The Authority had £210m of long term borrowing and £200.9m of investments at year end. This is summarised in Table 2 below and detailed in appendix 2.

**Table 2 – Existing Investment & Debt Portfolio Position**

	31/03/2017 <b>Actual Portfolio £m</b>	31/03/2017 <b>Average Rate %</b>
<b>Long Term Borrowing:</b>		
PWLB – Fixed Rate	203.2	
PWLB – Variable Rate	-	
Local Authorities	-	
LOBO Loans	<b>7.0</b>	
<b>Total Long Term Borrowing*</b>	<b>210.2</b>	<b>3.59</b>
<b>Short Term Borrowing</b>		
Local Authorities	2.25	
Other	0.25	
<b>Total Short Term Borrowing</b>	<b>2.5</b>	<b>0.43</b>
<b>Investments:</b>		
Short-term investments	160.9	
Long-term investments	40.0	
<b>Total Investments</b>	<b>200.9</b>	<b>0.71</b>
<b>Net Borrowing/ Investments</b>	<b>11.8</b>	

\* long term loans above excludes interest free energy efficiency loans from Salix Finance

## **2. New borrowing**

- 2.1 Affordability and the “cost of carry” remain important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.
- 2.2 As short-term interest rates are likely to remain below long-term borrowing rates, it is more cost effective in the short-term to use internal resources instead although this will be kept under constant review and will respond to opportunities and changing forecasts as they arise.
- 2.3 In 2016/17, no new long term borrowing was undertaken to fund capital expenditure. Future capital spending plans are regularly reviewed and any additional long term borrowing will only be taken after careful consideration of affordability, revenue impact, direction in travel of interest rates, the Authority’s capital programme requirement and advice from the Treasury Adviser.

- 2.4 During 2017/18 a fundamental review of the Authority's capital investment plans is being undertaken in order to develop a 5 year capital programme from 2018/19 to 2023/24. The programme will be developed to align with the Corporate Plan priorities, optimise the use of external funding streams and ensure that any further borrowing to fund future capital investment plans is affordable over the long term in revenue terms.

### **3. Debt Rescheduling**

- 3.1 The opportunities for debt rescheduling are regularly reviewed by the Authority's treasury adviser in consultation with senior treasury officers, the S151 officer and lead Cabinet Member for Finance.
- 3.2 The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for loans in the Authority's portfolio and prevented any debt rescheduling activity in 2016/17.

### **4. Treasury and Prudential Indicators**

- 4.1 Appendix 3 shows treasury activity compared with the Authority's approved Treasury and Prudential Indicators (affordability limits) for 2016/17 as set out in the approved TMSS.

### **5. Other Treasury related Matters**

#### **5.1 Policy on Use of Financial Derivatives**

- 5.1.1 The Authority has not entered into any stand alone financial derivatives during the financial year 2016/17.

#### **5.2 Policy on Apportioning Interest to the HRA**

- 5.2.1 The Authority has apportioned interest to the HRA at 0.5%. All the risks associated with treasury activities (which are kept to a minimum through the Authority's TMSS) lie with the General Fund rather than the HRA. This rate will be reviewed in 2017/18.

#### **5.3 Investment Training**

- 5.3.1 The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 5.3.2 During 2016/17 staff attended training courses, seminars and conferences provided by the Treasury Adviser, CIPFA and other treasury organisations. In addition treasury management staff also attended the London Treasury Officers Forum, a group set up for networking and sharing best practice.

## **5.4 Investment Advisers**

- 5.4.1 The Authority appointed Arlingclose Limited as treasury management advisers. Throughout the course of the year officers receive on a daily basis specific advice on investment, debt and capital finance issues augmented by a quarterly strategy review meeting with the S151 officer and the lead Member for Finance.

## **5.5 Security**

- 5.5.1 Security of capital remains the Authority's overriding investment objective and is delivered through the Authority's counterparty policy as set out in its TMSS 2016/17.
- 5.5.2 Counterparty credit quality was assessed and monitored with reference to credit ratings (using the ratings from all three of the main credit rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. During the financial year none of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July 2016 and by the Bank of England in November 2016.
- 5.5.3 The Authority has also made use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment as additional security for its deposits.

## **6.0 Proposed Changes to the 2017/18 TMSS**

- 6.1 Officers and the Treasury Adviser constantly scan the market to identify suitable investment opportunities and with investment rates remaining lower for longer and CPI inflation increasing, the need to do this is ever more important if investment income budget targets are to be met.
- 6.2 This point was made in the Q4 report to Audit Committee and the proposed changes are requested so that Officers have scope to investigate investments that will provide higher returns than are currently available in the strategy but without compromising the aforementioned investment objectives. Examples of such investments are: asset backed Solar bonds and pooled funds.
- 6.3 The Audit Committee is being asked to note the recommendation to Cabinet and Full Council to consider the report and approve changes to the 2017/18 TMSS to enable the Authority to invest in unrated, secured corporate bonds

and increase the limit on pooled fund investments. These amendments are set out in appendix 4 of this report.

## REASONS AND OPTIONS

### **Reasons for the decision:**

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function to full Council at year end.

### **Other options considered:**

The other option would be to not report the performance of the treasury function however as this would be in breach of CIPFA's TM Code, this was not considered.

## IMPLICATIONS AND RISKS

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

There are no direct financial implications from this report.

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

The Local Authority has a power to invest in virtue of section 12 Local Government Act 2003 (a) for any purpose relevant to its functions under any enactment, or (b) for the purposes of the prudent management of its financial affairs. The Authority must have regard to relevant guidance which in this case is provided by CIPFA. Otherwise there are no apparent legal implications or risks from this report.

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

There are no HR implications from this report

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

There are no Equalities implications arising from this report

## BACKGROUND PAPERS

None

## Appendix 1

**Table 1: Breakdown of Deposits**

Institution Type	31 <sup>st</sup> March 2016 Actual £	31 <sup>st</sup> March 2017 Actual £
<b>UK Banks</b>		
Barclays Bank PLC	13,798,371	0
Close Brothers Ltd	5,000,000	0
Goldman Sachs INT'L Bank	10,000,000	18,000,000
Lloyds Bank PLC	15,000,000	24,000,000
Royal Bank of Scotland	544,829	0
Santander UK PLC	10,037,288	23,983,944
Standard Chartered Bank	5,000,000	0
<b>UK Building Societies</b>		
Coventry Building Society	10,000,000	5,000,000
Leeds Building Society	2,000,000	0
Nationwide Building Society	18,000,000	13,000,000
Yorkshire Building Society	5,000,000	5,000,000
<b>Local Authorities &amp; Other Public Sector</b>		
Birmingham City Council	5,000,000	0
Blaenau Gwent County Borough Council	1,000,000	0
Doncaster Borough Council	5,000,000	0
Eastleigh Borough Council	5,000,000	5,000,000
Highland Council Inverness	0	12,000,000
Lancashire County Council	15,000,000	15,000,000
London Borough of Islington	0	5,000,000
Newcastle Upon Tyne City Council	5,000,000	5,000,000
North Lanarkshire Council	0	5,000,000
Northumberland County Council	0	15,000,000
Wiltshire County Council	5,000,000	
<b>Non UK Banks</b>		
<b>Australia</b>		
Australia & New Zealand Banking Group	0	3,000,000
Commonwealth Bank of Australia	5,000,000	10,000,000
National Australia Bank	5,000,000	0
<b>Canada</b>		
Bank of Montreal	0	4,000,000
Toronto-Dominion Bank	13,000,000	0
<b>Netherlands</b>		
Cooperatieve Rabobank	8,000,000	15,000,000
<b>Sweden</b>		
Svenska Handelsbanken	13,947,452	0
<b>Singapore</b>		
Development Bank Singapore	5,000,000	2,000,000
Overseas-Chinese Banking Corporation	5,000,000	9,000,000
United Overseas Bank Limited	7,000,000	0
<b>Switzerland</b>		
Credit Suisse	5,000,000	0
<b>Money Market Funds</b>		
HSBC Global Liquidity Fund Class G	0	6,920,000
<b>TOTAL INVESTMENTS</b>	<b>202,327,940</b>	<b>200,903,944</b>

## **Appendix 2**

**Table 1: Loans and investments made and repaid during the year**

	<b>Balance at 01/4/16 £m</b>	<b>Raised £m</b>	<b>Repaid £m</b>	<b>Balance at 31/3/17 £m</b>	<b>Average Rate %</b>
<b>Loans</b>					
PWLB	203.2	-	-	203.2	3.59
Money Market (LOBO)	7	-	-	7	3.60
Temporary Borrowing	0.2	57.3	(54.9)	2.5	0.42
<b>TOTAL Loans</b>	<b>210.4</b>	<b>57.3</b>	<b>(54.9)</b>	<b>212.7</b>	<b>3.56</b>
<b>Investments</b>					
Fixed Deposits	162	(353.4)	353.4	162	0.75
Money Market Funds	-	(91.9)	84.9	6.9	0.29
Call Accounts	35.4	(319.7)	331.9	23.1	0.43
Covered Bonds & FRN's*	5	(3.8)	-	8.8	1.08
<b>TOTAL Investments</b>	<b>202.4</b>	<b>(768.8)</b>	<b>770.3</b>	<b>200.9</b>	<b>0.71</b>

\*Floating Rate Notes (FRN)

## **Appendix 3**

### **Treasury and Prudential Limits**

#### **1. Compliance with Treasury Limits**

##### **1.1 Liquidity**

1.1.1 The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments by the next working day and within a rolling three month period, without additional borrowing.

1.1.2 During 2016/17 interest rates have relatively flat in the 12 month period and investments were kept on shorter duration in case rates increased. This resulted in the liquidity targets being exceeded as shown in table 1 below.

Table 1: Liquidity activity at 31/03/17

	<b>Target £m</b>	<b>Actual £m</b>
Total cash available by the next working day	5.0	6.9
Total cash available within 3 months	30.0	61.0

##### **1.2 Interest Rate Exposures**

1.2.1 This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed was:

Table 2: Interest rate exposure activity

	<b>2016/17 %</b>
Upper limit on fixed interest rate exposure	100
Actual	94.7
Upper limit on variable interest rate exposure	25
Actual	5.3

1.2.2 Having a larger share of fixed interest rate borrowing provides stability to the Authority's budget strategy by removing the risk of interest payments increasing should interest rates rise.

##### **1.3 Maturity Structure of Borrowing**

1.3.1 This indicator is set to control the Authority's exposure to refinancing risk. The approved upper and lower limits on the maturity structure of fixed rate borrowing were:



- 1.3.2 This table compared to Q4 report includes amendments made to the loans management system to bring PWLB loans principal to agree with PWLB reported figures to the Authority and the energy loans received from a third party.

Table 3: Loan maturity structure

	Upper %	Lower %	Actual %
Under 12 months	40	0	1.2
12 months and within 24 months	40	0	0
24 months and within 5 years	60	0	1.1
5 years and within 10 years	75	0	9.6
10 years and above	100	25	88.1

- 1.3.3 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

## 1.4 Principal Sums Invested for Periods Longer than 364 days

- 1.4.1 The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end are:

Table 4: Investments for periods longer than 364 days

	31/3/2017 £m	31/3/2018 £m	31/3/2019 £m
Limit on principal invested beyond year end	75	75	75
Actual	40	40	20

- 1.4.2 The £40m invested for greater than 364 days are with other local authorities or secured investments.

## 2. Compliance with Prudential Indicators

- 2.1.1 The Local Government Act 2003 requires the council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent, sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2.1.2 As referred to in section 2 of the report, a fundamental review of the Authority's capital investment plans is being undertaken during 2017/18 to develop a 5 year capital programme from 2018/19 to 2023/24 to align with the Corporate Plan priorities. The programme will be developed to ensure that any future capital investment that is financed by further borrowing is affordable in revenue terms, prudent and sustainable.

## 2.2 Estimates of Capital Expenditure

2.2.1 The Authority's approved planned capital expenditure and financing are summarised as follows:

Table 5: Capital Expenditure

<b>Capital Expenditure and Financing</b>	<b>2016/17 Revised</b>	<b>2016/17 Actual</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund	66.3	68.3	102.1	61.8	53.8
HRA	17.2	19.9	60.5	40	33.4
<b>Total Capital Expenditure</b>	<b>83.5</b>	<b>88.1</b>	<b>162.6</b>	<b>101.8</b>	<b>87.2</b>
Capital Receipts	16.3	26	26.8	16.2	13.5
Government Grants	33	25	52.8	25.9	20.6
Reserves	0	0	26.1	7.1	3
Revenue	16.9	20.5	24.2	22.6	16.1
Net Financing Requirement	17.3	16.6	32.7	30.0	34

## 2.3 Estimates of Capital Financing Requirement (CFR)

2.3.1 The CFR measures the council's underlying need to borrow for a capital purpose.

Table 6: CFR

CFR	31/03/17 Estimate £m	31/03/17 Actual £m	31/03/18 Estimate £m	31/03/19 Estimate £m	31/03/20 Estimate £m
General Fund	76.4	75.9	97.7	115.7	133.3
HRA	174.7	174.7	184.7	194.7	208.7
<b>Total</b>	<b>251.1</b>	<b>250.6</b>	<b>282.4</b>	<b>310.4</b>	<b>342.0</b>
Movement in CFR	16.1	15.4	31.2	28.0	31.6
Net Financing Need per table 5	17.3	16.6	32.7	30.0	34.0
Less MRP	1.2	1.2	1.5	2.0	2.4
Movement in CFR	16.1	15.4	31.2	28.6	31.6

2.3.2 As at 31 March 2017, the Budget Strategy assumes CFR will rise by £91.4m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment. However subject to the aforementioned review this figure may increase as additional programs are added.

## 2.4 Gross Debt and the CFR

2.4.1 So that medium term debt will only be used for a capital purpose, the council should ensure that external debt does not, except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR requirement for the current and next two financial years. Table 7 illustrates this indicator has been met.

Table 7: Gross debt and the CFR

	31/03/17 Estimate £m	31/03/17 Actual £m	31/03/18 Estimate £m	31/03/19 Estimate £m	31/03/20 Estimate £m
Long Term External Debt	210.2	212.7**	210.2	210.2	256.2
CFR	251.2	250.6	282.4	310.4	342.0
Internal Borrowing	41.0	37.3	72.4	100.2	85.8

\*\* includes energy efficiency interest free loans from Salix Finance Ltd

2.4.2 Total debt is expected to remain below the CFR during the forecast period. Whilst there are no commitments to increase long term debt over the next 3 years Once the ongoing review of the 5 year capital programme is completed for 2018/19, it may be necessary to increase long term external debt in 2019/20 when investment balances become depleted and internal borrowing is no longer available. In addition it may be necessary to bring

forward external long term borrowing should there be an anticipated change in the future interest rate yield curve.

2.4.3 The actual debt levels are also monitored against the Operational Boundary and Authorised Limit for External Debt, below.

## 2.5 Operational Boundary for External Debt

2.5.1 The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Table 8: Operational Boundary

<b>Operational Boundary Revised</b>	<b>2016/17 £m</b>
Borrowing	258.7
Other long-term liabilities	2.0
<b>Total</b>	<b>260.7</b>
<b>Actual Long Term Debt</b>	<b>212.7</b>
<b>Headroom</b>	<b>48.0</b>

## 2.6 Authorised Limit for External Debt

2.6.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 9: Authorised limit

<b>Authorised Limit</b>	<b>2016/17 £m</b>
Borrowing	284.6
Other long-term liabilities	2.0
<b>Total Debt</b>	<b>286.6</b>
<b>Long Term Debt</b>	<b>212.7</b>
<b>Headroom</b>	<b>73.9</b>

## 2.7 Ratio of Financing Costs to Net Revenue Stream

2.7.1 This ratio is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the

proportion of the revenue budget required to meet financing costs, net of investment income.

Table 10: Ratio of Financing Costs to Net Revenue Stream

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2015/16 Actual %</b>	<b>2016/17 Estimate %</b>	<b>2016/17 Actual %</b>
General Fund	2.54	2.02	2.12
HRA	7.28	5.56	5.26

## **2.8 Incremental Impact of Capital Investment Decisions**

2.8.1 This ratio is an indicator of affordability that shows the impact of capital investment decisions on council tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the new capital programme.

Table 11: Incremental Impact of Capital Investment funded by Borrowing

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2016/17 Estimate £</b>	<b>2016/17 Actual £</b>
General Fund - increase in annual band D Council Tax	7.75	7.52
HRA - increase in average weekly rents	3.46p	3.0p

## **3. Adoption of the CIPFA Treasury Management Code**

3.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition.

## **4.0 HRA Limit on Indebtedness**

4.1 The Authority's HRA CFR should not exceed the limit imposed by the Department for Communities and Local Government at the time of implementation of self-financing. The Authority complied with this requirement as set out below

Table 12: HRA Limit on Indebtedness

<b>HRA CFR Limit:</b>	<b>£209m</b>				
	<b>2016/17 Estimate £m</b>	<b>2016/17 Actual £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>
HRA CFR	174.7	174.7	184.7	194.7	208.7
Difference	34.3	34.3	24.3	14.3	0.3

#### **Appendix 4**

##### **Changes to the 2017/18 Treasury Management Strategy Statement**

In February 2017, the 2017/18 Treasury Management Strategy Statement was approved by Council as required by the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) and Department for Communities and Local Government (DCLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

The Treasury Management Strategy Statement fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA code and DCLG guidance.

During the period since the February Council approval of the TMSS, officers have been working in consultation with the Cabinet Member for Financial Management on developing options to mitigate the adverse effect on investment income from interest rates remaining lower for longer than planned and increased CPI inflation that is set to rise to circa 3%. An option explored has been to invest in secured unrated corporate bond investments. This will require the Authority to expand the list of instruments it can invest in. Full Council approval is required make this amendment.

The changes proposed are highlighted in bold below and have been made in consultation with the Authority's external treasury adviser. Any investment in these new instruments will subject to the officers undertaking robust due diligence including specialist advice as required, compliance with the Authority's financial strategy and approval of the S151 officer in consultation with the Cabinet Member for Financial Management.

**Table 1: Original Approved Investment Counterparties**

Credit Rating	Banks Unsecured*	Banks Secured*	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	Unlimited 50 years	n/a	n/a
AAA	£25m 5 years	£25m 20 years	£25m 50 years	£15m 20 years	£15m 20 years
AA+	£25m 5 years	£25m 10 years	£25m 25 years	£15m 10 years	£15m 10 years
AA	£25m 4 years	£25m 5 years	£25 15 years	£15m 5 years	£15m 10 years
AA-	£25m 3 years	£25m 4 years	£25m 10 years	£15m 4 years	£15m 10 years
A+	£25m 2 years	£25m 3 years	£15m 5 years	£15m 3 years	£15m 5 years
A	£25m 13 months	£25m 2 years	£15m 5 years	£15m 2 years	£15m 5 years
A-	£25m 6 months	£25m 13 months	N/A	£15m 13 months	£15m 5 years
BBB+	£15m 100 days	£15m 6 months	N/A	£10m 6 months	£10m 2 years
BBB or BBB-	£15m next day only	£15m 100 days	N/A	N/A	N/A
None	£1m 6 months	N/A	N/A	£50,000 5 years	£10m 5 years
Pooled funds	£25m per fund				

**Table 2: Revised Approved Investment Counterparties**

Credit Rating	Banks Unsecured*	Banks Secured*	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	Unlimited 50 years	n/a	n/a
AAA	£25m 5 years	£25m 20 years	£25m 50 years	£15m 20 years	£15m 20 years
AA+	£25m 5 years	£25m 10 years	£25m 25 years	£15m 10 years	£15m 10 years
AA	£25m 4 years	£25m 5 years	£25 15 years	£15m 5 years	£15m 10 years
AA-	£25m 3 years	£25m 4 years	£25m 10 years	£15m 4 years	£15m 10 years
A+	£25m 2 years	£25m 3 years	£15m 5 years	£15m 3 years	£15m 5 years
A	£25m 13 months	£25m 2 years	£15m 5 years	£15m 2 years	£15m 5 years
A-	£25m 6 months	£25m 13 months	N/A	£15m 13 months	£15m 5 years
BBB+	£15m 100 days	£15m 6 months	N/A	£10m 6 months	£10m 2 years
BBB or BBB-	£15m next day only	£15m 100 days	N/A	N/A	N/A
None	£1m 6 months	N/A	N/A	£5m 5 years	£10m 5 years
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Equity, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds				