

**INTERNAL AUDIT ANNUAL  
REPORT  
Including  
ANNUAL ASSURANCE  
STATEMENT  
2015 / 2016**



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

## **1. Level of Assurance**

- 1.1 Based on the work undertaken during the year, the Head of Audit has given an annual “reasonable” assurance opinion for 2015/16, which supports the review of effectiveness of the Council’s governance as reported in the Annual Governance Statement.

## **2. Executive Summary of Outcomes of Work Undertaken in 2015/16**

- 2.1 The Governance and Risk Management arrangements have been strengthened and support the Council’s self-service agenda. Nationally austerity and the pace of change required by councils to innovate, generally sees councils accepting a higher risk appetite.
- 2.2 The 2015/16 Audit Plan has been delivered. The performance of the Audit Team, in terms of satisfaction with the service provided, and the response of management in implementing recommendations in a timely fashion, remains strong.
- 2.3 The Fraud Service, which was initially impacted on by the transfer of staff along with the Housing Benefit Investigation function to the DWP, has been significantly strengthened.
- 2.4 The restructure of the Audit Service between three partner councils launched in April 2016 and will be implemented in September 2016. This achieved the oneSource savings target, whilst ensuring future service resilience.
- 2.5 The work of the Audit Service and Audit Committee has increased the risk, governance and internal control environment, which has increased transparency and public confidence. Ultimately this safeguards the Council’s reputation and public funds.

## **3. Current/Future Key Issues**

- 3.1 The new Accounts and Audit Regulations 2015 for Local Authorities in England came into effect on 1 April 2015, with some further changes proposed for 2016. Key changes from April 2015 include: The existing requirement to have internal audit has been amended 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’*.
- 3.2 Organisations are no longer required to undertake an annual review of effectiveness, though the requirements of the Public Sector Internal Audit Standards – they should have an on-going programme of quality assessment and improvement. In-line with the requirement to have an external review every five years, Havering will have an external review undertaken by March 2018.
- 3.3 Austerity and the pace of change have enabled Local Authorities to revisit their risk appetite. The Audit Committee adopted roles and responsibilities approach to risk management that is In line with empowering services and embedding risk management across the organisation. This will require a mature attitude to risk

management in 2016/17 with the Corporate Risk Register being considered by the Audit Committee twice a year and reviewed by the Governance Group on a quarterly basis.

- 3.4 The oneSource service transformation restructure was formally launched on the 15<sup>th</sup> April; this included the new partner-Bexley. It is anticipated that the structure will go live late August. This will deliver additional resilience, savings and efficiencies required in line with the Joint Committee Business Case.
- 3.5 The oneSource Audit Service was 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.
- 3.6 Subject to the end of consultation phase, the savings will be £744k from reduction in staffing, “other” non-staffing elements to be reviewed. This is in addition to the £449k levels, £50k from the reduction of legal expenditure and £150k required already delivered by the Fraud 2015 Restructure.
- 3.7 The proposed Target Operating Model was agreed by the three partner statutory Section 151 Finance Officers. The combined proposed staffing element cost for 2017/18 is £1,864,000.
- 3.8 The 2015/16 planned audit days was 800, which has reduced by 8% (67 days) compared to 2014/15. This is line with the 2013/14 London average of 900 days. Looking ahead this will not be adversely impacted on by the restructure.
- 3.9 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 agreed the Havering/oneSource Anti-Fraud and Corruption Strategy at the September 2015 meeting.
- 3.10 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. After discussion with all three partner Section151 Officers, it has been agreed that in-line with the London Senior Treasurers approach, Havering will remain part of the LGA procurement route.
- 3.11 The DCLG funded Fraud Data Sharing Hub is under development across London Boroughs. This will enable data to be shared in order to help deter and prevent crime. Havering signed the required Memorandum of Understanding during 2015/16.

#### **4. Head of Internal Audit Opinion**

- 4.1 The Public Sector Internal Audit Standards require the Head of Internal Audit to provide a written report to those charged with governance, to support the Annual Governance Statement, which should include an opinion of the overall adequacy and effectiveness of the Council's control environment.
- 4.2 Internal Audit provides assurance from the work it undertakes in respect of the internal control systems operating within the Council. The Head of Internal Audit opinion is given annually, timed to inform the Council's Annual Governance Statement, which is published alongside the Annual Financial Accounts.
- 4.3 For 2015/16 the Head of Audit is able to give **reasonable** assurance that the internal control environment within audit's sphere of coverage is operating adequately; on the basis of work undertaken by Internal Audit, as set out below, and drawing on other assurance sources upon which reliance can be placed and which have not identified any major failings or weaknesses.

#### **Risk Management Arrangements**

- 4.4 The Council's Risk Management Policy and Strategy was revised and agreed in March 2016, this will ensure that the 2016/17 Audit Plan is focused on areas of highest risk.

#### **Governance Arrangements**

- 4.5 The Council has addressed the three Significant Governance Issues raised in the 2014/15 AGS and has identified two new areas for action in 2016/17:
- Havering Scheme of Delegation post amendments to oneSource; and
  - Commissioning and Contracts (including compliance with procurement rules).

The Audit Board will have a key role in monitoring the progress of these.

- 4.6 CIPFA has just released a revised guide on governance in local government, "Delivering Good Governance in Local Government: Framework 2016". This takes account of social and economic changes and a plethora of legislative developments. Local authorities will be required to prepare a revised governance statement in accordance with this from the financial year 2016-17 onwards. The Governance Group will oversee this and the Head of Internal Audit will report on this to the Audit Committee.

#### **Internal Control Environment - Internal Audit reports, assurance levels and implementation of high risk recommendations given in 2015/16**

- 4.7 The Audit Service undertook 44 audits in 2015/16 and 82% received Substantial or Full Assurance, 20% received Limited or Nil. These audits raised 242 improvement recommendations for management, 59 (24%) were classified "High" risk and are subsequently reported to the Audit Committee, 120 (50%) were classified as "Medium" risk and 63 (26%) as "Low" risk.

- 4.8 Of the 12 Council “High” priority recommendations one was due and had been implemented within the year. The remaining 11 are due for implementation in 2016/2017. There are no “high” 2015/16 recommendations outstanding.
- 4.9 At the end of the year, six ‘High’ priority recommendations remain unimplemented from previous years, after review none of these are judged to impact on the reasonable assurance Head of Audit opinion.

### **Schools Programme**

- 4.10 Internal Audit delivers a full audit review to each school on a three yearly cycle. There is also a traded service available to each school in the form of an annual Health Check.
- 4.11 There are currently 56 borough maintained schools within Havering with 42 schools having received a triennial audit between the financial years 2012/13 – 2015/16. Of the remaining 14 schools, 11 have received at least one Health Check since their last triennial visit. The outstanding three schools are included within the audit plan for 2016/17.
- 4.12 Assurance opinions are given for each school report, which are generally strong within Havering. Of the 46 school audits and health checks undertaken, eight Full, 33 Substantial and one Nil assurance were given. Of the 20 schools receiving a triennial audit in 2015/16, four received full assurance and 16 substantial.
- 4.13 Recommendations raised during the 2015/16 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.
  - Inventory controls, the need for an inventory to be maintained, reviewed at least annually and reported to the Governing Body.
  - Staff use of their car for business, specifically that they have the appropriate level of insurance cover.
- 4.14 The ‘High’ priority recommendations for schools will be reviewed as part of the triennial schools rolling programme.
- 4.15 During 2015/16, the Audit Service have undertaken work with Schools Support, Schools and Academies to develop a future “assurance” offer that would be bought in above the current level of support available.

### **Follow Ups**

- 4.16 The Audit Team track the completion of all audit recommendations. Information regarding outstanding recommendations is reported as part of the quarterly report to Audit Committee. Annually the Audit Committee receive a full list of all outstanding recommendations.

- 4.17 There were five 'limited assurance' reports in 2014/15. Follow up work was undertaken on all five of these during 2015/16, four were given a substantial assurance and one a full assurance

### **Corporate Fraud**

- 4.18 The work of the Fraud Team sends a strong message in support of the Councils zero tolerance to Fraud, ensuring money is spent on delivering members priorities and not lining fraudsters pockets.
- 4.19 Following the transfer of the Housing Benefit function and staff to the DWP on 1<sup>st</sup> April 2015, the remaining workload has been reassessed and a largely new team recruited to prevent detect and undertake proactive and reactive corporate fraud. The team comprises four investigators, a financial investigator and a data analyst. Council Tax Fraud remains with the Council.
- 4.20 Working closely with services we have introduced a number of initiatives for front line services to ensure stronger verification checks to prevent fraud occurring. The team can offer a criminal and proactive support service.

### **Housing Fraud**

- 4.21 The Council had a number of Housing Benefit legacy cases in the court system and achieved six successful prosecutions in the year. Additionally the Proactive Tenancy project saw the recovery of 19 properties and cancelled 16 Right to Buy applications, ensuring Havering's houses were allocated to those with genuine entitlement.

The team have undertaken 5,427 tenancy visits and completed 1,778 audit checks. They had 231 cases under investigation and of these 62 required no further action.

### **Asylum and Immigration Fraud**

- 4.22 The Council is at risk of a £20,000 fine 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 2015/16, we are seeking to strengthen the vetting process via chip scanning of all identify documents in 2016/17.

### **Proceeds of Crime Act (POCA)**

- 4.23 The Fraud Team received £40k during the year and this money will be used proactively to prevent future fraud e.g. funding the document chip scanners this year.

### **Insurance**

- 4.24 The Insurance team received 274 new claims during 2015/16, including public liability, employer's liability, motor vehicle and property. The team successfully defended five cases at trial, saving £559k, lost two cases incurring £86k and

had six discontinuances, saving £884k. The three areas that generate most claims in respect of volume and value are:

- Highways;
- Trees; and
- Housing.

### **Other**

4.25 During 2015/16 the Council established Mercury Land Holding, a wholly owned subsidiary of Havering Council; no audit work has been undertaken in year.

### **Summary**

4.26 The Audit Committee has had a pivotal role in ensuring the risk management, governance and internal control environment is adequately robust. The contribution from the work undertaken and outcomes in 2015/16 is a major contributor to maintain the Council's reputation and public confidence.

## **5. Detail of Audit Work Undertaken**

### **5.1 Delivery of 2015/16 Audit Plan**

The percentage delivery of the 2015/16 Audit Plan has exceeded target. The plan was flexible to accommodate the needs of management. Six audits have been deferred to the 2016/17 plan due to timing issues. The remainder of the plan is expected to be delivered in the first quarter of 2016/17.

### **5.2 Summary of Internal Audit & Assurance Levels**

Assurance Opinion	Number of Audits	%
Full	7	16
Substantial	29	66
Limited	6	14
Nil	2	4
Totals	44	100

### **5.3 Audit Recommendations Raised in 2015/16**

Recommendations	Number of Recs	%
High	59	24
Medium	120	50
Low	63	26
Totals	242	100

### **5.4 Customer Satisfaction Rating**

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



## 6. Position of the 2015/16 Internal Audit Plan as at 03/04/2016

	Audit Title	Status End Qtr4	Report Assurance
Corporate	Car Pool Scheme	Field Work Commenced	
	Procurement - capitalE sourcing	Moved to 16/17 Plan	
	NEPRO System	Field Work Commenced	
	Compliance with Procurement Rules	Moved to 16/17 Plan	
	i-Procurement	Final	Substantial
	Savings Programme	Field Work Commenced	
	CRR – Assurance on Mitigations	Removed	
	Declarations of Interest	Moved to 16/17 Plan	
	Mayors Appeal Fund	Final	N/A
	Service Manager - Transactional Services	Final	Limited
	Scheme of Delegation	Removed	
	Service Manager - ICT	Final	Substantial
	Careers Group	Field Work Commenced	
Communities & Resources	Waste Contract Management	Final	Substantial
	Council Tax	Final	Full
	Housing Benefit & Council Tax Support	Final	Full
	Accounts Payable	Final	Substantial
	Accounts Receivable	Final	Substantial
	Payroll	Final	Substantial
	Pensions	Final	Substantial
	Oracle PWC Review	Final	N/A
	Governance Risk Control (GRC) Compliance	Moved to 16/17 Plan	
	Talent Link	Field Work Commenced	
	Council Tax Collection	Moved to 16/17 Plan	
	NNDR (oneSource Joint review)	Moved to 16/17 Plan	
Children, Adults & Housing	Service Charges	Final	Substantial
	Responsive Maintenance	Final	Substantial
	Manor Green Pupil Referral Unit	Final	No
	Pupil Place Planning	Final	Substantial
	Tenant Incentive Scheme	Final	Limited
	Capital Work in Schools	Field Work Commenced	
	Catering Services	Field Work Commenced	
	Direct Payments	Field Work Commenced	

	<b>Audit Title</b>	<b>Status End Qtr4</b>	<b>Report Assurance</b>
	Troubled Families Grant	Final	N/A
<b>Schools</b>	Ardleigh Green Infant School	Final	Full
	Ardleigh Green Junior School	Final	Substantial
	Corbets Tey School	Final	Full
	Crowlands Primary School	Final	Substantial
	Elm Park Primary School	Final	Substantial
	Hilldene Primary School	Final	Substantial
	Hylands Primary School	Final	Substantial
	La Salette RC Primary School	Final	Substantial
	Nelmes Primary School	Final	Substantial
	Parklands Infants School	Final	Substantial
	Rainham Village Primary	Final	Full
	Scargill Junior School	Final	Substantial
	Scotts Primary School	Final	Substantial
	St Josephs RC Primary School	Final	Substantial
	St Peters RC Primary School	Final	Full
	St Ursulas RC Infants School	Final	Substantial
	Suttons Primary School	Final	Substantial
	The James Oglethorpe Primary School	Final	Substantial
	The RJ Mitchell Primary School	Final	Substantial
	Whybridge Infant School	Final	Substantial
<b>IT Audits</b>	3rd Party Connection	Final	Limited
	Malware	Final	Substantial
	ID Smart cards	Final	Substantial
	Off Site Storage	Final	Limited
	Data Centre (oneSource Joint Review)	Final	
	Disaster Recovery (oneSource Joint Review)	Field Work Commenced	
	Release of Software Follow Up	Final	Substantial
	Paris Application Follow Up	Field Work Commenced	
<b>Follow Ups</b>	Audit Recommendations	On-going	N/A
	Long Term Sick	Final	Substantial
	Housing Rents	Final	Substantial
	TMO's	Final	Substantial
	Gas Safety	Final	Substantial
	Manor Green PRU Follow Up	Final	Nil
	Members Allowance Payments	Final	Full

## 7. Proactive & Reactive Audit Plan Progress 2015/16

7.1 There were 185 days of the Audit Plan allocated for proactive and reactive work as detailed below.

Description	Risks	Plan days	As at 03/04/2016
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	On hold
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, 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	30	In progress

Description	Risks	Plan days	As at 03/04/2016
	already or approaching 18 years of age. This may or will make the SPD invalid.		
Purchase Card	Members requested a review 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	

7.2 This generated the following outcomes:

<b>Proactive - Improvements identified for Payment of Election Expenses</b>	
<b>Reactive Workload Outcomes</b>	
Management Action Plan	15
Resigned	5
Disciplinary	5
No Case To Answer	9
Withdrawn Application	0
<b>Total</b>	<b>34</b>

<b>Advice &amp; Assistance</b>	
	<b>Cases</b>
Directors	31
Local Authority	23
Fraud Hotline	17
	<b>71</b>

- 7.3 Recommendations resulting from proactive and reactive audits and special investigations are tracked for completion. One hundred and twenty seven recommendations were made to services in 2015/16, of which 96 have been implemented, 27 are not due until later in the year and four have extended implementation dates.
- 7.4 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.

## **8. Criminal Investigations Team**

- 8.1 The biggest demand on the team's workload was Housing related cases/referrals and the following outcomes were secured:
- Six successful Housing Benefit prosecutions with overpayments of £128k;
  - Recovered nineteen housing properties (notional savings of £342k) and ensured properties available for those on the housing waiting list;
  - Cancelled sixteen Right To Buy applications (notional value £1.4m);
  - Received £40k POCA monies from prosecutions; and
  - Provided on-line fraud awareness training for staff