

AUDIT COMMITTEE
28 September 2017

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|---|---|
| Subject Heading: | Head of Assurance – Quarter One Progress Report 2017/18 |
| SLT Lead: | Jane West Managing Director oneSource |
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| Policy context: | To inform the Committee of progress on the assurance work undertaken in quarter one of 2017/18. |
| Financial summary: | N/A |

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

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

SUMMARY

This report advises the Committee on the work undertaken by the Assurance Service (internal audit & counter fraud) during quarter one of 2017/18.

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 one.

Section 3 Appendices: Provide supporting detail for Members' information

Appendix A: Detail of Quarter One Internal Audit work

Appendix B: Detail of Quarter One Counter Fraud work

Appendix C: Current Status of 2017/18 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 Officers within the Assurance Service have continued to be involved in work with the Section 151 Officer, Monitoring Officer and Director of Finance for oneSource to refresh the Governance and Assurance Board arrangements and the approach to collating evidence for the Annual Governance Statement. They have also worked with senior management to update risk registers, and to integrate Audit and Counter Fraud Plans with those. Previously, horizon scanning work had 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 This report brings together all aspects of internal audit and counter fraud work undertaken in quarter one, 2017/18, in support of the Audit Committee's role.
- 1.1.8 The report supports the Head of Assurance's ongoing assurance opinion on the internal control environment and highlights key outcomes from internal audit and counter 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 June 2017 Committee meeting, Members received the Head of Assurance opinion based upon the work undertaken in 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 one.

Section 2. Executive Summary of work undertaken in quarter one, 2017/18

2.1 Internal Audit

- 2.1.1 There have been two final reports issued in quarter one; one of these was given an audit opinion of substantial assurance and the other moderate assurance. A number of audits are in progress, with fieldwork underway, but have not reached the final report stage. Appendix C shows the current status of the 2017/18 audit plan.
- 2.1.2 Of the 6 recommendations raised in the reports issued in quarter one; there was one high risk recommendation, four medium and one low. Further detail is provided in Section 3.1.

2.2 Pro-Active and Counter Fraud

- 2.2.1 The Audit Partner (Pro-Active Audit & Counter Fraud) received three new referrals in quarter one.
- 2.2.2 Seven cases have been completed during the quarter resulting in:
- One Disciplinary;
 - One Protected Conversation;
 - One No Case to Answer; and
 - Four Management Action Plans.
- 2.3.1 During the quarter the investigations team:
- Recovered six properties with a notional value of £108,000;
 - Had five Right to Buy applications withdrawn with a notional value of £434,950; and
 - One 'Homelessness Duty Refusal' of £18,000.
- 2.3.2 The total net savings for the Tenancy Fraud Project from October 2015 to June 2017 is £4.53m. The breakdown for each year is detailed below.

April 2017 to June 2017 - £0.52m

April 2016 to March 2017 - £2.54m

October 2015 to March 2016 - £1.47m

Appendix A

3. Quarter One - Internal Audit Work

3.1 Risk Based Systems and School Audits

3.1.1 The table below details the two final reports issued in quarter one. It should be noted that no limited assurance reports were issued in quarter one.

| Report | Assurance | Recommendations | | | |
|----------------------|-------------|-----------------|----------|----------|----------|
| | | High | Med | Low | Total |
| System Audits | | | | | |
| One Oracle | Moderate | 1 | 2 | 0 | 3 |
| Fairkytes | Substantial | 0 | 2 | 1 | 3 |
| Total | | 1 | 4 | 1 | 6 |

The high priority recommendation raised in quarter one is detailed below:

| Audit | Recommendation | Management Response |
|------------|--|---|
| One Oracle | A review of current staff access rights to the system to determine suitability to be undertaken. <i>Implementation Date: 30/09/17</i> | Agreed. We are happy to work with the systems team, to ensure the correct levels of access are being applied. |

| Key to Assurance Levels | |
|-------------------------|--|
| 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 one, there was one school health check completed and a report issued to Parklands Infants.

3.2 Outstanding Audit Recommendations Update

3.2.1 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. A programme is now in

place to follow up school audit recommendations which will begin with the new academic year in September 2017.

3.2.2 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.

3.2.3 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. |

3.2.4 Two high priority recommendations were due to be implemented by the end of Quarter One. Both these recommendations have been implemented. A total of seven medium priority recommendations that became due during quarter one were followed up and three were confirmed as fully implemented; three partially implemented; and, one was not implemented.

3.2.5 The table below summarises the status of all recommendations made (from finalised reports) up to the end of quarter one and those carried forward from 2016/17. This does not yet include schools since the recommendation follow up process has only recently been introduced.

| | High | Medium | Low |
|---|----------|----------|----------|
| No. of Recs raised in Q1 | 1 | 4 | 1 |
| Outstanding 16/17 Recs brought forward | 3 | 4 | 0 |
| TOTAL | 4 | 8 | 1 |
| Recommendations due to be implemented by 30/06/17 | 2 | 7 | 0 |
| Fully Implemented | 2 | 3 | 0 |
| Partially Implemented | 0 | 3 | 0 |
| Not Implemented | 0 | 1 | 0 |

3.2.6 The recommendations that remain outstanding (both partially and not implemented) are provided in the table below:

| Audit Year, Title & Opinion | Recommendation & Priority | Original management response & quarterly update | Current implementation status |
|--|---|---|-------------------------------------|
| 16/17 Talent Link Application Review Opinion: Substantial | The password convention should be changed to ensure that only strong passwords are used to access the system.. Priority: Medium | Update July 2017 - This request has been made to the supplier and will be implemented by the end of October 2017. Revised implementation date: 31/10/2017 | Partially implemented |
| | It should be investigated whether the system can generate a bespoke report to either monitor user activity or investigate any discrepancies or errors made or possible fraudulent transactions. A programme of monitoring needs to be developed through the user group and in consultation with the Head of People Services to ensure that there is sufficient oversight of user activity and the accountability is defined by clear boundaries. Priority: Medium | Update July 2017 - This is a bespoke report which will need to be written by Lumesse at an additional charge. This will be investigated and reported back. Revised implementation date: 31/10/2017 | Not implemented |
| 16/17 Direct Payments Financial Assessments Opinion - Limited | Financial Assessments should be carried out within 28 days as specified in the Non-Residential Care Assessments Processes and Procedure Document. Priority: Medium | September 2017 Update - The two vacant Financial Assessment Officer posts have now been filled, with one starting on 11th September and the other scheduled to start on 25th September 2017. Therefore, as previously advised, once the necessary training has been provided we will be meeting the target set out in the recommendation, but it is unlikely we will achieve that before November due to the detailed nature of the training and induction for this post. Revised implementation date: 31/12/2017 | Partially implemented |

| | | | |
|---|--|---|-----------------------|
| 16/17 Direct Payments Financial Assessments Opinion - Limited | The Non-Residential Care Assessments Processes and Procedures should state that a financial re-assessment is to be carried out every three years. Priority: Medium | <i>Original implementation date:</i> 01/03/2017 July 2017 Update - I can advise that we are now carrying out the work to review people every 3 years. Regarding updating the procedure document, this is on a work plan for the Deputy Team Manager and the date for completion is 31/8/17. It is expected that it will be completed by that date. Due to the 3 vacancies in the team we have accrued a bit of a backlog of work so we are focusing on managing that, therefore if there are delays getting the posts filled this may affect full implementation. We have interviewed and offered posts for all 3 vacancies and this is now in the hands of HR. Revised implementation date: 31/10/2017 | Partially implemented |
|---|--|---|-----------------------|

3.3 Audit Progress

3.3.1 The Annual Audit Plan approved by the Audit Committee in May 2017 comprised 48 audit reviews. A further six tasks have been carried forward from 2016/17 and three added at the request of clients; four tasks have been deferred to 2018/19 or cancelled. (See Appendix C). The total number of audit reviews, including 2016/17 audits carried forward, is currently 53.

3.3.2 Current progress toward delivery of the 2017/18 audit plan (including audits carried forward from 2016/17, but excluding School Health Checks) is summarised in the table below, with further detail provided in Appendix C.

| | Number of Audits / Tasks |
|----------------------|--------------------------|
| Final reports issued | 2 |
| Draft reports issued | 8 |
| In progress | 13 |
| To be completed | 30 |
| Total | 53 |

3.3.3 The target outturn for completion of the audit plan is 90% at the end of the financial year. As at 23rd August 2017, 43% of the tasks have been delivered to draft or final report stage, or are in progress.

Appendix B

4. Quarter One - Counter Fraud Audit Work

4.1 Proactive Counter Fraud Investigations

4.1.1 Proactive work undertaken during quarter one is shown below:

| Description | Risks | Quarter 4 Status |
|-------------------------------|---|------------------|
| Advice to Directorates | General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. Twenty one requests for advice were received during the quarter. | Ongoing |
| Advice to Local Authorities | All Data Protection Act requests via Local Authorities, Police etc. | Ongoing |
| Fraud Hotline | To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. Five referrals were received during the quarter. | Ongoing |
| FOI Requests | To undertake all Freedom of Information Requests relating to Internal Audit Investigations. | Ongoing |
| Investigation Recommendations | The recording of all investigation recommendations, follow ups and assurance of implementation. | Ongoing |
| Whistleblowing | All whistleblowing referrals. | Ongoing |

4.1.2 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 (details provided in Section 4.4.1).

4.2 Reactive Investigation Cases

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

| Caseload Quarter 1 2017/18 | | | | | | |
|----------------------------|--------------------|---------------------------------|----------------|----------------------|------------------|------------------------|
| 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 | 2 | 0 | 0 | 1 | 6 | 0 |

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

| Source and Number of Referrals Quarter 1 2017/18 | |
|---|--------------------------|
| Number of Referrals/ Type | IA Reports Qtr. 1 |
| Anonymous Whistleblower | 0 |
| External Organisations / Members of the Public | 0 |
| Internal Departments | 2 |
| Total | 2 |

4.2.3 The table below shows the number and categories of Investigation cases at the end of the quarter one compared to the quarter four totals.

| Reports by Category | | |
|-------------------------------------|-----------------------------|-----------------------------------|
| Audit Investigation Category | Previous Cases Qtr 4 | Current Cases end of Qtr 1 |
| Breach of Code of Conduct | 1 | 0 |
| Breach of Council Procedures | 0 | 0 |
| Falsification of Records | 0 | 1 |
| Miscellaneous | 1 | 1 |
| Misuse of Council Time | 0 | 0 |
| Procurement | 0 | 0 |
| Theft | 1 | 0 |
| Total | 3 | 2 |

4.2.4 The table below shows the case outcomes for the Investigations from April to June 2017.

| Case Outcomes | |
|------------------------|--------------|
| Outcome | Qtr 1 |
| Management Action Plan | 4 |
| Disciplinary | 1 |
| Protected Conversation | 1 |
| No case to answer | 1 |
| Total | 7 |

4.3 Savings and Losses

4.3.1 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.

4.3.2 There have been no savings or losses identified during quarter one of 2017/18.

4.4 Investigation Recommendations

- 4.4.1 Any recommendations raised as part of proactive or reactive investigation reports are recorded and their implementation monitored as part of a follow up programme. Three recommendations were brought forward from 2016/2017.

| Total 2017/18 Proactive Investigation Recommendations | |
|--|---|
| Recommendations made during Quarter 1 | 7 |
| Recommendations Not Yet Due for implementation (including 2 recommendations raised in 2016/17) | 9 |

4.5 Tenancy Fraud Project

- 4.5.1 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 one.

| Housing Investigations | | | | | | |
|-------------------------------|-----------------------------|--|---------------------------------|---|--------------------------------------|--------------|
| Month | Tenancy Audit Visits | Tenancy Audits (Checks completed) | PSL Tenancy Audit Visits | PSL Tenancy Audit (Checks completed) | Referrals from Audit to Fraud | NFA'D |
| Apr | 393 | 127 | 839 | 120 | 2 | 125 |
| May | 627 | 229 | 698 | 91 | 1 | 228 |
| Jun | 788 | 206 | 263 | 26 | 7 | 199 |
| YTD | 1,808 | 562 | 1,800 | 237 | 10 | 552 |

| Internal Audit | | | | | | |
|-----------------------|---|---------------|-----------------------------------|------------------------------------|-------------------------------------|------------------------------------|
| Month | Cases Under Investigation (open cases) | Closed | Total Properties Recovered | Cases referred for HB Fraud | RTB cancelled through audits | Homeless ness Duty refusals |
| Apr | 88 | 8 | 2 | 1 | 0 | 0 |
| May | 82 | 6 | 2 | 1 | 3 | 1 |
| Jun | 88 | 8 | 2 | 0 | 2 | 0 |
| YTD | 258 | 22 | 6 | 2 | 5 | 1 |

- 4.5.2 Outcomes for the quarter include the following:

- Six properties were recovered with a nominal value of £108,000;
- Five Right to Buy applications were withdrawn with a notional value of £434,950; and
- One Homelessness Duty Refusal of £18,000 (Based on an estimated cost for the Council paying for homelessness subject to secure a homelessness duty).

4.5.3 The total net savings (minus projected costs) for the project from October 2015 to June 2017 is £4.53m. The breakdown for each year is below.

April 2017 to June 2017 - £0.52m

April 2016 to March 2017 - £2.54m

October 2015 to March 2016 - £1.47m

Appendix C: Current Status of 2017/18 Audit Plan

| | AUDIT TITLE | STATUS | OPINION |
|---|--|---|-------------|
| P R I O R Y E A R A U D I T S | One Oracle 16/17 | COMPLETE | MODERATE |
| | Contract Monitoring – Environment 16/17 | DRAFT REPORT | |
| | Declarations of Interest 16/17 | DRAFT REPORT | |
| | Disaster Recovery Follow Up (1617) | DRAFT REPORT | |
| | Grants to Voluntary Organisations | DRAFT REPORT | |
| | Children's Commissioning | UNDERWAY | |
| L B H S Y S T E M A U D I T S | Fairkytes | COMPLETE | SUBSTANTIAL |
| | Troubled Families Programme | SCOPING – fieldwork scheduled Sept' | |
| | No Recourse to Public Funds (NRPF) | SCOPING – fieldwork TBC | |
| | Client Finance deputyship and appointeeship | SCOPING – fieldwork scheduled Sept' | |
| | Accounts payable service payments teams in directorates | SCOPING – fieldwork scheduled Sept' | |
| | Private Sector Leasing scheme - Liberty Housing | SCOPING – fieldwork scheduled Oct' | |
| | Housing and Planning Act 2016 | SCOPING – fieldwork TBC | |
| | Homelessness - Housing Tenancy Arrangements | SCOPING – fieldwork scheduled Sept' | |
| | Reablement Services | MOVE TO 18/19 – service request due to retender | |
| | Care Packages | MOVE TO 18/19 – service request | |
| | Contract Management: Client checking of contractor works | SCOPING – fieldwork scheduled Sept' | |
| | Health and Social Care Integration - Hospital Discharges | Q4 | |
| | Adoption (Additional Task) | Q3 | |
| | Information Governance/ Data Protection | TBC (External) | |
| | Corporate Culture | Q3 | |
| | Compliance with new Report Approval Processes | Q3 | |
| | Alternative delivery models | Q3/4 | |
| | Children's disability service | Q3 | |
| | Care Act 2014 - Safeguarding | Q3/4 | |
| | Date warehouse security | TBC (External) | |
| S C H O O L S | St Alban's RC Primary | DRAFT REPORT | |
| | St Mary's RC Primary | DRAFT REPORT | |
| | Crownfield Infants | DRAFT REPORT | |

| | | | |
|-----------|--|--|--|
| | Squirrels Heath Infants | DRAFT REPORT | |
| | Branfil Primary | Q3 | |
| | Crownfield Juniors | Q3 | |
| | Elm Park Primary (Additional Task) | Q3 | |
| | Engayne Primary | Q4 | |
| | Gidea Park Primary | Q4 | |
| | Harold Court Primary | Q4 | |
| | Squirrels Heath Junior | Q4 | |
| | Towers Junior | Q4 | |
| | Scargill Infant | CANCELLED – applied to become an Academy | |
| | Whybridge Junior | CANCELLED – applied to become an Academy | |
| | Health Checks (24) | X2 DRAFT REPORTS | |
| ONESOURCE | Offsite Storage Follow Up (Additional Task) | UNDERWAY | |
| | Pension fund governance | SCOPING – fieldwork TBC | |
| | Procurement - including compliance with Public Contract Regulations 2015 | SCOPING – fieldwork scheduled Oct' | |
| | NNDR - debt recovery and write offs | Q3 | |
| | Establishment controls | Q4 | |
| | Housing Benefit - new claims or change in circumstances | Q4 | |
| | Staff vetting | Q3 | |
| | Debt recovery | Q4 | |
| | Northgate (Revs and Bens) application review | Q4 | |
| | Enforcement Agents | Q3 | |
| | Budget Monitoring/ Savings Programme | TBC | |
| | Treasury Management | Q3 | |
| | 1Oracle follow up | Q4 | |
| | off payroll engagement/ IR35 | Q4 | |
| | Cyber security | TBC (External) | |
| | Serious and Organised Crime | Q4 | |