

3. Progress Report - Internal Audit Work

3.1 Audit Progress

- 3.1.1 The Annual Audit Plan, approved by the Audit Committee in February 2018, comprised 47 audit reviews. Members will be aware that the plan is subject to revision and amendment at any time should higher priority risks or tasks be identified. Adjustments have been made since the plan was approved (see table below) and the current number of audit reviews is 36.
- 3.1.2 Members are reminded that the 2018/2019 Audit Plan was presented as a flexible plan to allow for changes in the risk and operational environment in which the Council operates. As such, the plan included a list of high and medium risk audit areas, covering the range of Council activities which, in conjunction with management, had been assessed as requiring assurance during 2018/2019. The number of audits on the list totalled 895 audit days, which exceeded the available resources by around 100 days. This overstatement was deliberate and the list of audits has been refined throughout the year during discussions with senior management. The Audit Committee has been informed of all changes to the plan at the regular progress updates during the year.
- 3.1.3 Current, cumulative progress toward delivery of the 2018/19 audit plan (including audits carried forward from 2017/18, but excluding School Health Checks) is summarised in the table below, with further detail provided in Appendix D. It should be noted that some of the work undertaken by internal audit does not result in an opinion being provided, such as advisory reviews and grant claims.

Audit Plan Status	Number of Audits / Tasks
Approved Audit Plan 2018/19	47
2017/18 Audit tasks brought forward to 2018/19	1
Audit tasks added to the Plan	9
Audit tasks cancelled	(9)
Audit tasks deferred to 2019/20	(12)
Total	36
Audits completed	27
Final reports issued / completed	22
Draft reports issued	4
In Progress	9

3.2 Risk Based Systems and School Audits

3.2.1 The table below details the results of the final reports issued in quarter four.

Report	Assurance	Recommendations			
		High	Med	Low	Total
System Audits					
Disabled Facilities Grant	Moderate	0	6	0	6
IR35	No Opinion*	2	11	3	16
Troubled Families	N/A	N/A	N/A	N/A	N/A
Pensions Fund Administration	Substantial	0	1	0	1
Non Contracted Spend (Housing)	N/A	0	1	0	1
System Audits Totals		2	19	3	24
School Audits					
R.J.Mitchell Primary	Moderate	0	9	4	13
Parsonage Farm Primary	Substantial	0	3	0	3
School Audits Totals		0	12	4	16
Q4 Audits Totals		2	31	7	40

* Whilst IR35 is applicable to both Havering and Newham as part of the shared services delivery, this review was brought forward in preparation for a HMRC visit to Newham Council. The review was carried out shortly before the visit, and hence, was limited to an assessment of potential adequacy of existing controls. An assessment of the controls effectiveness was not completed as sample testing was not undertaken. On this basis no opinion has been provided.

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, weaknesses were identified and therefore there is a need 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.

3.3 Audit Recommendations Update

3.3.1 Internal Audit follows up all 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:	Advisories - Pertaining to best practice.

3.3.4 The table below summarises the recommendations raised during 2018/19 up until February 2019:

System Audit recommendations	High	Med	Low	Total
No. of Recs raised in Q4	2	19	3	24
Recommendations brought forward	7	19	3	29
Total	9	38	6	53

3.3.5 As at the end of February 2019 all five high risk recommendations due, of the nine detailed above, had been implemented. The remaining four high risk recommendations are not due to be implemented until April 2019. The detail of these recommendations and their current status are outlined in the table in Appendix B.

3.4 School Audit Recommendations Update

3.4.1 The table below summarises the recommendations raised for school audits during 2018/19, up until the end of February.

School Audit recommendations	High	Med	Low	Total
No. of Recs raised in Q4	0	12	4	16
Recommendations brought forward	5	26	12	43
Total	5	38	16	59

3.4.2 All 5 high risk recommendations detailed above have been implemented.

Appendix B: Current status of High Risk Recommendations

Audit: Private Sector Leasing	
Recommendation	Original management response
The backlog of re-charges to landlords for property repairs to be cleared as soon as possible to avoid any dispute from the landlord arising and further delays occurring, with future re-charges.	Officers have been directed to clear the backlog of charges in accordance with the contractual protocol. The new Housing Management ICT system will address this in phase two of the programme. In the interim manual systems will be used to undertake this.
Implementation Dates / Current Status including most recent update	
Original Implementation Date: Mar -19	

Audit: No Recourse to Public Funds	
Recommendation	Original management response
The process for assessing, recording and managing NRPF cases should be established and documented. This process should clearly define responsibilities regarding ownership and oversight of NRPF. Documented policies and procedures should be produced to support the process and staff training should be provided where necessary.	Processes and policies will be reviewed by Assistant Director and Head of Service. Through this a key person will be identified for children's services to become the single point of contact for NRPF.
Implementation Dates / Current Status including most recent update	
<p>Update: The Transformation team are undertaking a project to review the system and to identify where NRPF should sit (Children's Services or Housing) and from there a key person will be identified to become the single point of contact for NRPF. Policy and procedures are in place and staff training has been undertaken.</p> <p>Original Implementation Date: Aug -18</p> <p>Full implementation Expected: Mar -19</p>	

Audit: IR35	
Recommendation	Original management response
<p>Senior Council Management should confirm how they intend to 'police' IR35 compliance. A decision should be made as to whether this is a role for an internal function (such as HR, Procurement or Finance) or whether the responsibility in this regard would be better outsourced to an external provider (against which regular assurances could be returned) In the event that this is to be achieved internally, decisions should be made regarding feasibility and potential for additional resource to be applied. In the event that an outsourced provider is considered, the mandatory procurement processes in terms of ensuring value for money etc should be followed.</p>	<p>SLT to decide how they intend to police IR35 compliance. Option 1 - Continue with "self service" model but reinforce the fact that Directors and line managers have the responsibility to comply with the Council's Intermediaries policy. Option 2 - Police through the internal departments. This will require additional resources within HR. Option 3 - to outsource all IR35 decisions to an external provider which could be quite costly. SLT should also note that other HR departments across London Councils have taken the lead on IR35 decision and / or managed the process. However, HR will require a dedicated resource to manage this process as the level of non compliance has increased. SLT to agree that further financial detail should be presented to SLT if the "policing" model is to be adopted.</p>
Implementation Dates / Current Status including most recent update	
<p>Update: Findings were reported to the Senior Leadership Team on the 29th January 2019. Directors take responsibility. Panel process – option 1. Original implementation Date: Recommendations are due for implementation by Apr -19</p>	

Recommendation	Original management response
<p>The activity through the IR35 Panel should be communicated, either to SLT or into relevant DMT meetings, to help ensure: - there is visibility of the positive assurances that can be sought where managers are proactively seeking a decision from the IR35 Panel, before procuring services; and - there is visibility of the negative assurances from the number of cases that are identified after the service has been procured and the IR35 risks have materialised.</p>	<p>The breakdown of cases has been highlighted in SLT reports. However, it is not broken down by directorate. Non-compliance in Directorates is highlighted to Directors outside of SLT meetings. HR to explore adding a Directorate column on the log to enable reporting at this level and to provide periodic reports to directors.</p>
Implementation Dates / Current Status including most recent update	
<p>Update: Findings were reported to the Senior Leadership Team on the 29th January 2019. HR to share list with SLT of areas that are non-compliant. Original implementation Date: Recommendations are due for implementation by Apr -19</p>	

4. Quarter Four - Counter Fraud Audit Work

4.1 Proactive Counter Fraud Investigations

4.1.1 Proactive work undertaken during quarter four 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. No requests for advice were received.	Ongoing
Advice to Other Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. One request for advice was received.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. No referrals were received.	Ongoing
FOI Requests	To undertake all freedom of Information Requests. No FOI requests were received.	Ongoing
National Fraud Initiative Data Upload	To co-ordinate the data upload for the 2018/19 NFI. The 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. All datasets have been uploaded in accordance with NFI Guidance.	Complete

4.2 Reactive Investigation Cases

4.2.1 Four referrals were brought forward from the previous quarter.

- One referral resulted in disciplinary action;
- One referral has been passed to HR for investigation; and
- Two referrals there was no case to answer.

4.2.2 During the first two months of quarter four three referrals were received:

- Two referrals are still being investigated; and
- One referral there was no case to answer.

Appendix D: Current status of 2018/19 Audit Plan

	AUDIT TITLE	STATUS	OPINION
LBH SYSTEM AUDITS	Children with Disabilities	COMPLETED	SUBSTANTIAL
	Financial Monitoring of CAD Placements	COMPLETED	SUBSTANTIAL
	SEN Transport	COMPLETED	SUBSTANTIAL
	Care Packages	COMPLETED	MODERATE
	No Recourse to Public Funds (NRPF) Follow Up (Additional Task)	COMPLETED	MODERATE
	Project and Programme Governance Follow Up (Additional Task)	COMPLETED	SUBSTANTIAL
	Disabled Facilities Grant – Capital Grant Determination 2017/18 (Additional Task)	COMPLETED	N/A
	Disabled Facilities Grant (Additional Task)	COMPLETED	MODERATE
	IR35	COMPLETED	NO OPINION
	Troubled Families (Additional Task)	COMPLETED	N/A
	Non Contracted Spend (Additional Task)	COMPLETED	N/A
	Reablement Services	DRAFT REPORT	
	Direct Payments	DRAFT REPORT	
	PMO / Project Management Arrangements	DRAFT REPORT	
	Replacement for SWIFT	UNDERWAY	
	GDPR	UNDERWAY	
ONESOURCE	One Oracle Interfaces (2017/18)	COMPLETED	SUBSTANTIAL
	Financial Controls Phase 1 (forms part of the Key Financial Systems audit allocation)	COMPLETED	N/A
	Pension Fund Administration	COMPLETED	SUBSTANTIAL
	Cloud Computing (forms part of the ICT audit allocation)	DRAFT REPORT	
	Virus Protection (forms part of the ICT audit allocation) (Additional Task)	UNDERWAY	
	Procurement	UNDERWAY	
	Financial Controls Assurance Phase 2 (forms part of the Key Financial Systems audit allocation) (Additional Task)	UNDERWAY	
	Purchase Card (Transactional Services) (Additional Task)	UNDERWAY	
	Payroll (Transactional Services)	UNDERWAY	
SCHOOLS	St Patrick's Catholic Primary	COMPLETED	MODERATE
	Brady Primary	COMPLETED	MODERATE
	Hylands Primary	COMPLETED	MODERATE
	Nelmes Primary	COMPLETED	MODERATE
	St Ursula's Catholic Primary	COMPLETED	MODERATE
	The Learning Federation (Mead & Broadford)	COMPLETED	LIMITED
	R.J. Mitchell Primary	COMPLETED	MODERATE
	Parsonage Farm Primary	COMPLETED	SUBSTANTIAL
	James Oglethorpe Primary	UNDERWAY	
	Scotts Primary	UNDERWAY	
	Health Checks (18)	UNDERWAY (6)	12 Completed

	AUDIT TITLE	STATUS
LBH SYSTEM AUDITS	Economic Development Programme Review	Move to 2019/20
	General Project Assurance Work	Move to 2019/20
	Housing – Fixed term tenancy agreements	Move to 2019/20
	Corporate Health and Safety	Move to 2019/20
	Contract Management	Move to 2019/20
	Emergency Planning and Business Continuity	Move to 2019/20
	School Expansion Programme	Move to 2019/20
	Social Care Transitions	Move to 2019/20
	Right to Buy	Move to 2019/20
	Private Sector leasing – new payments system	Cancelled
	Homelessness/Housing – new system	Cancelled
	Joint Commissioning Unit	Cancelled
	Housing and Planning Act 2016	Cancelled
	Homelessness – Homelessness Reduction Act	Cancelled
	Adoption and Permanency Prescription	Cancelled
SCHOOLS	Suttons Primary	Move to 2019/20
	Gaynes Language College	Cancelled – Converted to Academy
	Sanders Drapers	Cancelled – Converted to Academy
ONE SOURCE	Pension Fund Governance	Move to 2019/20
	Treasury Management	Move to 2019/20
	NNDR – Debt Recovery and Write Offs - Now forms part of the Financial Controls Assurance Work	Cancelled