



AUDIT COMMITTEE

28 02 2018

Subject Heading:	Assurance Progress Report Quarter 3
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Policy context:	To inform the Committee of progress on the assurance work undertaken in quarter three of 2017/18.
Financial summary:	There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised

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 three 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 three.

Section 3 Appendices: Provide supporting detail for Members' information

Appendix A: Detail of Quarter Three Internal Audit work

Appendix B: Detail of Quarter Three 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 This report brings together all aspects of internal audit and counter fraud work undertaken in quarter three, 2017/18, in support of the Audit Committee's role.

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1.1.7 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 November 2017 Committee meeting, Members received the Head of Assurance opinion based upon the work undertaken in quarter two, 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 three.

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

2.1 Internal Audit

- 2.1.1 There have been four final reports issued in quarter three. All of which were given an audit opinion of substantial assurance. A further two reports providing assurance on grants was also issued during this quarter. 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 All six of the recommendations raised in the reports issued in quarter three were medium risk. Further detail is provided in Sections 3.2 and 3.3 below.

2.2 Pro-Active and Counter Fraud

- 2.2.1 During quarter three one case was closed - no case to answer and one referral was received which is currently being investigated.
- 2.2.2 During the quarter the Housing Investigations Team:
- Recovered five properties with a nominal value of £90,000;
 - Had six Right to Buy applications withdrawn with a notional value of £521,939;
 - Recovered £30,523 Housing Benefit overpayments;
 - Recovered £5,030.56 Council Tax overpayment;
 - Recovered £2,284.04 Single Person Discount Overpayment; and
 - ADPEN Charge of £1,000.
- 2.2.3 The total net savings (minus project costs) for the Tenancy Fraud Project from October 2015 to December 2017 is £5.69m. The breakdown for each year is below.
- April 2017 to December 2017 - £1.68m
 - April 2016 to March 2017 - £2.54m
 - October 2015 to March 2016 - £1.47m

Appendix A

3. Quarter Three - 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 tasks have been carried forward from 2016/17 and another six tasks added, three of which were at the request of clients. Eleven 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 52.

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	16
Draft reports issued	3
In progress	24
To be started	9
Total	52

3.1.3 The target outturn for completion of the audit plan is 90% at the end of the financial year. As at 31st January 2018, 83% 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 final reports issued in quarter three. It should be noted that no limited assurance reports were issued in this quarter.

Report	Assurance	Recommendations			
		High	Med	Low	Total
System Audits					
Children's Commissioning	Substantial	0	0	0	0
Client Finance and Deputyships	Substantial	0	2	0	2
Homelessness – Housing Tenancy Arrangements	Substantial	0	4	0	4
Troubled Families* (17/18 Claim 2)	Substantial	0	0	0	0
Land of the Fanns – Initial Grant Arrangements Review **	N/A	N/A	N/A	N/A	N/A
Mayor's Appeal Fund – Annual Grant Review **	N/A	N/A	N/A	N/A	N/A
Total		0	6	0	6

*A report is issued for each claim window but is classed as one task within the audit plan

**Grants reviews may vary from year to year and are classed under the External Grant or Monitoring Arrangements – Council awarded grants allocation in the agreed audit plan.

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 three, one school health check was completed: Broadford Primary and Mead Primary, which was completed as one health check under The Learning Federation.

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.

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.

3.3.4 The table below summarises the number of high and medium risk recommendations arising from finalised reports in quarter three. This table does not include schools, as these are set out below in section 3.4.

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	High	Medium	Low	Total
No. of Recs raised in Q3	0	6	0	6
Outstanding Recs brought forward from previous quarters	1	3	1	5
Total	1	9	1	11
Recommendations due to be implemented by 31/12/17	1	3	1	5
Fully Implemented	0	2	1	3
Partially Implemented	1	1	0	2
Not Implemented	0	0	0	0

3.3.5 The one high risk recommendation showing as partially implemented in the table above 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 three have been followed up; two have been fully implemented and one is partially implemented with a revised implementation date of 31st January 2018.

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 implementation 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. Implementation expected by Dec' 2017. December 2017: New infrastructure solution now delayed. February 2017: New infrastructure solution now delayed whilst a full Architectural review is	Partially implemented

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		<p>undertaken on the correct Network topology to implement. This review will be completed by 1/4/2018. In order to implement full DR capabilities new network infrastructure will need to be procured and installed following the recommendation of the review - expected completion Q4 this financial year.</p> <p>Additional elements of DR will be implemented concurrently to this such as a new Wide Area Network (WAN), office 365 and local DR improvements to systems and any single points of failure.</p> <p>We are currently reviewing the current DR capabilities to assess the complete risk to the organisation and will present this once completed. We will also be carrying out quarterly DR tests on priority systems to ensure the existing DR is fit for purpose; these will start from May 2018.</p> <p>Revised implementation date: 31/03/2018</p>	
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3.4 Outstanding School Audit Recommendations Update

3.4.1 A programme is now in place to follow up school audit recommendations which began with the new academic year in September 2017.

	High	Medium	Low	Total
No. of Recs raised in Q3	0	0	0	0
Outstanding Recs brought forward from previous quarters	1	22	16	39
TOTAL	1	22	16	39
Recommendations due to be implemented by 31/12/17	1	17	11	29
Fully Implemented	0	8	4	12
Partially Implemented	1	3	5	9
Not Implemented	0	0	0	0
Recommendation Not Agreed by School*	0	6	2	8

*The schools these recommendations relate to have been reported to senior management within the LMS team.

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3.4.2 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 implementation status
Sanders School Opinion: Limited	Where the school engages individuals in a self-employed capacity e.g. vocal tuition, swimming lessons etc., the following should be completed; <ul style="list-style-type: none">• Self-Employment Checklists,• HMRC ESI Online Tool Checks and• Decisions sheets completed before individuals are engaged for the provision of goods / services; and approved by an appropriately authorised signatory. Risk Rating: High	A process has been established for the new school year (September 2017), however it is yet to be confirmed whether retrospective checks have been completed for any existing individuals (if applicable). Once this is done, the recommendation will be fully implemented.	Partially implemented

Appendix B

4. Quarter One - Counter Fraud Audit Work

4.1 Proactive Counter Fraud Investigations

4.1.1 Proactive work undertaken during quarter three is shown below:

Description	Risks	Quarter 3 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
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation. (See below)	Ongoing

4.2 Reactive Investigation Cases

4.2.1 During quarter three one case was closed - no case to answer and one referral was received which is currently being investigated.

4.3 Investigation Recommendations

4.3.1 Any recommendations raised as part of proactive or reactive investigation reports are recorded and their implementation monitored as part of a follow up programme.

4.3.2 Two recommendations were brought forward from quarter two; both have been implemented. No new recommendations have been made during quarter three.

4.4 Tenancy Fraud Project

4.4.1 The tables below show the work undertaken on the Tenancy Fraud Project during quarter three.

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
Oct	572	180	216	44	8	172
Nov	279	81	282	85	11	70
Dec	194	54	137	41	8	48
YTD	4,785	1,483	2,690	477	64	1,421

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Internal Audit					
Month	Cases Under Investigation (open cases)	Closed	Total Properties Recovered	Cases referred for HB Fraud	RTB cancelled through audits
Oct	82	12	2	0	2
Nov	88	5	3	4	2
Dec	81	15	0	0	2
YTD		75	21	11	18

4.4.2 The total net savings (minus project costs) for the project from October 2015 to December 2017 is £5.69m. The breakdown for each year is below.

- April 2017 to December 2017 - £1.68m
- April 2016 to March 2017 - £2.54m
- October 2015 to March 2016 - £1.47m

4.4.3 Outcomes for the quarter include the following:

- Five properties were recovered with a nominal value of £90,000; and
- Six Right to Buy applications were withdrawn with a notional value of £521,939;
- Legacy fraud investigation case:
 - Recovery of £22,252 Housing Benefit overpayment;
 - Recovery of £5,030.56 Council Tax overpayment; and
 - ADPEN Charge of £1,000.
- Fraud Investigation Case:
 - Recovery of £8,271.59 Housing Benefit overpayment; and
 - Recovery of £2,284.04 Single Person Discount Overpayment.

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Appendix C: Current Status of 2017/18 Audit Plan

Audits completed and in progress as at 31st January 2018

	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
	Children’s Commissioning	COMPLETE	SUBSTANTIAL
	One Oracle Interfaces	DRAFT REPORT	
LBH SYSTEM AUDITS	Fairykites	COMPLETE	SUBSTANTIAL
	Troubled Families Programme	COMPLETE (Sept’ and Oct’ Claim)	SUBSTANTIAL
	Client Finance deputyship and appointeeship	COMPLETE	SUBSTANTIAL
	Homelessness - Housing Tenancy Arrangements	COMPLETE	SUBSTANTIAL
	Land of the Fanns – Initial Grant Arrangements Review	COMPLETE	N/A
	Mayor’s Appeal Fund – Annual Grant Review	COMPLETE	N/A
	Housing Benefit - new claims or change in circumstances (was a oneSource audit)	DRAFT REPORT	
	Accounts payable service payments teams in directorates	UNDERWAY	
	Gifts and Hospitality (Corporate Culture)	UNDERWAY	
	Offsite Storage Follow up (Additional Task)	UNDERWAY	
	No Recourse to Public Funds (NRPF)	UNDERWAY	
	Private Sector Leasing - Liberty Housing	UNDERWAY	
	Contract Management: Client checking of contractor works	UNDERWAY	
	Children's disability service	UNDERWAY	
	Care Act 2014 – Safeguarding	UNDERWAY	
	Economic Development Programme Review (previously called Alternative Delivery Models)	UNDERWAY	
	Procurement including compliance with public contract regulations 2015	SCOPING – fieldwork scheduled February	
	Information Governance/ Data Protection - GDPR	SCOPING – fieldwork scheduled February	
	Off-Payroll Engagement (IR35)	SCOPING – fieldwork scheduled February	
	Adoption (Additional Task)	SCOPING – Possible move to 18/19 to tie in with proposed work in new plan – TBC	

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SCHOOLS	St Alban's RC Primary	COMPLETE	SUBSTANTIAL
	St Mary's RC Primary	COMPLETE	MODERATE
	Crownfield Infants	COMPLETE	MODERATE
	Squirrels Heath Infants	COMPLETE	MODERATE
	Parklands Junior (Additional Task)	DRAFT REPORT	
	St Edwards Primary (Additional Task)	UNDERWAY	
	Gidea Park	UNDERWAY	
	Towers Junior	Booked for 7 th March	
	Squirrels Heath Junior	Booked for 26 th February	
	Harold Court Primary	Booked for 5 th March	
	Branfil Primary	Booked for 1 st February	
	Crownfield Juniors	Booked for 19 th February	
	Engayne Primary	Booked for 1 st March	
	Elm Park Primary (Additional Task)	Booked for 15 th March	
	Health Checks (21)	X4 FINAL REPORTS ISSUED, X1 DRAFT REPORT	
ONESOURCE	Paris Applications (Additional Task)	UNDERWAY	
	Cyber Security	UNDERWAY (External)	
	Security over data warehouse	UNDERWAY	
	Establishment controls	UNDERWAY	
	Enforcement Agents	UNDERWAY	
	Staff vetting	UNDERWAY	
	Debt recovery	UNDERWAY	
	Budget Monitoring/ Savings Programme	SCOPING – fieldwork scheduled for February (External)	

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
	Compliance with new Report Approval Processes	MOVE TO 18/19 – New process not yet implemented.
	Housing and Planning Act 2016	DEFERRED - To be considered for 2018/19 plan
SCHOOLS	Health Checks (24)	All remaining 16 Health Checks scheduled for Q4
	Scargill Infant (replaced by Parklands Junior)	CANCELLED – converted to Academy September 2017
	Whybridge Junior (replaced by St Edwards Primary)	CANCELLED – converted to Academy September 2017
ONESOURCE	1Oracle follow up	Q4
	Serious and Organised Crime	Q4
	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