



AUDIT COMMITTEE

10 05 2016

Subject Heading:

Head of Internal Audit - Quarter Four
Progress Report: 4th January to 3rd April
2016

CMT Lead:

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Policy context:

To inform the Committee of progress on
the assurance work undertaken in quarter
four of 2015/16.

Financial summary:

N/A

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

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

SUMMARY

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

RECOMMENDATIONS

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

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 (4th January to 3rd April 2016)

Appendix B Summary of Audit Reports

Appendix C List of High Priority Audit Recommendations

IMPLICATIONS AND RISKS

Financial implications and risks:

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

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

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

N/A

Section 1: Introduction, Issues and Assurance Opinion

1.1 Introduction

- 1.1.1 This composite report brings together all aspects of internal audit and anti-fraud work undertaken in quarter four, 2015/16, in support of the Audit Committee's role.
- 1.1.2 The main body of the report provides the Head of Internal Audit's ongoing assurance opinion on the internal control environment and highlights key outcomes from audit and anti-fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide greater detail for the committee's information.
- 1.1.3 The 2015/16 planned audit days is 800, which has reduced by 8% (67 days) compared to 2014/15. This is line with the 2013/14 London average of 900 days.
- 1.1.4 The oneSource service transformation restructure was formally launched on the 15th April; this included the new partner-Bexley. It is anticipated that the structure will go live late August. This will deliver additional resilience and savings and efficiencies required in line with the Joint Committee Business Case.
- 1.1.5 The Audit service is required to make £1,393m of savings per annum. The proposed structure for three partners will see a net reduction in the service from the 2015/16 combined staffing levels (post Fraud phase one required in April 2015 due to the statutory transfer of Housing Benefit Investigators to the DWP) from 57FTEs to 39FTEs. In anticipation of the restructure vacancies have been maintained.
- 1.1.6 Subject to the consultation phase, the savings will be £744k from reduction in staffing levels, £50k from the reduction of legal expenditure and £150k required "other" non-staffing elements to be reviewed. This is in addition to the £449k already delivered by the Fraud 2015 restructure.
- 1.17 The proposed Target Operating Model has been agreed by all three partner statutory 151 Finance Officers. The combined proposed staffing element cost from 2017/18 is £1,864,000.

1.2 Current/Future Key Issues

- 1.2.1 The new Accounts and Audit Regulations 2015 for local Authorities in England that came into effect on 1st April 2015 are being followed.
- 1.2.2 The requirement to have internal audit has been amended to require local authorities to "*...undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*".
- 1.2.3 The Relevant Internal Audit Standard Setters (RIASS) have adopted two additions to the UK PSIAs from 1 April 2016, namely the Mission of Internal

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

- 1.2.4 The Head of Internal Audit chairs the officer working group, which seeks to strengthen the Officer Governance Group; this will include consideration of the assurance perspective and will include the risk management arrangements and any changes that may arise from the current CIPFA/SOLACE consultation paper on the *Framework for Delivering Good Governance in Local Government* that closed at the end of September 2015. The report is expected later in April. The Governance Group met in April 2016 and considered progress against the significant governance issues in the 2014/15. The group has considered areas for inclusion for this year's Annual Governance Statement and the Corporate Risk Register which will come to Audit Committee in June.
- 1.2.5 Organisations are no longer required to undertake an annual review of effectiveness to meet the requirements of the Public Sector Internal Audit Standards but to have an ongoing programme of quality assessment and improvement and an external review every five years. This will form part of the oneSource Audit Charter and Strategy.
- 1.2.6 With the demise of the Audit Commission from April 2015, councils are required to consider how they will procure External Audit. The LGA have set up a company to oversee the existing contracts and councils will be required to determine if they wish to remain part of that arrangement or look at an alternative. A briefing note will be drafted and discussed with 151 officers for consideration and an update brought to the June committee.
- 1.2.7 The DCLG funded Fraud Data Sharing Hub is under development across London Boroughs. This enables data to be shared in order to help deter and prevent crime. Havering has signed the required Memorandum of Understanding in order to progress this.
- 1.2.8 Post the implementation of the oneSource restructure of Internal Audit, there will be a "one Policy, Strategy and Procedure" approach, in line with the principles in the Business case that will ensure duplication is removed and partners receive the same service standard. The Audit Committee is reminded that it agreed the oneSource Anti-Fraud and Corruption Strategy at the September 2015 meeting.

1.3 Level of Assurance

- 1.3.1 At the March Committee meeting, Members received the Head of Internal Audit's opinion based upon the work undertaken in quarter three of 2015/16, which concluded that reasonable assurance could be given that the internal control environment is operating adequately.
- 1.3.2 Based upon the work undertaken since the last update to Members, no material issues have arisen, which would impact on this opinion. There has been one Limited assurance report issued this quarter.

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

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

2.1.2 In quarter four there has been one Limited assurance report issued, this being:

- 3rd Party Connections

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

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

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

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

2.2.2 The NFI Council Tax ‘Single Person Discount’ and ‘Approaching 18’ matches have been reviewed.

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

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

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

2.3.1 During quarter four the criminal investigations team:

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

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

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

1.1.2 The team:

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

1.1.3 With the transfer of Havering counter fraud employees to the Department for Work and Pensions (DWP), the residual workload has been incorporated into the team and has been classified into four headings:

- Proactive audit investigations;
- Reactive audit investigations;
- Criminal / fraud investigations and
- HR investigations.

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

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

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

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

1.2 Risk Based Systems and School Audits

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

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

- 1.2.2 Management summaries for the four systems and one computer report are included under Appendix B: Audit Report Summaries.
- 1.2.3 There are no schools audit summaries included in this quarter's report as the health checks are not included in the same way as the tri-annual audits completed by the team. During quarter four there were 12 school health check audits completed and reports issued. There were also another five schools that had received health checks and draft reports issued but not finalised.
- 1.2.4 Work nearing completion at the end of March included four risk based systems audits and two computer audits. It is anticipated that these audits will be reported on at next audit committee.

1.3 Key Performance Indicators

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

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

1.4 Outstanding Audit Recommendations Update

1.4.1 Internal Audit follow up all recommendations with management when the deadlines for implementation pass. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations in systems, where limited assurance was given, is verified through a follow up audit review.

1.4.2 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high priority recommendations.

1.4.3 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

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

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

1.5 Outstanding Audit Recommendations

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

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

2.1 Proactive Audit Investigations

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

Description	Risks	Plan days	Quarter 2 Status
Grants	Identification of grants provided to charity organisations to inspect and confirm that supporting documentation for expenditure is valid and used for the purpose intended in the original application or as stipulated by the Council on approval of the grant. Review formal acceptance documentation and payment and bank records to ensure payments are accounted for.	20	On Hold
Payment of Election expenses	Review appointment of staff, entitlement, and payment of fees/arrangements including postal votes and counting. Completion of claims and receipt.	10	Completed
NNDR	A full review of the NNDR process to gain a position statement and establish the recovery levels to date and possible weaknesses in system particularly with Charities and 'Pop Up Shops'	20	Delayed due to Restructure
Direct Payment Assessments	This to include the assessment and payment calculations and follow ups with the Care Assessors to establish processes and evaluate controls.	15	Planned
Employee Applications	This could involve any applications, including attempts, to gain employment or subsequently where any of the details prove to be false including, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.	20	Planned
NFI	The match identifies addresses where the householder is claiming a council tax single person discount on the basis that they are the only occupant over 18 years of age yet the electoral register suggests that there is somebody else in the household who is already or approaching 18 years of age. This may or will make the SPD invalid.	30	In progress

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

2.1.2 The proactive audit investigation work comprises three elements:

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

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

2.2 Reactive Audit Investigation Cases

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

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

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

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

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

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

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

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

2.3 Savings and Losses

2.3.1 The investigations carried out by Audit Investigations provide the Council with value for money through:

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

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

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

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

2.4 Audit Investigation Recommendations

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

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

3.1 Criminal Investigations Team

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

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

* Eleven closed – No Fraud proven, 26 Closed – No Further Action.

** Five cases where keys have been returned to LA, includes 10 Notice to Quit issued and one awaiting eviction

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

Appendix B Summary of Audit Reports

Service Manager (Transactional Services)	Schedule B (1)
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1.1 Introduction

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

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

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

1.1.4 All purchase orders, bar some exceptions, must now be placed via the iProc system. Exceptions to this policy are currently restricted to:

- purchases via an existing embedded system e.g. Swift, Tranman;
- purchases via central Government bodies;
- payments to utility companies;
- net payments to construction industry standard ('CIS') suppliers (however gross payments to CIS suppliers can be made via iProc); and
- payments to overseas suppliers which are not made in £Sterling; and
- Some named companies.

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

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

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

1.2 Objectives and Scope

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

- Compliance with Procurement legislation and the organisations policies and procedures;
- Payments to suppliers are bona fide; and
- Management information is relevant and accurate and monitored regularly.

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

- Non-compliance with EU procurement rules;
- The organisations policies and procedures are not being followed;
- Staff lack adequate training;
- Access to the system is not controlled;
- Payments to suppliers are not accurate;

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

1.3 Summary of Audit Findings

- 1.3.1 The Councils Financial Framework is available on the intranet and sets out how the Financial Procedures rules should be applied. Section T of the Framework relates to procurement, purchasing and corporate contracts. Within this section is detail on how and when to use e-procurement. The e-procurement system pre-dates the iProcurement system and therefore this information is no longer relevant.
- 1.3.2 A recommendation has been raised as part of a previous audit which relates to updating the Financial Procedures and Framework. The implementation of this recommendation has been on going and therefore no further recommendations have been raised as part of this report.
- 1.3.3 With the launch of iProcurement the council adopted a 'No PO No PAY' policy. This was designed to ensure that all possible suppliers were set up within iProcurement. Suppliers that aren't on the system are contacted when an invoice is received to promote the use of iProcurement. Due to the legal obligation, of paying the invoice within a specific timescale to avoid fines, the application of the 'No PO No PAY' policy is limited to only those suppliers that express an interest in using the iProcurement system.
- 1.3.4 A working party has been set up to aid the implementation of One Oracle for the London Borough of Newham. As part of this working group they will be considering ways to embed the 'No PO No PAY' policy.
- 1.3.5 Included on the Councils intranet is a page dedicated to iProcurement. Included within that page are various links and documents relating to training, staff champion, basic user guides, expense rules and iSupplier terms and conditions. A review of the links/ documents attached to the iProcurement page found that some either didn't work or contained out of date information.
- 1.3.6 During the audit the UPK training was removed from the intranet site and added to the Learning Homepage within One Oracle for all staff to be able to access.
- 1.3.7 When purchase orders are raised on the system it transfers to the iSupplier system for the supplier to accept / 'flip' the order, which results in an electronic invoice being created within the system. It is possible for the order to be completed without the supplier accepting / 'flipping' within the system, however, the payment for the goods/ services cannot be made until this process has been completed.
- 1.3.8 The system does not issue any reminders through iSupplier to accept orders within the system. As this is the responsibility of the supplier to complete there is no risk to the Council for orders that remain within the system. A review of all

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

- 1.3.9 Some suppliers still send in invoices for the services provided even though they are on iProcurement. This is largely related to services where the cost may not be known until the service has been provided. In these instances the details from the invoice are used to raise an order on the iProcurement system retrospectively.
- 1.3.10 The system will allow multiple requisitions to be made through one purchase order. This may result in multiple invoices being paid through one order. In these instances it is the responsibility of the individual service to monitor that invoices haven't been paid more than once.
- 1.3.11 Following a report from a supplier regarding invoices being paid in duplicate a reactive review was completed which highlighted in excess of £50,000 in duplicate payments to a single supplier. Following this review a recommendation was raised that users must only raise one requisition (invoice) per purchase order. This would then minimise the potential to enter duplicate payments.
- 1.3.12 There are no system controls that would limit the user's ability to enter multiple requisitions per order and the guidance had been written and added to the intranet page for iProcurement prior to this audit review taking place. Due to this guidance and the lack of available system controls no further recommendations have been raised as part of this review. An extended proactive review was however completed during this review; the results of this review are detailed below.
- 1.3.13 As part of this audit it was found that there are instances where suppliers who have been set up on iProcurement are being paid through both the iProcurement and Accounts Payable systems. A review will be carried out separately concentrating on one supplier. The reasons for the split of payments will be investigated as well as any recommendations to ensure that there is a standard practice implemented for suppliers set up on the iProcurement system.

1.4 Proactive Review:

- 1.4.1 A further review has been carried out to identify whether there was a significant issue with users of the system paying invoices multiple times.
- 1.4.2 For the additional review reports were run of purchases raised through iProcurement from April 2014 – November 2015. These reports detailed all purchase orders raised within this period, as well as all requisitions (invoices) raised.
- 1.4.3 Due to the findings of the previous review these reports were focused on Children and Adult services. The purchases included within the report had a total of 6031 requisition orders with a value of £6.7m. The duplicates from the original review were excluded from this follow up due to them already being identified.
- 1.4.4 Purchase order descriptions were compared to highlight any potential duplicate payments. The invoice report was reviewed to highlight any potential duplicate invoices that may have been processed. The two reports were then compared to

confirm whether initial investigations had been correct.

- 1.4.5 There were multiple invoices where the difference in invoice number related to the additional of a letter (e.g. invoice no 405, 405A). On initial review these would appear as a possible duplicate as the value and dates were the same. When compared across the two reports it became apparent that these were for different pieces of work. The supplier had used the addition of a letter to differentiate the two even if this didn't coincide with the invoice number from the paper invoice.
- 1.4.6 The review highlighted 38 payments that required further inspection to determine whether they were duplicates. Copies of the invoices were requested from the person that had raised the original purchase order and compared.
- 1.4.7 Duplicate payments were found in six instances, these related to invoices with a combined total of £289. Action is being taken by the individual services to which these payments relate to retrieve the overpayments.

1.5 Audit Opinion

- 1.5.1 Substantial Assurance has been given on the system of internal control.
- 1.5.2 The audit makes one medium priority recommendations which comprise the need for a review of attachments/ documents available on the intranet to be completed to ensure that all links are active and relevant.

Service Manager - ICT	Schedule B (2)
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2.1 Introduction

- 2.1.1 The audit of Service Manager (ICT) follows and audit of the Service Manager system as used by oneSource Transactional Services within Havering.
- 2.1.2 The Service Manager system went live within ICT in April 2012. This replaced the previous system RMS.
- 2.1.3 The ICT Management took the decision to implement Service Manager with a detailed scope as to the requirements of the system agreed prior to implementation.
- 2.1.4 This system is used by the oneSource ICT service teams that cover both Havering and Newham.
- 2.1.5 In the period 1st April 2015 – 16th October 2015 a total of 32,029 calls were created within the Service Manager system.

2.2 Objectives and Scope

- 2.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance that:
- Staff are adequately trained to use the system;
 - Service requests are accurately processed and completed in a timely manner; and
 - Service Manager provides meaningful management information that is monitored regularly.
- 2.2.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:
- Staff lack adequate training;
 - Access to the system is not controlled;
 - Service requests are not being recorded within the system;
 - Service requests are not allocated or are incorrectly allocated;
 - Service requests received are not monitored accurately / effectively;
 - Service requests are not completed within the timescales detailed within the SLA;
 - Management information is not produced and monitored; and
 - Poor performance is not acted upon.

2.3 Summary of Audit Findings

- 2.3.1 All staff using Service Manager undertook training when initially using the software. All staff are due to be given refresher training at the beginning of 2016.
- 2.3.2 Each service request raised is allocated a severity which dictates the length of time it should be completed in. There are three levels of severity within the system; these are severity 4, severity 5 and severity 6. The deliverable timescale varies from 5 days to no fixed period. The system currently attaches a default of

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

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

2.4 Audit Opinion

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

- 2.4.2 The audit makes two medium priority recommendations which comprise the need for:

- Customers should be notified when the severity of the Service Request has been amended; and
- A record of the customer contact following a poor satisfaction survey should be recorded against the original call.

Pupil Place Planning	Schedule B (3)
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3.1 Introduction

- 3.1.1 The audit of Pupil Place Planning forms part of the 2015/2016 Internal Audit plan.
- 3.1.2 Under Section 14 of the Education Act 1996 a local authority has a statutory responsibility to ensure that primary and secondary schools in its area are sufficient in number, character and equipment to provide education suitable for the different ages, abilities and aptitudes and special educational needs of pupils of school age.
- 3.1.3 In addition, the Childcare Act 2006 placed duties on all local authorities to secure sufficient childcare, so far as is reasonably practicable for working parents, or parents who are studying or training for employment, for children aged 0-14 (or up to 18 for disabled children).
- 3.1.4 Therefore, the London Borough of Havering, as a strategic commissioner, has a responsibility to monitor the supply and demand for places and ensure there is sufficient capacity to meet demand by planning for growth.
- 3.1.5 The number of primary age pupils is expected to continue rising significantly from 19,834 in 2013-14, to 23,333 in 2018-19, which is more than 3,000 extra pupils over the next five years.
- 3.1.6 Secondary age pupils (Years 7-11) in Havering schools is expected to rise significantly from 15,038 in 2014-15 to 18,051 in 2023-24. Longer term strategic forecasts indicate a further increase in pupil numbers.

3.2 Objectives and Scope

- 3.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee with assurance that:
- Compliance with relevant Legislation and sector specific guidance;
 - Pupil projections/ forecasts are complete, accurate and timely; and
 - The agreed plan is being implemented.
- 3.2.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:
- Lack of Strategy/ Forward planning;
 - Base data is incomplete, inaccurate and/ or out of date;
 - Pupil Number Projections/ Forecasts are incomplete and/ or inaccurate;
 - Pupil Projections/ Forecasts are not produced in a timely manner;
 - The delivery of additional pupil places is not being implemented; and
 - Additional pupil places being planned do not accurately reflect the future need.

3.3 Summary of Audit Findings

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

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

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

3.4 Audit Opinion

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

- 3.4.2 The audit makes no recommendations.

Troubled Families Grant – January 2016 Grant	Schedule B (4)
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4.1 Introduction

- 4.1.1 The Troubled Families programme was first launched in 2012 and has been further expanded into Phase 2 which began during 2015/16. To be eligible for the expanded programme each family must meet two out of the six national or local criteria as detailed in the Troubled Families Outcomes Plan (TFOP). A payment by results (PBR) claim can be submitted as soon as the turnaround of the troubled family can be determined under the significant and sustained progress / outcomes as detailed in the TFOP and evidenced by relevant sources.
- 4.1.2 For this phase a Financial Framework for the Expanded Troubled Families Programme has been issued by the Department for Communities and Local Government (DCLG) which outlines a specific role for Internal Audit. This included consultation during the development of the TFOP and also some on-going sample testing, checks and verification prior to each claim being made.
- 4.1.3 Some initial work was carried out in November 2015 to review the documents, forms and processes in place to ensure that there are sufficient controls to prevent invalid claims being submitted.

4.2 Objectives and Scope

- 4.2.1 The objective of the audit is to provide the Authority's management and the Audit Committee assurance regarding the validity of the claim.
- 4.2.2 This review selected a representative sample for testing from the claims that are due to be submitted for the January 2016 claim window. A total of 61 claims are due to be submitted and a sample of 10 was selected for testing.

4.3 Audit Findings

- 4.3.1 There were no significant issues arising from the sample testing carried out. A small number of housekeeping issues were identified including:
- Ensuring confirmation that the family member is still in employment; and
 - Where more than two criteria are identified on the nomination form that only those that have been successfully turned around are updated on the claim form.
- An exit meeting was held with the Troubled Families Business Support Manager and the above issues highlighted. Action was taken immediately by the manager so as a result no recommendations are being raised.

4.4 Conclusion

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

3rd Party Connections	Schedule B (5)
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5.1 Introduction

- 5.1.1 Direct connections to external entities are sometimes required for business operations. These connections are typically to provide access to suppliers, customers or partners for service delivery. Since the council's security policies and controls do not extend to the users of the third parties' networks, these connections can present a significant risk to the network and thus require careful consideration.
- 5.1.2 Technologies that allow greater interconnectivity, such as dialup access or the internet, bring new threats from outside of the organisation. Third parties must, therefore, be engaged as part of the process in controlling network security.
- 5.1.3 The council has a number of third party organisations that can access the council's systems via the VPN 3000 Concentrator to perform different tasks, at various levels.

5.2 Objectives and Scope

- 5.2.1 To confirm that there is an adequate control environment that enables third party users to access the council's systems, without allowing our systems to be compromised from internal or external threats.
- 5.3.2 The audit will concentrate on examining the controls applied to address the risks identified in the following areas:
- Agreements may not be signed by officers with the relevant authority thus acting ultra vires;
 - Third parties may not be aware of their roles and responsibilities when accessing the council's network;
 - Third party organisations may not provide adequate assurances that they are compliant with the terms of the CoCo agreement;
 - Access to the council's network may be provided to organisations that have not been risk assessed;
 - Risk assessments performed on third party organisations may not be sufficient;
 - A listing of all third party organisations with a connection to the council's network may not be maintained;
 - Unclear ownership;
 - Adequate segregation of an organisation's access to the council's network may not have been performed;
 - Users may not have a unique log-on identifier;
 - Firewalls may not be located in the most effective location;
 - The firewalls are not configured to provide adequate protection to the council from unwanted intrusion;
 - Access to the council's network is not sufficiently restricted by the use of tokens;
 - Access by third party organisations may not be promptly terminated when an organisation no longer requires access;

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

5.3 Summary of Audit Findings

- 5.3.1 Code of Connection agreements are not always signed and dated; neither does any monitoring take place to ensure that this is being done.
- 5.3.2 There were no specific procedures or policies in place detailing how third parties should be setup, managed, monitored etc.
- 5.3.3 Protocols to ensure and monitor that access was promptly terminated where a third party no longer required access to the council's network were not inadequate.
- 5.3.4 A list of all third party organisations that can access the council's network including the maintenance of the key contact for each organisation was not fully up to date and 10 third party usernames with access to the council's network could not be verified as either organisations or individuals with legitimate business needs to access the network.
- 5.3.5 Sufficient management, monitoring and examination of the statements made by third party organisations, to confirm their compliance is not within expected standards.
- 5.3.6 One third party user was identified with access to the council's "Domain Admins" group, which allows users of that group to have domain administrator access to the council's network and 20 third party users were identified with access to 31 key task/role groups within the council's network, which ultimately allowed them access to critical areas of the network
- 5.3.7 Examination of the 17 organisations with CoCos in the SharePoint portal identified that the Risk Assessments section of the agreement was not always either completed or fully completed by third parties neither was the compliance assessment always completed by council staff and relevant action taken where required as a result of non-compliance.
- 5.3.8 Third party individuals accessing the council's network do not all have a unique username and a password that is only known to them. There were numerous generic usernames that were in use by third party organisations for accessing the council's network; and third party usernames are prefixed with the letters "Adm", which is also the prefix used to identify officers with system administrator access.
- 5.3.9 At the time of the audit it was noted that the VPN 3000 Concentrator which is used to provide third parties with access to the council's network, was not configured to enable multi-factor authentication.

5.4 Audit Opinion

5.4.1 A **limited assurance opinion has been issued for the following reasons:**

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

5.4.2 ITIL Process Maturity Rating:

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

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

High

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

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

Medium

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

Appendix C: List of High Risk Recommendations and status

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

Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
12/13	Transport	Asset Management	Management should ensure that: <ul style="list-style-type: none">• Members of staff should submit CRB renewals prior to expiration;• CRB renewals are followed up if a response has not been received in a timely manner; and• Members of staff should not be permitted to work with vulnerable people if a CRB renewal has not been submitted or a response has not been received in a timely manner.	Complete
14/15	Gas Safety (Building Services)	Housing Services	Procedures are documented and communicated so that contractors know what processes to follow in the event of them finding a property that is over occupied or in an uninhabitable state of repair or if they suspect a vulnerable person is subject to neglect or abuse.	Complete
14/15	TMO's	Housing Services	Management to either utilise the consultant used by the TMOs or enlist some additional, experienced resource to assist in brokering discussions with the TMO to ensure the MMA is updated, fit for purpose and is agreed and signed by all parties as soon as is possible.	Complete
			A process map to map the risks LBH need to manage with regards TMO's areas that require monitoring and starting objectives should be developed prior to agreeing the MMA.	In Progress
			Recognition in the Homes & Housing Risk Register of the potential risk to LBH in the event of a disaster or financial failure by a TMO.	Complete
14/15	PARIS System	Exchequer & Transactional Services	A full review of users and group permissions should be undertaken. In addition, the service, in conjunction with ICT, should investigate the completeness and accuracy of the reports produced by the application.	Complete

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Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			<ol style="list-style-type: none"> 1. Audit trail reports should be extracted from the system and they should be reviewed by an appropriately senior officer on a regular basis. 2. The Senior Team Leader (Systems and Reconciliations) should consider the production and review of regular exception reports. Information that should be monitored includes, but is not limited to, unusual login times, repeated failed logon attempts, repeated daily password changes and unusual high frequency usage. 	Complete
			The ICT Applications Manager should consider carrying out a data restoration exercise, to confirm that backed up data could be restored to a usable state, if required. As a minimum, the data recovery process should be validated in a test environment.	In Progress
14/15	Manor Green PRU Follow Up	Children's Services	Declarations of Interest should be signed (annually) by all members of the Management Committee and those staff involved in financial processes / making financial decisions for the College.	Complete
			The SFVS for the financial year 2015/16 should be completed and approved by the Management Committee, before being submitted to the Council's LMS Team.	Superseded
			The College's performance targets should be clearly documented, ensuring that sufficient systems are in place to capture the information needed to monitor performance.	Complete
			<p>A College Improvement Plan should be documented and made available to all staff. This plan should clearly identify:</p> <ul style="list-style-type: none"> • Objectives; • How success will be achieved; • Responsible Officer; and • Any cost / resource implications (linked to the budget). 	Complete
			The College should clarify the current arrangements for all campuses and where necessary ensure that appropriate service level agreements are in place setting out responsibilities and applicable costs.	In Progress

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Audit Year	Area Reviewed	HoS Responsible	Recommendation	Status
			<p>The College should produce a documented Asset Management Plan setting out remedial and improvement related works across all sites, including:</p> <ul style="list-style-type: none"> • Priority of the work; • Estimated costs; and • Expected timescale for completion. 	In Progress
			<p>Emergency Planning / Business Continuity arrangements covering both the College and the individual campuses should be documented and made available to all staff.</p>	In Progress
			<p>All staff should be required to complete a driving declaration that identifies whether they use their car for work purposes. For those that declare they do use their car for work purposes, the full driving checklist should be completed to verify eligibility.</p>	Complete
			<p>The College must register with the Information Commissioner for Data Protection.</p>	Complete
			<p>The College should ensure that appropriate records are maintained at each campus of all assets. Records should be checked annually for accuracy and results reported to the Management Committee.</p>	Complete
			<p>Formal budget monitoring should be undertaken and documented. This should include explanations of variations to projected spend and should be submitted to Committee members in advance of meetings to ensure sufficient time is available for the information to be analysed before the meeting.</p>	Complete
			<p>Bank reconciliations should be:</p> <ul style="list-style-type: none"> • Completed regularly (in line with Financial Regulations / Finance Policy); and • Appropriately signed by the Executive Head; and Submitted to LMS by the deadline. 	Complete
			<p>The College should drive down the number of retrospective orders being placed, to allow funds to be committed against the budget at the earliest opportunity and ensuring the accuracy of budget monitoring processes.</p>	Complete

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