

AUDIT COMMITTEE 28 11 2017

Subject Heading:	Head of Assurance – Quarter Two Progress Report 2017/18
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Policy context:	To inform the Committee of progress on the assurance work undertaken in quarter two 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 and counter fraud) during quarter two 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 and Counter Fraud 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 two.

Section 3 Appendices: Provide supporting detail for Members' information

Appendix A: Detail of Quarter Two Internal Audit work

Appendix B: Detail of Quarter Two 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 review 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

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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 two, 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 September 2017 Committee meeting, Members received the Head of Assurance opinion based upon the work undertaken in quarter one, 2017/18, 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 two.

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

2.1 Internal Audit

2.1.1 There have been 11 final reports issued in quarter two; seven of these were given an audit opinion of substantial assurance and the other four were 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 42 recommendations raised in the reports issued in quarter two, one was high risk, 35 were medium risk and six were low risk. The one high risk recommendation relates to a follow up audit. Further detail is provided in Sections 3.2 and 3.3 below.

2.2 Pro-Active and Counter Fraud

2.2.1 The Audit Partner (Pro-Active Audit & Counter Fraud) received one new referral in quarter two in respect of a possible Freedom Pass fraud.

2.2.2 No cases had been completed during the quarter and one case is currently being worked on (See 2.2.1 above).

2.2.3 During the quarter the investigations team:

- Recovered ten properties with a nominal value of £180,000; and
- Had seven Right to Buy applications withdrawn with a notional value of £608,928.

2.2.4 The total net savings for the Tenancy Fraud Project from October 2015 to September 2017 is £5.204m (taking into account the cost of the project of £617,029). The breakdown for each year is detailed below.

- April 2017 to September 2017 - £1.189m
- April 2016 to March 2017 - £2.524m
- October 2015 to March 2016 - £1.491m

Appendix A

3. Quarter Two - Internal Audit Work

3.1 Audit Progress

- 3.1.1 The Annual Audit Plan, approved by the Audit Committee in May 2017, comprised 48 audit reviews. A further nine reviews have been carried forward from 2016/17 and another four reviews added, three of which were at the request of clients. Ten 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 51.
- 3.1.2 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	13
Draft reports issued	1
In progress	17
To be completed	20
Total	51

- 3.1.3 The target outturn for completion of the audit plan is 90% at the end of the financial year. As at 18th October 2017, 61% of the tasks have been delivered to draft or final report stage, or are in progress. This confirms that the audit plan is on track to be delivered by the end of the financial year.

3.2 Risk Based Systems and School Audits

- 3.2.1 The table below details the results of the 11 final reports issued in quarter two. It should be noted that no limited assurance reports were issued in this quarter.

Report	Assurance	Recommendations			
		High	Med	Low	Total
System Audits					
Grants to Voluntary Organisations	Substantial	0	1	0	1
Declarations of Interest	Moderate	0	3	0	3
Contract Monitoring – Streetcare	Substantial	0	2	0	2
Troubled Families (Sept' Claim)	Substantial	0	0	0	0
Disaster Recovery Follow Up	Substantial	1*	0	0	1
School Audits					
Crownfield Infants	Moderate	0	5	1	6
St Alban's Primary	Substantial	0	2	1	3
St Mary's Primary	Moderate	0	8	2	10
Squirrels Heath Junior	Moderate	0	8	2	10
IT Audits					
Change Management	Substantial	0	2	0	2
BACS Transmission	Substantial	0	4	0	4
Total		1	35	6	42

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*The high risk recommendation for the Disaster Recovery Follow Up relates to a recommendation raised in the original audit. This was identified as being partially complete during the follow up review. Further detail is included in the outstanding audit recommendations update in Section 3.3 below.

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.

- 3.2.2 During quarter two, there were two school health checks completed: St Josephs and Whybridge Infants.

3.3 Outstanding Audit Recommendations Update

- 3.3.1 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 began with the new academic year in September 2017. A full update on this will be provided in the quarter three progress report.
- 3.3.2 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 risk recommendations.
- 3.3.3 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.

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- 3.3.4 The table below summarises the number of high and medium risk recommendations arising from finalised reports in quarter two. This table does not yet include schools, as the process for following up these recommendations has only recently been introduced.

	High	Medium
No. of non-school Recommendations raised in Q2	1	12

- 3.3.5 The one high risk recommendation, referred to in the table at 3.2.1, was originally due to be implemented by the end of quarter two. Progress on this recommendation has been made but it remains partially implemented (see 3.3.6 below). All medium risk recommendations that became due in quarter two have been followed up and none remain outstanding. Apart from the high risk recommendation noted below (3.3.6), there are no outstanding high and medium risk recommendations, which had been raised in previous quarters/years (as at the end of quarter 2).

- 3.3.6 The high risk recommendation that remains outstanding is detailed in the table below:

Audit Year, Title & Opinion	Recommendation & Risk Rating	Original management response & quarterly update	Current implementati on status
Disaster Recovery Follow Up Opinion: Substantial	The DR plan should be tested periodically, if not annually at least every two years and results of the tests should be formally communicated to ICT's SMT and CLT and any remedial action required should be performed as necessary. Risk Rating: High	The ICT infrastructure is going to change within the next 12 months. DR is being built into the new setup and the proposal is to test every six months. May 2017: A two yearly DR test will be scheduled, there are currently dependences on the new infrastructure going live and generator & UPS upgrade in Dockside. 30% complete October 2017 A two yearly DR test will be scheduled, there are currently dependences on the new infrastructure going live and generator & UPS upgrade in Dockside Detailed plan of new infrastructure solution for site replication underway, infrastructure replaced in Newham Data Centre. We need to complete the plan for the final deliverable solution which we are some way through. Significant progress has been made – the main achievement is that the file server data is replicated in the cloud. Revised implementation date: 31/12/2017	Partially implemented

Appendix B

4. Quarter Two - Counter Fraud Audit Work

4.1 Proactive Counter Fraud Investigations

4.1.1 Proactive work undertaken during quarter two is shown below:

Type	Description	Quarter 2 Status
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. Eleven requests for advice were received during the quarter.	Ongoing
Advice to Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. One request for advice was received during the quarter.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. Three 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. (See below)	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 two period as well as referrals, cases closed and cases completed.

Caseload Quarter 2 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
0	1	0	0	0	0	1

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

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

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

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

- 4.2.4 There were no case outcomes for the Investigations from July to September 2017.

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 two 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.

Total 2017/18 Proactive Investigation Recommendations	
Recommendations Brought Forward from quarter 1	9
Recommendations made during quarter 2	0
Recommendations implemented during quarter 2	7
Recommendations Carried Forward	2
Of which High Priority*	1

*The high priority recommendation is in respect of the Service Manager for Disabilities to undertake an annual independent review / audit of the amenity fund accounts. Original implementation date 30/09/17, revised implementation date 07/11/17.

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 two.

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
Jul	358	196	96	28	7	189
Aug	966	240	74	17	13	227
Sept	608	170	85	25	7	163
YTD	3,740	1,168	2,055	307	37	1,131

Internal Audit					
Month	Cases Under Investigation (open cases)	Closed	Total Properties Recovered	Cases referred for HB Fraud	RTB cancelled through audits
Jul	86	9	3	1	3
Aug	85	5	4	3	3
Sept	81	7	3	1	1
YTD	N/A	43	16	7	12

- 4.5.2 Outcomes for the quarter include the following:

- Ten properties were recovered with a nominal value of £180,000; and
- Seven Right to Buy applications were withdrawn with a notional value of £608,928;

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4.5.3 The total net savings (minus project costs) for the project from October 2015 to September 2017 is £5.204m. The breakdown for each year is below.

- April 2017 to September 2017 - £1.189m
- April 2016 to March 2017 - £2.524m
- October 2015 to March 2016 - £1.491m

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Appendix C: Current Status of 2017/18 Audit Plan

Audits completed and in progress as at October 2017

	AUDIT TITLE	STATUS	OPINION
PRIOR YEAR AUDITS	One Oracle	COMPLETE	MODERATE
	Contract Monitoring – Environment	COMPLETE	SUBSTANTIAL
	Declarations of Interest	COMPLETE	MODERATE
	Disaster Recovery Follow Up	COMPLETE	SUBSTANTIAL
	Grants to Voluntary Organisations	COMPLETE	SUBSTANTIAL
	Change Management	COMPLETE	SUBSTANTIAL
	BACS Transmission	COMPLETE	SUBSTANTIAL
	One Oracle Interfaces	DRAFT REPORT	
	Children's Commissioning	UNDERWAY	
LBH SYSTEM AUDITS	Fairkytes	COMPLETE	SUBSTANTIAL
	Troubled Families Programme	COMPLETE (Sept Claim). October claim underway.	SUBSTANTIAL
	No Recourse to Public Funds (NRPF)	UNDERWAY	
	Client Finance deputyship and appointeeship	UNDERWAY	
	Accounts payable service payments teams in directorates	UNDERWAY	
	Homelessness - Housing Tenancy Arrangements	UNDERWAY	
	Gifts and Hospitality (Corporate Culture)	UNDERWAY	
	Offsite Storage Follow up (Additional Task)	UNDERWAY	
	Private Sector Leasing scheme - Liberty Housing	SCOPING – fieldwork scheduled December	
	Contract Management: Client checking of contractor works	SCOPING – fieldwork scheduled November	
	Compliance with new Report Approval Processes	SCOPING – fieldwork scheduled November	
	Alternative delivery models	SCOPING – fieldwork scheduled November	
SCHOOLS	St Alban's RC Primary	COMPLETE	SUBSTANTIAL
	St Mary's RC Primary	COMPLETE	MODERATE
	Crownfield Infants	COMPLETE	MODERATE
	Squirrels Heath Infants	COMPLETE	MODERATE
	Health Checks (24)	X3 FINAL REPORTS ISSUED, X1 DRAFT REPORT	
ONESOURCE	Paris Applications (Additional Task)	UNDERWAY	
	Security over data warehouse	UNDERWAY	
	Establishment controls	UNDERWAY	
	Enforcement Agents	UNDERWAY	
	Staff vetting	UNDERWAY	
	Debt recovery	UNDERWAY	

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Current Status of 2017/18 Audit Plan – Audits to be scheduled

	AUDIT TITLE	STATUS
LBH SYSTEM AUDITS	Reablement Services	MOVE TO 18/19 – service request due to retender
	Care Packages	MOVE TO 18/19 – service request
	Health and Social Care Integration - Hospital Discharges	MOVE TO 18/19 – service request
	Children's disability service	Q4
	Care Act 2014 – Safeguarding	Q4
	Adoption (Additional Task)	Q4
	Housing Benefit - new claims or change in circumstances (was a oneSource audit)	Q4
	Information Governance/ Data Protection	Q3/Q4 (External)
SCHOOLS	Housing and Planning Act 2016	DEFERRED - To be considered for 2018/19 plan
	Towers Junior	Q4
	Squirrels Heath Junior	Q4
	Harold Court Primary	Q4
	Gidea Park Primary	Q4
	Branfil Primary	Q4
	Crownfield Juniors	Q4
	Elm Park Primary (Additional Task)	Q4
	Engayne Primary	Q4
	Scargill Infant	CANCELLED – applied to become an Academy
	Whybridge Junior	CANCELLED – applied to become an Academy
ONE SOURCE	Health Checks (24)	All remaining 20 Health Checks scheduled for Q4
	Off payroll engagement/ IR35	Q4
	Procurement - including compliance with Public Contract Regulations 2015	Q4
	1Oracle follow up	Q4
	Serious and Organised Crime	Q4
	Budget Monitoring/ Savings Programme	Q3/Q4 (External)
	Cyber security	Q3/Q4 (External)
	Northgate (Revs and Bens) Application Review	CANCELLED – LB Newham only
	Pension fund governance	MOVE TO 2018/19 – service request
	NNDR - debt recovery and write offs	MOVE TO 2018/19 – service request
	Treasury Management	MOVE TO 2018/19 – service request