

Appendix A – Progress Report - Internal Audit Work

1. Audit Progress

- 1.1 The Annual Audit Plan, approved by the Audit Committee in July 2020, comprised 700 audit days. The plan was developed using a thematic approach, in line with the Corporate Plan priorities for 2020/21 with time allocated under each theme to carry out risk identification and service mapping where required. Members are reminded that the 2020/21 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. Where changes are made they are outlined in Appendix D.
- 1.2 Due to the COVID emergency response, the priorities and risk profile of the Council changed during the first half of 2020/21. Internal Audit adapted their work to provide assurance on the emergency response projects and changing risk environment. Our response to COVID-19 was reflected in the plan presented to Audit Committee in July with tasks added to the plan as the need arose and projects were initiated across the council.
- 1.3 School closures meant that all school audits were postponed until later in the year, with resources used during quarter two to adapt the programme to ensure we are able to carry out off-site audits if restrictions relating to the pandemic remain in place longer term. A member of the audit team was redeployed temporarily during quarter one to assist with the NHS shielding calls project. Work on supporting risk management and adapting the corporate risk register to reflect the urgency of the pandemic specific risks also took priority during this time.
- 1.5 Current, cumulative progress toward delivery of the 2020/21 audit plan as at the end of September 2020, 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
Final reports issued / Reviews Completed	6
Draft reports issued	2
Underway	4

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2. Risk Based Systems and School Audits

2.1 The table below details the results of the work undertaken that resulted in the issue of a report during the first six months of the year.

Report	Assurance	Recommendations			
		High	Med	Advisory	Total
System Audits					
Management of NHS Shield Data (COVID-19 response)	N/A	A number of recommendations regarding control risks were raised and resolved during the project.			
Management of food distribution to vulnerable individuals (COVID-19 response)	N/A	N/A	N/A	N/A	N/A
Purchase Cards (compliance)	Moderate	0	1	0	1
Private Sector Leasing Follow Up	Moderate	N/A	N/A	N/A	N/A
Fusion – Oracle Upgrade	N/A	N/A	N/A	N/A	N/A
ICT Inventory – Smarter Working Project	Moderate	N/A	N/A	N/A	N/A
Total		0	1	0	1

2.2 Management of NHS Shield Data (COVID-19 response)

2.2.1 This work was carried out to provide assurance that the Council is managing its risks in relation to the provision of support to vulnerable members of the community as well as to provide control advice and support to the teams implementing new systems and processes under pressurised and challenging circumstances. Examples of risks considered during this work included: accuracy of shielding data; adequacy of control frameworks in place; safeguarding considerations; information management and GDPR; project management and governance arrangements; and, resilience.

2.2.2 The findings and recommendations raised formed an action plan to assist and inform the teams involved as opposed to a traditional audit report. This meant that we were able to highlight risks and emerging issues, in what was an evolving environment, as well as ensuring management were made aware of the actions being taken to address these. Recommendations raised were dealt with and implemented almost immediately.

2.3 Management of food distribution to vulnerable individuals (COVID-19 response)

2.3.1 This work intended to support the development of this process and looked at comparing the deliveries made to households and individuals in the community against the food support requests in LOTI (the new system implemented for this purpose). Findings from the testing carried out were used to help identify potential improvements in the systems and processes, whilst it was in use. Due to the advisory and supportive nature of this work no formal recommendations were made or assurance opinion provided.

2.4 Private Sector Leasing – Follow Up

2.4.1 This review was carried out during August to ensure the availability of the auditor involved in the original audit. Some of the recommendations raised in the original review were not due for implementation until September 2020 and so remained underway at the time of this follow up audit. This is reflected in the 'moderate' assurance opinion.

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Since then, all recommendations have been followed up and confirmed as implemented (see Appendix C).

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.

4. Audit Recommendations Update and status of High Risk Recommendations

- 4.1 Internal Audit follows up all high and medium risk audit recommendations with relevant service 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. Part 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 due as at the end of September 2020 have been confirmed as implemented. One recommendation has been given an extended deadline for completion due to the need for the Fusion financial system project to be implemented. A table outlining all high risk recommendations raised during 2019/20 and their status as at the end of September 2020 is provided in Appendix C. There were no high risk recommendations raised during quarters one and two of 2020/21.
- 4.5 There were 40 medium risk recommendations raised in reports issued during 2019/20. All medium risks that became due before the end of September have been confirmed as implemented.

5. Governance update

5.1 During development of the audit plan, consideration is given to the significant governance issues detailed in the Annual Governance Statement (AGS). The 2019/20 AGS was presented to Audit Committee at the meeting held on 28th July 2020. The significant governance issues raised are:

- **Delivery of a balanced budget:** The Council was able to set a balance budget for the 2019/20 financial year. As set out in the report to Council there continues to be pressure over the medium term to the Council due to increased service demand and demographic pressures while available resources are reducing. As outlined in the budget setting report for 20/21 approved in February 2020, uncertainty around many aspects of the future funding model for Local Government remains a challenge in the medium term. However over and above all this sits the COVID19 pandemic and the emergency response which was initiated nationally in March 2020. This has brought an unprecedented challenge to local government generally and requires a reconsideration of the MTFs that was agreed and the corporate approach to recovery.
- **Embedding the Governance Culture and Framework within the organisation:** Further work needs to be undertaken to develop a comprehensive, auditable and objective assurance process to give reassurance that the Governance framework is understood and embedded within the organisation. Particular emphasis should be given to ensuring that any change in the governance framework is known and addressed and that new personnel are equipped with the correct knowledge and understanding.
- **EU Exit:** Preparations and Impact.
- **COVID-19:** As at the date of publication of the Annual Governance Statement, the Council had not had sufficient opportunity to fully reflect on our response to the pandemic, the impact on our governance arrangements and the success of our business continuity / emergency plans and how effectively these were implemented.
- **Cyber Security:** Chief Information Officer (CIO) has raised concerns about the increased likelihood of Cyber security breaches given the almost exclusive focus of public sector organisations on COVID-19 response.

5.2 The significant governance issues are outlined in an action plan that is reviewed and updated as a standing item at each Governance and Assurance Board. These are held monthly and are chaired by the S151. Any new, arising governance issues are also noted in preparation for the following year's AGS. To date, there have been no additional significant issues noted and progress against the action plan for the existing governance issues is considered satisfactory and on target.

5.3 A further update will be provided at the next Audit Committee meeting.

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6. Risk Management Update

- 6.1 Members were presented with a summary Corporate Risk Register (CRR) at the July Audit Committee meeting. This CRR was focused on the COVID-19 emergency response and was embedded within the Bronze and Silver Command processes.
- 6.2 Since September the CRR has been in the process of transitioning back to being led by the Governance and Assurance Board (GAB). Work is underway to ensure that the CRR has established links with all Directorates and how the COVID response across these is captured in their business as usual work streams. The Directorate risk registers will be reviewed to ensure any potential strategic risks are identified and escalated to GAB regularly for consideration in the CRR.
- 6.3 Following completion of this work an updated CRR will be presented at the next meeting of the Audit Committee.

Appendix B

1. Counter Fraud Audit Work – 01/04/2020 to 30/09/2020

1.1 Proactive Counter Fraud Investigations

1.1.1 Proactive work undertaken during 01/04/2020 to 30/09/20 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. Sixteen 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. One referrals was received.	Ongoing
FOI Requests	To undertake all Freedom of Information (FOI) Requests. Two requests were received.	Ongoing
National Fraud Initiative Data Upload	To co-ordinate the data upload for the 2020/21 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.	Ongoing

1.2 Reactive Investigation Cases

1.2.1 Three referrals were brought forward from the previous period:

- One referral is still being investigated;
- One referral was passed onto Legal;
- One referral has been passed over for a Systems review.

1.2.2 During 01/04/2020 to 30/09/20 eight referrals were received:

- One referral resulted in the employees assignment not being renewed;
- Two referrals resulted in information being supplied to Management and / or HR for investigation;
- Three referrals were no case to answer;
- Two referrals are currently being investigated.

1.3 Housing Cases

1.3.1 The following table illustrates the work undertaken in relation to housing fraud and right to buy (RTB) applications:

Description	2019/20	2020/21 (to date)
Number of referrals	25	26
Properties recovered	4	1
Notional Saving	£72,000	£18,000
RTB checked	208	85
RTB stopped	1	4
Notional Saving	£108,000	£449,200
Total Notional Saving	£180,000	£467,200

Appendix C: Status of 2019/20 High Risk Recommendations

High Risk Recommendations	Status
Payroll	
The approved routes for the submission of requests should be established. Staff should also be advised that any requests received outside of the approved routes should be sent back to the originator for resubmission.	Implemented
The level of service provided by Payroll should be re-established with the Councils / businesses, including reiterating the responsibilities of the business in regards to the validation and approval of changes to payroll. This position should be clearly outlined in the service agreement and any residual risks associated with the self-service model should be considered and acknowledged in the Council's risk registers. Supplementary documentation should be held alongside agreements that sets out who has authority to approve payroll requests and who would be deemed to be responsible for submitting requests to payroll.	Implemented
Exception reports highlighting information that might indicate unusual activity (e.g. high overtime earners / additional payments) should be produced and distributed to support and enable managers to undertaken their duties.	Revised implementation date of November 2020 due to the implementation of Fusion project. (original date September 2020)
Purchase Cards	
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: <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. 	Implemented
School Expansion Programme	
The potential financial impact of aiding schools with their deficit should be considered, and decisions documented, as part of the Council's longer term financial strategy.	Implemented
Private Sector Leasing	
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.	Implemented
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.	Implemented

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<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>	Implemented
<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>	Implemented
<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• What term the bond exists• When and how the bond can be redeemed• When rent payments to landlords will be 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 in clearly outlined in documented procedures and any associated PSL literature available to current and prospective landlords.</p>	Implemented
<p>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.</p>	Implemented
Cloud Computing	
<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>	Implemented
<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>	Implemented

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Procurement	
<p>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.</p>	<p>Implemented</p>
Financial Controls Assurance	
<p>The risk appetite for all key financial systems and processes should be defined as part of the project to implement Oracle Fusion.</p> <p>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.</p> <p>The resources available in the back office teams should be assessed against the requirements of the business.</p> <p>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.</p> <p>Training requirements in the first and second line of defence need to be assessed and action taken.</p> <p>Future development plans, where controls enhancements are planned post go live of the new system, should be documented and monitored.</p> <p>The agreements need to be formally reviewed, within six months after implementation, to ensure they are operating as planned and are effective.</p>	<p>Implemented</p>

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Appendix D: Current status of 2020/21 Audit Plan

Audit Title	Status as at end Q2	Opinion	Reason for delay (where applicable)
LBH Systems Audits			
Purchase Cards (compliance work)	Completed	Moderate	
Private Sector Leasing Follow Up	Completed	Moderate	
Management of NHS Shield Data (COVID-19 response)	Completed	N/A	
Management of food distribution to vulnerable individuals (COVID-19 response)	Completed	N/A	
Fusion - Oracle upgrade	Completed	N/A	
ICT Inventory – Smarter Working Project	Completed	Moderate	
Planning	Underway		
Reablement	Underway		
Business Continuity and Emergency Planning	Underway		
SEND - transport	Underway		
Outbreak management plan and infection control	Q3		
Parking	Q3		
Licensing Schemes	Q3		
Housing Voids	Q3		
Responsive Repairs	Q3		
Treasury Management	Q3		
Health & Safety	Q3	Moved from Q2 at the request of the service due to demands during Q1 and Q2	
Payroll (compliance work)	Q3/4		
Procurement	Q3/4		
Housing Compliance	Q3/4		
Laptop Security	Q3/4		
Contract Management	Q4		
Post implementation review of Liquid Logic	Q4		
Leaving Care	Q4		
Social Care Transitions	Q4		
Safeguarding Adults	Q4		
Direct Payments	Q4		

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LBH Schools		
Harold Court Primary	Draft Report	
Ardleigh Green Learning Federation (2 schools)	Q3/4	
Clockhouse Primary	Q3/4	
Corbets Tey School	Q3/4	
Crowlands Primary	Q3/4	
Crownfield Infants	Q3/4	
Crownfield Juniors	Q3/4	
Elm Park Primary	Q3/4	
La Salette Primary	Q3/4	
Parklands Junior	Q3/4	
Rainham Village Primary	Q3/4	
Squirrels Heath Infants	Q3/4	
Squirrels Heath Juniors	Q3/4	
St Edwards CofE Primary	Q3/4	
St Marys Catholic Primary	Q3/4	
St Peters Catholic Primary	Q3/4	
The Towers Federation (2 schools)	Q3/4	
Health Checks (9)		Q3/4