

Appendix A – Progress Report - Internal Audit Work

1. Audit Progress

- 1.1 The Annual Audit Plan, approved by the Audit Committee in April 2019, comprised 700 audit days. The plan was developed using a thematic approach, in line with the Corporate Plan priorities for 2019/20 with time allocated under each theme to carry out risk identification and service mapping. Members are reminded that the 2019/20 audit plan was presented as a flexible plan, subject to review through the year to ensure that emerging risks are covered. Adjustments to the plan are made to allow for changes in the risk and operational environment in which the Council operates. These changes are outlined in Appendix C.
- 1.2 Current, cumulative progress toward delivery of the 2019/20 audit plan (excluding School Health Checks) is summarised in the table below, with further detail provided in Appendix C. 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
Final reports issued / Reviews Completed	16
Draft reports issued	2
Underway	9

2. Risk Based Systems and School Audits

The table below details the results of the final reports issued from the 1st September to 31st December 2019. A summary of the Limited Assurance / No Assurance reports and the details of the high risk recommendations raised are provided in section 3.

Report	Assurance	Recommendations			
		High	Med	Advisory	Total
System Audits					
Romford Combined Charities	N/A	0	0	0	0
Purchase Cards	Limited	1	7	0	8
Right to Buy	Moderate	0	6	0	6
School Expansion Programme	Moderate	1	2	0	3
Private Sector Leasing	No Assurance	6	3	2	11
Cloud Computing	Limited	3	10	0	13
Procurement	Limited	1	2	0	3
Financial Controls Assurance	Limited	1	0	0	1
ICT Needs Assessment	N/A	0	0	0	0
Oracle Upgrade – Phase 1	N/A	0	0	0	0
System Audits Total		13	30	2	45
School Audits					
St Ursula's RC Junior	Moderate	0	5	8	13
Newtons	Moderate	1	3	4	8
Whybridge Infants	Substantial	0	4	4	8
School Audits Total		1	12	16	29

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 / No 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. Limited Assurance / No Assurance Report Summaries

3.1 Private Sector Leasing

3.1.1 **No assurance** can be given on the controls in place to manage the risks in relation to the Council's PSL scheme due to:

- Lack of legal due diligence undertaken in regard to landlords and their permissible right to lease the property;
- Lack of evidence to support completion of statutory safety checks prior to use of the property;
- Under-utilisation of properties covered by a guaranteed rent scheme and associated financial loss;
- Inconsistencies in the award of financial incentives and the continued payment of rent after the return of the property or during excessive void periods caused by the landlord;
- Absence of a process to report, record and recover repair recharges from both landlords and tenants; and
- High level of exposure to the Council of PSL related insurance claims caused by inadequate checks being carried out and / or breach of the conditions set out in the lease agreement.

3.1.2 This audit makes six high and three medium risk recommendations. Details of the high risk recommendations are outlined below.

R1	Checks undertaken prior to entering into a contractual agreement with individuals for the lease of properties should be sufficiently robust to limit risks to both tenants and the Council. Recommendation Owner: Darren Alexander, Head of Housing Demand Expected Timescale for Implementation: January 2020 Officer's comments: Agreed.
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R2	<p>A systematic check of existing PSLs should be carried out to ensure all key documents are in place, particularly those required to support that the property is safe for tenants to be placed in it.</p> <p>All documents should be stored on a suitable IT platform. Households deemed to be at risk due to living in properties that have significant faults and/or unavoidable hazards should be expected to be subject to a planned move.</p> <p>Recommendation Owner: Darren Alexander, Head of Housing Demand Expected Timescale for Implementation: May 2020 Officer's comments: Recommendation Agreed.</p>
R3	<p>The current strategy for identifying and recharging the historical PSL landlords repairs should be reviewed to ensure all outstanding recharges are being processed. This review should also consider whether the Council has adhered to all relevant obligations set out in the landlords lease agreement and whether the Council has a right to recharge the repair costs.</p> <p>Recommendation Owner: Darren Alexander, Head of Housing Demand Expected Timescale for Implementation: February 2020 Officer's comments: Accepted</p>
R4	<p>Action should be taken to implement a process for the reporting, recording and recovery of rechargeable repair costs to tenants arising from the void process.</p> <p>Responsibilities in relation to this process should be clearly communicated to all appropriate Teams / Officers.</p> <p>Recommendation Owner: Darren Alexander, Head of Housing Demand Expected Timescale for Implementation: February 2020 Officer's comments: Accepted</p>
R5	<p>A review should be undertaken of the current PSL Scheme including the Rent Guarantee Scheme and cashless bond arrangements. This should include:</p> <ul style="list-style-type: none">• The value of the cashless bond• On what terms the bond exists• When and how the bond can be redeemed• When rent payments to landlords will begin;• When rent payments will cease, including any ongoing payments of rent after the property has been handed back;• Circumstances whereby the Council would be entitled to stop rental payments e.g. in the event that the Councils ability to use the property is delayed by the owner or a suitable tenant cannot be identified; and• The payment of financial incentives and compensations payments. <p>Expectations arising from this review should be clearly outlined in documented procedures and any associated PSL literature available to current and prospective landlords.</p> <p>Recommendation Owner: Darren Alexander, Head of Housing Demand Expected Timescale for Implementation: May 2020 Officer's comments: The policy could be completed in a shorter period however changing the literature and other publicity may take up to 6 months.</p>

R6 The service should work with Legal Services to review the wording of the lease agreement with the property owner to ensure the Council does not assume liabilities that should rest with the landlord and to reduce the Council's risk of exposure.

Advice should be sought at this time to establish how / when the Council would be in a position to replace the leases for the existing portfolio.

Recommendation Owner: Darren Alexander, Head of Housing Demand

Expected Timescale for Implementation: May 2020

Officer's comments: Resources will be needed from legal.

3.2 Cloud Computing

3.2.1 Limited Assurance can be given on the controls in place to manage the risks in relation to Cloud Computing due to:

- Lack of evidence to demonstrate that key stakeholders have been formally identified and are being engaged on an ongoing basis in the risk management of cloud services;
- Incomplete unsigned contract documentation, including governance responsibilities that have not been subject to review;
- Lack of information recorded within the inventory of all services provided via the cloud, such as first point of contact for addressing operational issues;
- Lack of recent testing of CSP service transition procedures as part of effective disaster recovery;
- Inconsistencies in the completion of contract monitoring meetings in line with contract arrangements including a lack of evidence to demonstrate that all key service standards are being monitored;
- Absence of established processes for detecting, reporting, responding to and learning from information security incidents;
- Out of date Document / Records Classification Policy dated November 2016, prior to the introduction of the new General Data Protection Regulation (GDPR).
- Absence of data classification prior to upload to the CSP (for Lumesse and TalentLink);
- Lack of evidence to support the formal identification of legal and regulatory requirements that must be adhered to when using CSPs.
- Lack of evidence to demonstrate that backed up data is encrypted by the CSP, or that assurance has been sought over the adequacy of physical access controls currently relied upon in the absence of physical media encryption;
- Lack of evidence to support how assurances are gained to support that data segregation occurs;
- Lack of evidence to demonstrate that formal authorisation is obtained from the employee's line manager prior to access being granted to the respective system; and
- Lack of evidence to support how new users had been assigned lifecycles to ensure lifecycles are fit for purpose and to demonstrate that auto detection and deletion of dormant user accounts, after specified days of inactivity, is currently in place.

This audit report makes two high and eleven medium risk recommendations. It should be noted that since the completion of the review, three medium and one high risk recommendations have been implemented. The high risk recommendations are outlined below:

R1	<p>Newham and Havering Councils should obtain assurance that each CSP encrypts backed up client data. Where this is not undertaken, additional assurance should be sought from both the CSP and the shared service that back up data, at rest, is protected in accordance with the risk appetite of the two Councils.</p> <p>Recommendation Owner: Ian Gibbs Expected Timescale for Implementation: December 2019 Officer's comments: Completed</p>
R2	<p>User accounts should be proactively monitored to avoid having dormant or inactive accounts on all cloud applications. The Councils should systematically remove redundant users from cloud applications and maintain tighter control over operations to ensure accurate processes (housekeeping).</p> <p>Recommendation Owner: Ian Gibbs / Mark Porter Expected Timescale for Implementation: March 2020 Officer's comments: We have an automated process to look at inactive accounts that have not accessed the network. These network accounts are automatically disabled and can only be accessed via our network. The security audit in October 2018 reviewed the network security in detail and the recommendations implemented.</p> <p>Microsoft O365: O365 is not live for all users and we are in the process of testing and deterring its configuration. At present calls are raised using Service Manager for access to the system. Redundant accounts will be deleted and linked to the online starters and leavers process. O365 access is determined by Active Directory and we have starter, movers and leavers' process that manages access to the network and O365.</p> <p>Oracle: Oracle is accessed via the Council's network and is managed by Active Directory. We have a starter, mover and leaver online process. The Oracle Team is notified about changes via the online process and disables access when required.</p> <p>TalentLink: TalentLink is accessed via the Council's network and therefore a leaver would not be able to access the system when their network account is disabled. Data cleansing is planned for this application because a replacement system is due to be implemented in June 2020.</p>

3.3 Procurement

3.3.1 Limited Assurance can be given on the controls in place to ensure compliance with legislative (OJEU Regulations) and local policies and procedures, specifically in relation to non-contracted / unapproved spend due to:

- Lack of evidence to support that a contract is in place where expected as only 11 of the 50 contracts requested could be located;
- Procurement led projects to retrospectively identify and obtain existing contracts across the Council;
- Lack of policies and procedures in place to support the agreed No Purchase Order No Pay requirement;
- Absence of Council wide communication of the No Purchase Order No Pay directive; and

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- Lack of management information / exception reports being produced and disseminated to identify / monitor non-compliance;

This audit makes one high and two medium risk recommendations. The high risk recommendation is outlined below:

R1 Given the limited assurance that purchases are compliant with legislative and local policies, and the lack of evidence to support that spend is approved and achieving value for money for the Council, the Procurement function should identify how they will address all levels of non-contracted spend to ensure compliance.

Recommendation Owner: Ross Duguid, Head of Procurement

Expected Timescale for Implementation:

Officer's comments:

3.4 Purchase Cards

3.4.1 **Limited Assurance** can be given on the controls in place to manage the risks in relation to the Council's Purchase Card scheme due to:

- Lack of training provided to Managers responsible for approving purchases made by cardholders;
- Lack of access to purchase card guidance via the Council's intranet;
- Absence of a clear definition of non-compliance in relation to purchase cards;
- Lack of an effective strategy for monitoring and reporting non-compliance, in accordance with the Service Level Agreement;
- Inconsistent completion of the 10% sample testing;
- Absence of links between Purchase Card Guidance and Oyster Card Guidance including the identification of work Oyster Card top ups as permitted purchase card spend;
- Gaps in procedures for the administration of purchase cards, including local actions implemented internally by the team to reduce risk, which have not been documented;
- Absence of checks undertaken on the monthly leavers list to determine whether leavers are cardholders, as a secondary control to Managers self-service responsibilities; and
- Lack of management information being reported to key stakeholders within the Council.

This audit report makes one high and seven medium risk recommendations. The high risk recommendation is outlined below.

R1	<p>A review should be undertaken of the current service level agreement, specifically in relation to responsibilities of the team for monitoring non-compliance and the production and distribution of management information. This review should aim to:</p> <ul style="list-style-type: none">• Clarify the requirements of the usage compliance monitoring to determine whether this is limited to non-permitted spend only; and• Understand what management information the Council wants the team to produce, how often and the recipients of this information. <p>Recommendation Owner: Sarah Bryant, Director of Exchequer and Transactional Services</p> <p>Expected Timescale for Implementation:</p> <p>Officer's comments:</p>
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3.5 Financial Controls Assurance

3.5.1 A high level review of the Council's financial controls was undertaken in two phases. The review considered the wider financial control environment, focusing on key financial systems and included a range of risk based audits of systems and processes, within the shared service.

3.5.2 Based on the findings of this work, **limited assurance** was placed on the Council's financial controls. As a result, a single proposed high risk action was raised, consisting of the following elements:

- The risk appetite for all key financial systems and processes should be defined as part of the project to implement Oracle Fusion;
- Consideration needs to be given to where the required key controls are owned within the first and second line of defence, and also to what timetable of assurances senior management and the s151 officer requires, based on this risk appetite;
- The resources available in the back office teams should be assessed against the requirements of the business;
- What is determined should be formally agreed so that there is clarity regarding the controls and assurances that the shared service is expected to administer. If there are differences between the requirements in Newham and in Havering, this should be clearly documented;
- Training requirements in the first and second line of defence need to be assessed and action taken;
- Future development plans, where controls enhancements are planned post go live of the new system, should be documented and monitored; and
- The agreements need to be formally reviewed, within six months after implementation, to ensure they are operating as planned and are effective.

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4. Audit Recommendations Update and status of High Risk Recommendations

- 4.1 Internal Audit follows up all high and medium risk 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.
- 4.2 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.
- 4.3 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.
Advisories	Pertaining to best practice.

- 4.4 All high risk recommendations (including schools) due as at 30th November 2019 have been confirmed as implemented.

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Appendix B

1. Counter Fraud Audit Work – 01/09/19 to 31/12/19

1.1 Proactive Counter Fraud Investigations

1.1.1 Proactive work undertaken during 01/09/19 to 31/12/19 is shown below:

Description	Risks	Status
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. 13 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. Two referrals were received.	Ongoing
FOI Requests	To undertake all freedom of Information Requests. No FOI requests were received.	Ongoing
National Fraud Initiative Data Upload	<p>The 2018/19 NFI data has been downloaded and reports are being reviewed by Assurance Services or the relevant service.</p> <p>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.</p>	Ongoing

1.2 Reactive Investigation Cases

1.2.1 Four referrals were brought forward from the previous period:

- One referral there was no case to answer;
- One referral has resulted in a criminal investigation; and
- Two referrals are still being investigated.

1.2.2 During 01/09/19 to 31/12/19 two referrals were received:

- One referral is under investigation;
- One referral there was no case to answer.

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Appendix C: Current status of 2019/20 Audit Plan

Audit Title	Status as at end Q3	Opinion	Reason for delay (where applicable)
LBH Systems Audits			
Romford Combined Charities (Additional Task)	Complete	N/A	
Payroll – Transactional Services (Key Financial Audit)	Final Report	Limited	
Financial Controls Assurance	Final Report	Limited	
Procurement (Addition to plan)	Final Report	Limited	
Purchase Card - Transactional Services	Final Report	Limited	
Right to Buy	Final Report	Moderate	
School Expansion Programme	Final Report	Moderate	
Private Sector Leasing	Final Report	No Assurance	
Corporate Governance and Decision Making	Underway		
Key Financial Audits – Compliance Work	Underway		
Treasury Management	Underway		
Corporate Health & Safety	Underway		
Pension Fund Governance	Cancelled – Based on assurances from external reviews carried out during 2019/20 (The Pensions Regulator and Hymans)		
Emergency Planning & Business Continuity	Underway		
Licensing Schemes	Underway		
Delivery of the Corporate Plan	Q4		
Safeguarding Adults	Q4		
Social Care Transitions	Q4		
Regeneration – Contract Management	Q4		
Economic Development Programme Review	Q4		
General Project Assurance	Q4		
Performance monitoring – Leisure Centres	Q4		
Post Implementation Review - Liquid Logic Children's & Adults	Q4		
Contract Management (Communities)	Q4		
Contract Management (Opportunities)	Q4		
Direct Payments – Follow Up	Underway		
Fixed Term Tenancies – Housing	Cancelled – Based on risk discussion with Director of Housing		
Shared Service Audits			
ICT needs assessment	Complete	N/A	
Oracle upgrade – Phase 1	Complete	N/A	
Oracle upgrade – Phase 2	Underway		
Cloud Computing (forms part of the ICT audit allocation)	Final Report	Limited	
Virus Protection (forms part of the ICT audit allocation)	Final Report	Moderate	

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LBH Schools			
Suttons Primary	Final Report	Moderate	
Newtons Primary	Final Report	Moderate	
St Ursula's Junior	Final Report	Moderate	
Whybridge Infant	Final Report	Substantial	
Learning Federation Broadford/Mead	Draft Report		
Langtons Infant	Draft Report		
Hilldene Primary	Underway		
St. Joseph's CP	Q4		
Parklands Infant	Q4		
Crowlands Primary	Q4		
Mawney Foundation	Q4		
Harold Wood Primary	Q4		
La Salette Catholic Primary	Q4		
Health Checks (21)	4 Completed		