

NOTICE OF MEETING

CORPORATE COMMITTEE

Tuesday, 29th November, 2016, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Members: Councillors Barbara Blake (Chair), Eddie Griffith (Vice-Chair), Charles Adje, Patrick Berryman, Isidoros Diakides, Joseph Ejiofor, Gail Engert, Stephen Mann, Sheila Peacock, Reg Rice, Viv Ross and 1 vacancy (*to be appointed to at Full Council, 21 November 2016*)

Quorum: 3

1. **FILMING AT MEETINGS**

Please note this meeting may be filmed or recorded by the Council for live or subsequent broadcast via the Council's internet site or by anyone attending the meeting using any communication method. Although we ask members of the public recording, filming or reporting on the meeting not to include the public seating areas, members of the public attending the meeting should be aware that we cannot guarantee that they will not be filmed or recorded by others attending the meeting. Members of the public participating in the meeting (e.g. making deputations, asking questions, making oral protests) should be aware that they are likely to be filmed, recorded or reported on. By entering the meeting room and using the public seating area, you are consenting to being filmed and to the possible use of those images and sound recordings.

The Chair of the meeting has the discretion to terminate or suspend filming or recording, if in his or her opinion continuation of the filming, recording or reporting would disrupt or prejudice the proceedings, infringe the rights of any individual, or may lead to the breach of a legal obligation by the Council.

2. **APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)**

3. **URGENT BUSINESS**

The Chair will consider the admission of any late items of urgent business. (late items will be considered under the agenda items where they appear. New items will be dealt with at item 13).

4. **DECLARATIONS OF INTEREST**

A member with a disclosable pecuniary interest or a prejudicial interest in a matter who attends a meeting of the authority at which the matter is considered:

- (i) must disclose the interest at the start of the meeting or when the interest becomes apparent, and
- (ii) may not participate in any discussion or vote on the matter and must withdraw from the meeting room.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Register of Members' Interests or the subject of a pending notification must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal interests and prejudicial interests are defined at Paragraphs 5-7 and Appendix A of the Members' Code of Conduct.

5. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

To consider any requests received in accordance with Part 4, section B, Paragraph 29 of the Council's Constitution.

6. MINUTES (PAGES 1 - 8)

To consider and agree the minutes of the meeting held on 15 September 2016.

7. TREASURY MANAGEMENT UPDATE - Q2 (MID YEAR REPORT) (PAGES 9 - 24)

Report of the Chief Operating Officer to update the Committee on the Council's treasury management activities and performance in the six months to 30th September 2015 in accordance with the CIPFA Treasury Management Code of Practice.

8. INTERNAL AUDIT UPDATE - QUARTER 2 (PAGES 25 - 56)

Report of the Assistant Director, Corporate Governance, detailing the work undertaken by the Internal Audit and Counter Fraud Teams in the quarter ending 30 September 2016 and focusing on progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars).

9. COUNTER-FRAUD UPDATE (PAGES 57 - 64)

Report of the Assistant Director for Corporate Governance, detailing the work undertaken by the Counter-Fraud Team in the quarter ending 30 September 2016 and focussing on details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house counter Fraud Team.

10. EXTERNAL AUDITOR APPOINTMENT (PAGES 65 - 70)

Report of the Assistant Director, Corporate Governance, seeking a recommendation from the Committee to Full Council on the arrangements for the appointment of the external auditor for the Council and for the pension fund.

11. ANNUAL AUDIT LETTER (PAGES 71 - 84)

Report of External audit.

12. PROGRESS UPDATE 2015-16 (PAGES 85 - 90)

Report of External Audit.

13. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

14. DATE AND TIME OF NEXT MEETING

31 January 2017, 7pm.

Helen Chapman, Principal Committee Co-ordinator
Tel – 020 8489 2615
Fax – 020 8881 5218
Email: helen.chapman@haringey.gov.uk

Bernie Ryan
Assistant Director – Corporate Governance and Monitoring Officer
River Park House, 225 High Road, Wood Green, N22 8HQ

Monday, 21 November 2016

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**MINUTES OF THE MEETING OF THE CORPORATE COMMITTEE
HELD ON THURSDAY, 15TH SEPTEMBER, 2016, 7.00 - 9.50 pm**

PRESENT:

Councillors: Barbara Blake (Chair), Eddie Griffith (Vice-Chair), Charles Adje, Patrick Berryman, Isidoros Diakides, Joseph Ejiofor, Stephen Mann, Sheila Peacock, Reg Rice, Viv Ross and Gail Engert

87. FILMING AT MEETINGS

The Chair referred Members present to agenda item 1 in respect of filming at this meeting and Members noted the information contained therein.

88. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

There were no apologies for absence.

89. URGENT BUSINESS

There were no new items of urgent business.

The Committee noted that agenda item 8, Statement of Accounts 2015/16 and audit findings report (ISA 260) had been circulated late due to final work being undertaken on the accounts. The report could not wait until the next meeting, as it is a statutory requirement for the audited Statement of Accounts to be approved by 30th September.

90. DECLARATIONS OF INTEREST

There were no declarations of interest.

91. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

There were no such items.

92. MINUTES

RESOLVED

That the minutes of the meeting held on 28 June 2016 be approved as a correct record and signed by the Chair.

93. TREASURY MANAGEMENT UPDATE

The Committee considered the Treasury Management update report, presented by Oladapo Shonola, Head of Treasury and Pensions. The Head of Treasury and Pensions also delivered an introductory presentation on treasury management issues, covering the definition of treasury management, borrowing, investments, roles and responsibilities and highlighting the key aspects of the update report. In respect of the report circulated, the Head of Treasury and Pensions advised that the current projection for interest payable for 2016-17, set out at paragraph 14.3 of the report, should read £14.1m.

The Committee asked about the current projected deficit, and how this was going to be funded. The Chief Operating Officer confirmed that the current projected overspend was £27m and that there were a number of measures being implemented across the organisation, including spending controls, increasing income opportunities and transformation programmes, in order to reduce the deficit. In response to a further question from the Committee regarding what would happen if it was not possible to close the budget deficit, Anna D'Alessandro, Interim Deputy Section 151 Officer, advised that the Council had no option but to set a balanced budget; in the event that the measures stated above did not achieve the full savings required, it was noted that there were some reserves available for the Council to use, but this would be purely on a one-off basis. In addition to the work on addressing the current projected deficit, the Committee was advised that long-term work was being undertaken to ensure that the Council was not in the same position in future years. It was noted that the budget position was a separate issue from the matters covered by the treasury management report under discussion, which related to the Council's cash holdings.

The Committee asked how capital expenditure could be funded without increasing the Council's current borrowing, in response to which it was reported that internal borrowing and cash would be used to fund the majority of the capital programme, with only around £20m of new borrowing required. It was agreed that details of the capital programme would be provided in the next update report to the Committee.

In response to a question from the Committee about prudential indicator numbers 9 and 12, the Head of Treasury and Pensions advised that number 9, maturity structure of borrowing, set the upper and lower limits for different maturity periods within the debt portfolio, while number 12 was the same maturity structure adjusted for Lender option borrower option (LOBO) loans. The Committee asked about the possibility of exiting loans taken at previous higher rates of interest in order to benefit from current rates, and the Chief Operating Officer advised that the level of penalties that would be incurred would cancel out any benefit to the Council in doing so. It was noted, however, that the Council were monitoring the situation constantly in order to identify any opportunities to minimise borrowing costs. In response to concerns from the Committee regarding the LOBOs previously entered into, it was noted that at the time when these loans were taken out, the rates were equivalent to those of the Public Works Loan Board (PWLb).

In response to a question from the Committee regarding the structure of the Council's debt, it was agreed that officers would circulate details of the profile of the outstanding debt, including the dates and respective lenders, with details of the LOBO loans

shown separately. The Committee also asked for information on the risks associated with LOBOs and the actions being taken by the Council to mitigate these risks. It was suggested that options for changing the profile of the outstanding debt, for example the possibility of extending the maturity of the debt, and the implications of any such proposals, be considered in a report to a future meeting of the Committee.

Action: Chief Operating Officer / Head of Treasury and Pensions

RESOLVED

That the Committee note the Treasury Management activity undertaken during the three months to 30th June 2016 and the performance achieved.

94. STATEMENT OF ACCOUNTS 2015/16 AND AUDIT FINDINGS REPORTS (ISA 260)

Cllrs Engert and Rice left the meeting at this point in proceedings.

The Committee considered the report on the Statement of Accounts for 2015/16 following the completion of the external audit; Hussein Alanezi, Interim Chief Accountant, gave an introductory presentation on understanding the statement of accounts, covering the purpose of the statement of accounts, how they were presented and what they meant, along with an explanation of the Committee's role as 'those charged with governance' in relation to the accounts. It was noted that from next year the deadline for the publication of the Council's accounts would be brought forward by a month to 31st May, and the deadline for the completion of the audit would be brought forward by two months to 31st July.

Under contingent liabilities, on page 100 of the statement of the accounts, the Committee noted the issue listed in respect of Thames Water. Tracie Evans, Chief Operating Officer, and Raymond Prince, Assistant Head of Legal Services, advised that this was an issue affecting a number of local authorities, and that the Local Government Association (LGA) was in the process of collating a response on behalf of its members. In response to a question from the Committee regarding the probable timescales for the appeal being heard, it was agreed that the Assistant Head of Legal Services would circulate this information.

Action: Assistant Head of Legal Services.

Leigh Lloyd-Thomas and Andrew Barnes, representing the Council's external auditors BDO, gave an overview of their audit report, and highlighted the key findings for the Committee as set out under the 'key audit and accounting matters' section of their report. In response to a question from the Committee regarding the findings around funds held on behalf of others, it was confirmed that these amounts were recorded in the accounts, but the issues raised were in relation to a lack of supporting documentation to evidence the reason for the amounts held in some instances.

Mr Lloyd-Thomas indicated that the auditors had not identified any material misstatement in the statement of accounts, and that they would be concluding that these were a true and fair statement. The auditors noted that the Council had a challenging funding gap, but were satisfied that plans were in place to address this. In light of the projected position as at quarter 1, the auditors did emphasise that it was

essential for the spending controls being implemented to start to have an impact as quickly as possible.

Anna D'Alessandro, Interim Deputy Section 151 Officer, drew the Committee's attention to the management responses to the auditors' recommendations as set out in appendix three to the audit report, and advised that the Corporate Committee would receive an update on progress in implementing the actions at its next meeting. The Council had accepted all of the recommendations made by the auditors, and had developed an action plan to address these. While none of the issues identified had a material impact on the statement of accounts, it was noted that these were procedural areas where it was accepted that improvement was needed. In response to a question from the Committee as to why these issues had not been identified before, it was noted that these had been identified by the Council's new auditors BDO in their first audit for the Council, and represented the benefit of having a fresh audit perspective every five years.

The Committee noted the management responses, and emphasised the importance of addressing some of the issues listed, in particular staff contracts, at the earliest opportunity and not waiting for the deadline set out in the report. The Interim Deputy Section 151 Officer advised that the dates in the report were the final deadline by which the actions would be fully implemented, but confirmed that staff were working to address the issues raised as quickly as possible, and the Committee would receive an update on this work at its next meeting in November.

In response to a question from the Committee regarding the basis for any negotiation between the Council and the external auditors regarding the findings of the audit, it was reported that there was scope for different interpretations of the information, in particular where accounting estimates were involved. As long as the difference was within the level of materiality, this would not make a material difference to the statement of accounts. The Committee noted the reference in the Use of Resources section of the auditors' report to the award of four Crossrail stations, and questioned the accuracy of this, in response to which the Chief Operating Officer confirmed that no decision on Crossrail had yet been made. The Committee asked about the status of 51^o North, and it was reported that this was owned by Homes for Haringey and was included within Homes for Haringey's statement of accounts. The Committee asked what would happen in the event that the Council was not able to reduce the projected overspend, and that this exceeded the value of the General Fund; the Interim Deputy Section 151 Officer advised that in such an event there were emergency reserves available, however these would only be on a one-off basis, however she was confident that the deficit would be reduced and a balanced budget achieved without the need for recourse to these reserves.

The Committee was advised that the Council's accounts had been challenged by members of the public in respect of the lawfulness of its Lender option borrower option (LOBO) loans and that several local authorities had been challenged on the same point. Legal advice received by the external auditors was that LOBOs were a lawful form of borrowing, but that they had to have been entered into lawfully. The external auditors were therefore working to establish that Haringey's LOBOs had been entered into in a lawful manner; it was hoped that this could be established before the 30th September 2016, in order for the audit opinion to be issued and the Council's

accounts to be signed off by this deadline. In response to a question from the Committee regarding the likelihood of it being found that LOBOs in Haringey had not been entered into lawfully and what the consequent impact of this would be, Mr Lloyd-Thomas advised that this was something that the auditors were still looking into. It was possible that, even if the LOBO loans were found to have been entered into unlawfully, they could still be held to be lawful agreements under the 2003 Act, but this was untested; it was also not yet known what the outcome would be in terms of any repayment and compensation due, in the event that the LOBO loans were found to be unlawful. The Chief Operating Officer advised the Committee that the likelihood that Haringey's LOBO loans had been taken out unlawfully was very low and that she was confident that the Council would be able to supply evidence that they had been entered into in accordance with policy. It was agreed that the Committee would be advised as soon as further information on this issue was available.

The Chair moved the recommendations of the report and it was:

RESOLVED

- 1) That the Committee consider the contents of the report and the representations made by BDO at the meeting.
- 2) That the Committee approve the Statement of Accounts 2015/16, subject to any final changes required by the conclusion of the audit, in particular the resolution of the objections received regarding the lawfulness of the decision to borrow monies through LOBO loans, being delegated to the Chief Financial Officer in consultation with the Chair.
- 3) That the Committee note the Audit Findings Report (ISA 260) of the auditors, BDO LLP, and approve the management responses in the BDO LLP action plan contained within that report.

95. INTERNAL AUDIT PROGRESS REPORT 2016/17 - QUARTER 1

The Committee considered the internal audit progress report for Quarter 1 2016/17, presented by the Head of Audit and Risk Management. The report set out performance figures for the completion of planned internal audit work, details of those internal audit reports completed within the quarter where a conclusion of limited assurance had been provided, and progress on the implementation of follow up actions from previous audits. In relation to the outstanding priority 1 recommendations from the 2014/15 audit of Pendarren Outdoor Education Centre as set out in the report, the Head of Audit and Risk Management updated the Committee that further information had been received from the centre manager since the report was published and evidence provided confirmed that one of the Priority 1 recommendations was now fully implemented, and that progress was taking place to implement the remaining 5 recommendations. The Committee was also advised that since the issuing of the report, all of the outstanding recommendations relating to the Fostering and Adoption service had now been implemented.

In response to concerns raised by the Committee that staff undertaking the audit of Pendarren had made enquiries at the wrong staffing level, had not understood the circumstances in which the centre was operating and had not taken into consideration the limited resources and support it had available, the Head of Audit and Risk Management advised that the internal audit staff who had undertaken their work at Pendarren, had spoken to the centre manager and that he had accepted the audit findings and agreed all of the recommendations arising from the report. The Head of Audit and Risk Management confirmed that the findings and recommendations in the original report were also discussed and agreed with the Head of Finance and the Interim Assistant Director for Schools and Learning in post at that time. The Head of Audit and Risk Management and Chief Operating Officer advised that the audit report and follow up report were both a finding of fact, and highlighted areas of non-compliance with financial procedures for the control of risk, for which there may be a number of reasons, including the need for greater support from the Council. It was confirmed that it was intended as a document to support the management of the centre in making improvements to the procedures that were required to be in place and was not intended to allocate blame. The Committee noted that the centre's accounts indicated that they had successfully implemented savings in order to reduce operating costs, and that the centre was considered a positive asset by the previous external auditors.

The Committee also expressed concern that the findings of the audit report could be used to influence upcoming decisions on the future of the centre, when it was felt that there may be a number of reasons behind the audit findings which should be considered, including the limited resources available to the centre management; in particular, Members were concerned that there was a risk that the findings could be taken out of context. The Chief Operating Officer advised that the audit findings were separate to the current process relating to decisions around future operation of the centre, which was the implementation of a decision made as part of the Council's Medium Term Financial Strategy.

In respect of the Accounts Payable audit report, the Committee asked what the current level of outstanding invoices was; the Chief Operating Officer agreed to circulate this information to the Committee.

Action: Chief Operating Officer

RESOLVED

That the Committee note the report.

In noting the report, the Committee agreed that further information should be sought from management and the Cabinet Member on the actions being taken to support and monitor the implementation of the recommendations relating to Pendarren, and for this information to be circulated to the Committee in advance of the Cabinet meeting on 18th October. It was also suggested that any additional information on the reasons for the internal auditors' findings be requested. The Head of Audit and Risk Management noted that a further update on progress would also be provided at the next Corporate Committee meeting.

Action: Chief Operating Officer, Head of Audit and Risk Management

The Committee furthermore wished to express its concern that, taken out of context, the report could be construed as a personal criticism of the very dedicated staff at the centre and that any such reading would be unjustified, given the constraints within which the centre was operating and that responsibility for some of the issues identified may belong to staff at a more senior level than the centre manager. The Committee emphasised the need for the centre to receive adequate management support in order to fully implement all of the audit recommendations.

96. COUNTER-FRAUD UPDATE

The Committee considered the Counter Fraud Update report, presented by Anne Woods, Head of Audit and Risk Management, and noted that counter fraud work would now be reported separately from the quarterly internal audit report. The report set out the work undertaken by the Counter Fraud Team in the quarter ending 30th June 2016, including details of proactive and reactive investigative work relating to fraud and/or irregularities and an update on the recommendations contained in the Fighting Fraud and Corruption Locally Strategy 2016-19.

In response to a question from the Committee, the Head of Audit and Risk Management confirmed that in some cases individuals would be aware that they were the subject of a fraud investigation, but not in all cases. It was confirmed that no action was taken where an individual had been investigated but no evidence of fraud had been found.

The Committee asked about contract fraud, and what work was being undertaken to address this. The Head of Audit and Risk Management advised that a number of days within the internal audit plan were dedicated to procurement processes and included looking at a sample of contracts across the organisation, including monitoring and payment arrangements. In addition to this, in 2016/17 a proactive piece of work was being undertaken by the counter fraud team looking at contracts, and a report on this would be presented to the Committee at one of its next meetings. In response to a question regarding cheque fraud, it was reported that this was now at a very low level due to low use of cheques and that the impacts of any such fraud were covered by the banks. Anything relating to this would be picked up as part of the Council's routine accounting work and by the external auditors.

In respect of appendix A to the report, covering in-house fraud work, the Committee asked about the length of time between a case being proven against an individual and a disciplinary hearing being held. The Head of Audit and Risk Management advised that internal audit had a target of completing an investigation within 8 weeks of it being initiated, but that after that point they did not have control of when disciplinary hearings were undertaken by the relevant service. It was noted that in some cases the timing of the disciplinary hearing was affected by the availability of all the parties involved.

RESOLVED

That the Committee note the counter fraud work completed in the quarter and the responses to the recommendations contained within the Fighting Fraud and Corruption Locally Strategy.

97. ANY OTHER BUSINESS OF AN URGENT NATURE

There were no new items of urgent business.

98. DATE AND TIME OF NEXT MEETING

29 November 2016, 7pm.

The meeting closed at 9.50pm.

CHAIR: Councillor Barbara Blake

Signed by Chair

Date

Report for: Corporate Committee 29th November 2016

Item number: 7

Title: Mid Year Report - Treasury Management Update

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & Pensions
oladapo.shonola@haringey.gov.uk 02084893726

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). This report provides an additional quarterly update.
- 1.2. The Council's Treasury Management Strategy for 2016/17 was approved by Full Council on 22 February 2016.
- 1.3. This report updates the Committee on the Council's treasury management activities and performance in the six months to 30th September 2016 in accordance with the CIPFA Treasury Management Code of Practice. It is a requirement of the Code for the report also to be considered by Full Council.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That members note the Treasury Management activity undertaken during the six months to 30th September 2016 and the performance achieved.

4. Reason for Decision

- 4.1. None.

5. Other options considered

- 5.1. None.

6. Background information

Mid Year Review

- 6.1. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually, Prudential Indicators and a Treasury Management Strategy Statement. CIPFA has defined Treasury management as: "The management of the local Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 6.2. The Code recommends that members are informed of treasury management activities at least twice a year. Formulation of treasury policy, strategy and activity is delegated to the Corporate Committee and this Committee receives reports quarterly.
- 6.3. However, overall responsibility for treasury management remains with Full Council and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2016/17 on 22nd February 2016. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the 2nd quarterly monitoring report for 2016/17 and also the mandatory half year report required to be provided to Full Council.
- 6.4. Government guidance on local Council treasury management states that local authorities should consider the following factors in the order they are stated:
- Security - Liquidity - Yield
- 6.5. The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds. However, no treasury activity is without risk and the effective identification and management of risk are integral to the Council's treasury management activities.
- 6.6. The quarterly reports during 2016/17 are structured to cover borrowing first and then investments according to these factors, so that members can see how they are being addressed operationally.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. Interest rates earned on investments remain low and significantly less than the cost of new borrowing and therefore the strategy of minimising cash balances is continuing in 2016-17. Borrowing will be taken only when required for liquidity purposes with the preference being short term local authorities' loans at very low rates. However longer term interest rates continue to be carefully monitored. The ability to take advantage of low interest rates in this way has resulted in anticipated savings on the treasury management budget.

Legal

8.2. The contents and recommendation of this report are in accordance the Treasury Management Strategy Statement and consistent with legislation governing the financial affairs of the Council. In considering the report Members must take into account the expert financial advice available to it and any further oral advice given at the meeting of the Committee.

Equalities

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Appendix 1 – Summary of Treasury Management Activity/Performance
Appendix 2 – Prudential and Treasury Indicators
Appendix 3 – Money Markets Data & PWLB Rates
Appendix 4 – Cost of Early Repayment of PWLB Loans

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. External Context and Economic Commentary and Outlook

11.1. The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to

0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to abandon previous positive projections in favour of worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

- 11.2. The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.
- 11.3. In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows.
- 11.4. Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.
- 11.5. Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly *Inflation Report* from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

Market Reaction

- 11.6. Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69%

at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates, as evidenced in Tables 2 and 3 in Appendix 3.

- 11.7. On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on quantitative easing generated liquidity to drive risk assets. The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%.

12. Local Context

- 12.1. At 31/3/2016 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £583.7m. The Council had £312.2m of borrowing and £29.15m of investments.
- 12.2. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.
- 12.3. The Council has an increasing CFR over the next 3 years due to the capital programme, but minimal investments and it is estimated will likely need to borrow up to £25m over the forecast period.

13. Borrowing Strategy During the Quarter

- 13.1. At 30/9/2016 the Council held £273.6m of loans, (a decrease of £9.7m on 31/3/2016), as part of its strategy for funding previous years' capital programmes.
- 13.2. The Council does not expect to borrow in 2016/17.
- 13.3. The Council's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 13.4. Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower

than the cost of borrowing. As short-term interest rates have remained, and are likely to remain for a significant period, lower than long-term rates, the Council determined it was more cost effective in the short-term to use internal resources / borrow short-term loans instead.

- 13.5. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with this 'cost of carry' and breakeven analysis.

Borrowing Activity

| Investments | Balance at 1 Apr 2016 £'000 | Investments Made £'000 | Maturities £'000 | Balance at 30 Sep 16 £'000 | Avg Rate /Yield % |
|--|--------------------------------|---------------------------|---------------------|-------------------------------|-------------------|
| Short term Investments (call accounts, deposits) | | | | | |
| - Banks & Building Societies | 0 | 0 | 0 | 0 | 0 |
| UK Government: | | | | | |
| - Deposits at Debt Management Office | 10,000 | 135,985 | 135,985 | 0 | 0.22 |
| Money Market Funds/Cash Funds | 7,600 | 141,980 | 120,430 | 29,150 | 0.56 |
| TOTAL INVESTMENTS | 17,600 | 277,965 | 256,415 | 29,150 | 0.53 |
| Increase/ (Decrease) in Investments £m | | 277,965 | 256,415 | 29,150 | |

- 13.6. **LOBOs:** The Council holds £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £125m of these LOBOS had options during the quarter, none of which were exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

Debt Rescheduling

- 13.7. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. If existing debt profile is maintained, it is estimated that the Council will incur a net cost of £31m if all PWLB loans were rescheduled. Consequently, no rescheduling activity has been undertaken.
- 13.8. An analysis of the cost of early repayment on all outstanding PWLB loans has been attached at Appendix 4 of this report.

14. Investment Activities

- 14.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2016/17 the Council's investment balances would range between £0 and £50 million.
- 14.2. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles
- 14.3. The Council has sought to minimise its security risk by setting limits on each institution on the lending list. The Council has complied with all these limits during the financial year to date.
- 14.4. The economic environment remains uncertain, and given this background, the Council has kept cash investments to a minimum and short term. Money Market Funds continue to be used extensively as the portfolios are spread across a range of underlying investments to diversify risk. They also provide instant access enabling officers to take action quickly if there are any concerns about creditworthiness. The remainder of the Council's investments are held with the DMO (government agency).

Investment Activities

| Investments | Balance at 1 Apr 2016 £'000 | Investments Made £'000 | Maturities £'000 | Balance at 30 Sep 16 £'000 | Avg Rate /Yield % |
|--|--------------------------------|---------------------------|---------------------|-------------------------------|----------------------|
| Short term Investments (call accounts, deposits) | | | | | |
| - Banks & Building Societies | 0 | 0 | 0 | 0 | 0 |
| UK Government: | | | | | |
| - Deposits at Debt Management Office | 10,000 | 135,985 | 135,985 | 0 | 0.22 |
| Money Market Funds | 7,600 | 141,980 | 120,430 | 29,150 | 0.56 |
| TOTAL INVESTMENTS | 17,600 | 277,965 | 256,415 | 29,150 | 0.53 |
| Increase/ (Decrease) in Investments £m | | 277,965 | 256,415 | 29,150 | |

Credit Risk

- 14.5. The table below shows counterparty credit quality as measured by credit ratings and the percentage of the in-house investment portfolio exposed to bail-in risk.

| Date | Value Weighted Average - Credit Risk Score | Value Weighted Average - Credit Rating | Time Weighted Average - Credit Risk Score | Time Weighted Average - Credit Rating | Investments exposed to bail-in risk % |
|------|--|--|---|---------------------------------------|--|
| | | | | | |

| | | | | | |
|------------|------|-----|------|-----|-----|
| 31/03/2016 | 2.61 | AA- | 2.33 | AA- | 21 |
| 30/06/2016 | 3.71 | AA- | 3.71 | AA- | 100 |
| 30/09/2016 | 3.98 | AA- | 3.98 | AA- | 100 |

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Budgeted Income and Outturn

- 14.6. The average cash balances were £16m during the quarter. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. It is likely to fall further towards zero but not go negative. Short-term money market rates have remained at relatively low levels. Following the reduction in Bank Rate, rates for very short-dated periods (overnight – 1 month) fell to between 0.1% and 0.2%. Debt Management Account Deposit Facility (DMADF) rates fell to 0.15% for periods up to 3 months and to 0.10% for 4 – 6 month deposits.
- 14.7. Investments in Money Market Funds (not Cash Funds) generated an average rate of 0.45%. The Council's forecast investment income for the year is estimated at £104k.
- 14.8. The Bank Rate is expected to be cut further towards zero in the coming months, which will in turn lower the rates short-dated money market investments with banks and building societies. As the Council's surplus cash continues to be invested in short-dated money market instruments, it will most likely result in a fall in investment income over the year.

15. Compliance with Prudential Indicators

- 15.1. The Council confirms compliance with its Prudential Indicators for 2016/17, which was set in February 2016 as part of the Council's Treasury Management Strategy Statement.

Treasury Management Indicator

- 15.2. The Council measures and manages its exposures to treasury management risks using the following indicators.
- 15.3. **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net [principal borrowed] will be:

| | 2016/17 | 2017/18 | 2018/19 |
|--|---------|---------|---------|
| Upper limit on fixed interest rate exposure | 100% | 100% | 100% |
| Actual | 99% | | |
| Upper limit on variable interest rate exposure | 40% | 40% | 40% |
| Actual | 1% | | |

15.4. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

15.5. **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

| 9 | Maturity structure of borrowing (U: upper, L: lower) | L | U | Forecast 30 Sep 2016 |
|---|--|----|-----|----------------------|
| | under 12 months | 0% | 40% | 0.7% |
| | 12 months & within 2 years | 0% | 35% | 8.4% |
| | 2 years & within 5 years | 0% | 35% | 6.7% |
| | 5 years & within 10 years | 0% | 35% | 11.6% |
| | 10 yrs & within 20 yrs | 0% | 35% | 4.4% |
| | 20 yrs & within 30 yrs | 0% | 35% | 3.7% |
| | 30 yrs & within 40 yrs | 0% | 35% | 27.2% |
| | 40 yrs & within 50 yrs | 0% | 50% | 9.9% |
| | 50 yrs & above | 0% | 50% | 27.4% |

15.6. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

15.7. **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. Given the policy of spending down cash balances and use of internal borrowing the Council does not expect to invest beyond 364 days in the medium term.

16. Outlook for the remainder of 2016/17

16.1. The economic outlook for the UK has immeasurably altered following the popular vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access.

- 16.2. The short to medium-term outlook has been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.
- 16.3. Arlingclose, the Council's treasury management advisor has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose's central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.
- 16.4. Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in December 2016, but most likely in January 2017 - but only if economic conditions warrant it.
- 16.5. In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Council's counterparty list have sufficient equity buffers to deal with any localised problems in the short term

Appendix 1: Summary of Treasury Management Activity & Performance

Treasury Portfolio

| | Prudential Indicator | 2016/17 Original Indicator | Forecast as at 30 Sep 2016 |
|---------------------------|----------------------|----------------------------|----------------------------|
| CAPITAL INDICATORS | | | |
| 1 | Capital Expenditure | £'000 | £'000 |
| | General Fund | 50,682 | 78,230 |
| | HRA | 64,307 | 67,723 |
| | TOTAL | 114,989 | 145,953 |

| | | | |
|---|--|----------------------------|----------------------------|
| 2 | Ratio of financing costs to net revenue stream | 2016/17 Original Indicator | Forecast as at 30 Sep 2016 |
| | General Fund | 1.93% | 1.93% |
| | HRA | 8.88% | 8.88% |

| | | | |
|---|-------------------------------|-------------------------------------|-------------------------------------|
| 3 | Capital Financing Requirement | 2016/17 Original Indicator £'000 | Forecast as at 30 Sep 2016 £'000 |
| | General Fund | 290,670 | 290,670 |
| | HRA | 293,002 | 293,002 |
| | TOTAL | 583,672 | 583,672 |

| | | | |
|---|--|---------------------------------|---------------------------------|
| 4 | Incremental impact of capital investment decisions | 2016/17 Original Indicator £ | Forecast as at 30 Sep 2016 £ |
| | Band D Council Tax | 32.04 | 32.04 |
| | Weekly Housing rents | 1.51 | 1.51 |

Appendix 2: Treasury & Prudential Indicators

| No. | Prudential Indicator | 2016/17 Original Indicator | 2016/17 Position/Forecast Sep 2016 |
|---------------------------|---|----------------------------------|--|
| CAPITAL INDICATORS | | | |
| 1 | Capital Expenditure | £'000 | £'000 |
| | General Fund | 50,682 | 78,230 |
| | HRA | 64,307 | 67,723 |
| | TOTAL | 114,989 | 145,953 |
| 2 | Ratio of financing costs to net revenue stream | % | % |
| | General Fund | 1.93 | 1.93 |
| | HRA | 8.88 | 8.88 |
| 3 | Capital Financing Requirement | £'000 | £'000 |
| | General Fund | 290,670 | 290,670 |
| | HRA | 293,002 | 293,002 |
| | TOTAL | 583,672 | 583,672 |
| 4 | Incremental impact of capital investment decisions | £ | £ |
| | Band D Council Tax | 32.04 | 32.04 |
| | Weekly Housing rents | 1.51 | 1.51 |

| No. | Prudential Indicator | 2016/17 Original Indicator | Forecast 30 Sep 2016 | |
|----------------|---|----------------------------|----------------------|----------------------|
| 5 | Borrowing Limits | £'000 | £'000 | |
| | Authorised Limit / actual debt | 528,231 | 320,551 | |
| | Operational Boundary/actual debt | 472,772 | 320,551 | |
| 6 | HRA Debt Cap | £'000 | £'000 | |
| | Headroom | 44,235 | 44,235 | |
| 7 | Gross debt compared to CFR | £'000 | £'000 | |
| | Gross debt | 312,233 | 320,551 | |
| | CFR | 583,672 | 583,672 | |
| 8 | Upper limit – fixed rate exposure | 100% | 99% | |
| | Upper limit – variable rate | 40% | 1% | |
| 9 | Maturity structure of borrowing (U: upper, L: lower) | L | U | 31 March 2016 |
| | under 12 months | 0% | 40% | 0.7% |
| | 12 months & within 2 years | 0% | 35% | 8.4% |
| | 2 years & within 5 years | 0% | 35% | 6.7% |
| | 5 years & within 10 years | 0% | 35% | 11.6% |
| | 10 yrs & within 20 yrs | 0% | 35% | 4.4% |
| | 20 yrs & within 30 yrs | 0% | 35% | 3.7% |
| | 30 yrs & within 40 yrs | 0% | 35% | 27.2% |
| | 40 yrs & within 50 yrs | 0% | 50% | 9.9% |
| 50 yrs & above | 0% | 50% | 27.4% | |
| 10 | Sums invested for > 364 days | £0 | £0 | |
| 11 | Adoption of CIPFA Treasury Management Code of Practice | √ | √ | |
| 12 | LOBO Adjusted Maturity structure of borrowing (U: upper, L: lower) | L | U | 31 March 2016 |
| | under 12 months | 0% | 40% | 46.4% |
| | 12 months & within 2 years | 0% | 35% | 8.4% |
| | 2 years & within 5 years | 0% | 35% | 6.7% |
| | 5 years & within 10 years | 0% | 35% | 11.6% |
| | 10 yrs & within 20 yrs | 0% | 35% | 4.4% |
| | 20 yrs & within 30 yrs | 0% | 35% | 0.0% |
| | 30 yrs & within 40 yrs | 0% | 35% | 12.6% |
| | 40 yrs & within 50 yrs | 0% | 50% | 9.9% |
| 50 yrs & above | 0% | 50% | 0.0% | |

Appendix 3

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Haringey is eligible for the Certainty Rate which means it can borrow at a 0.20% reduction of Standard Rates.

Table 1: Bank Rate, Money Market Rates

| Date | Bank Rate | O/N LIBID | 7-day LIBID | 1-month LIBID | 3-month LIBID | 6-month LIBID | 12-month LIBID | 2-yr SWAP Bid | 3-yr SWAP Bid | 5-yr SWAP Bid |
|----------------|-----------|-----------|-------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|
| 01/4/2016 | 0.50 | 0.36 | 0.36 | 0.39 | 0.46 | 0.61 | 0.88 | 0.78 | 0.83 | 0.98 |
| 30/4/2016 | 0.50 | 0.36 | 0.36 | 0.38 | 0.47 | 0.62 | 0.90 | 0.86 | 0.95 | 1.13 |
| 31/5/2016 | 0.50 | 0.35 | 0.37 | 0.39 | 0.46 | 0.61 | 0.89 | 0.82 | 0.92 | 1.09 |
| 30/6/2016 | 0.50 | 0.35 | 0.36 | 0.39 | 0.43 | 0.55 | 0.80 | 0.49 | 0.49 | 0.60 |
| 31/7/2016 | 0.50 | 0.15 | 0.45 | 0.42 | 0.52 | 0.64 | 0.77 | 0.47 | 0.47 | 0.54 |
| 31/8/2016 | 0.25 | 0.11 | 0.18 | 0.18 | 0.38 | 0.54 | 0.69 | 0.42 | 0.42 | 0.48 |
| 30/9/2016 | 0.25 | 0.10 | 0.25 | 0.45 | 0.51 | 0.61 | 0.74 | 0.43 | 0.42 | 0.47 |
| | | | | | | | | | | |
| Minimum | 0.25 | 0.02 | 0.15 | 0.18 | 0.30 | 0.50 | 0.66 | 0.38 | 0.37 | 0.42 |
| Average | 0.43 | 0.26 | 0.37 | 0.42 | 0.52 | 0.66 | 0.83 | 0.61 | 0.64 | 0.75 |
| Maximum | 0.50 | 0.43 | 0.55 | 0.61 | 0.72 | 0.83 | 1.04 | 0.88 | 0.99 | 1.20 |
| Spread | 0.25 | 0.41 | 0.40 | 0.43 | 0.42 | 0.33 | 0.38 | 0.51 | 0.62 | 0.78 |

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans (Standard Rate)

| Change Date | Notice No | 1 year | 4½-5 yrs | 9½-10 yrs | 19½-20 yrs | 29½-30 yrs | 39½-40 yrs | 49½-50 yrs |
|-------------|-----------|--------|----------|-----------|------------|------------|------------|------------|
| 01/4/2016 | 125/16 | 1.33 | 1.82 | 2.51 | 3.24 | 3.33 | 3.19 | 3.15 |
| 30/4/2016 | 165/16 | 1.37 | 1.95 | 2.65 | 3.34 | 3.40 | 3.25 | 3.21 |
| 31/5/2016 | 205/16 | 1.36 | 1.93 | 2.56 | 3.22 | 3.27 | 3.11 | 3.07 |
| 30/6/2016 | 249/16 | 1.17 | 1.48 | 2.09 | 2.79 | 2.82 | 2.61 | 2.57 |
| 31/7/2016 | 292/16 | 1.07 | 1.31 | 1.84 | 2.57 | 2.65 | 2.48 | 2.44 |
| 31/8/2016 | 336/16 | 1.09 | 1.23 | 1.65 | 2.22 | 2.29 | 2.12 | 2.08 |
| 30/9/2016 | 380/16 | 1.02 | 1.20 | 1.70 | 2.34 | 2.43 | 2.29 | 2.27 |
| | | | | | | | | |
| | Low | 1.01 | 1.15 | 1.62 | 2.20 | 2.27 | 2.10 | 2.07 |
| | Average | 1.20 | 1.54 | 2.12 | 2.81 | 2.87 | 2.70 | 2.67 |
| | High | 1.40 | 2.00 | 2.71 | 3.40 | 3.46 | 3.31 | 3.28 |

Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans (Standard Rate)

| Change Date | Notice No | 4½-5 yrs | 9½-10 yrs | 19½-20 yrs | 29½-30 yrs | 39½-40 yrs | 49½-50 yrs |
|-------------|-----------|----------|-----------|------------|------------|------------|------------|
| 01/4/2016 | 125/16 | 1.50 | 1.86 | 2.54 | 2.99 | 3.25 | 3.34 |
| 30/4/2016 | 165/16 | 1.59 | 1.99 | 2.68 | 3.11 | 3.34 | 3.42 |
| 31/5/2016 | 205/16 | 1.58 | 1.97 | 2.58 | 2.99 | 3.23 | 3.30 |
| 30/6/2016 | 249/16 | 1.24 | 1.51 | 2.11 | 2.55 | 2.79 | 2.86 |
| 31/7/2016 | 292/16 | 1.13 | 1.34 | 1.87 | 2.31 | 2.58 | 2.67 |
| 31/8/2016 | 336/16 | 1.12 | 1.25 | 1.67 | 2.02 | 2.23 | 2.31 |
| 30/9/2016 | 380/16 | 1.05 | 1.22 | 1.72 | 2.13 | 2.36 | 2.44 |
| | | | | | | | |
| | Low | 1.03 | 1.17 | 1.64 | 2.00 | 2.20 | 2.28 |
| | Average | 1.30 | 1.57 | 2.15 | 2.58 | 2.82 | 2.89 |
| | High | 1.63 | 2.04 | 2.73 | 3.17 | 3.41 | 3.48 |

Table 4: PWLB Variable Rates (standard rate)

| | 1-M Rate | 3-M Rate | 6-M Rate | 1-M Rate | 3-M Rate | 6-M Rate |
|-----------|----------|----------|----------|----------|----------|----------|
| | Pre-CSR | Pre-CSR | Pre-CSR | Post-CSR | Post-CSR | Post-CSR |
| 1/4/2016 | 0.61 | 0.65 | 0.67 | 1.51 | 1.55 | 1.57 |
| 30/4/2016 | 0.61 | 0.65 | 0.67 | 1.51 | 1.55 | 1.57 |
| 31/5/2016 | 0.65 | 0.66 | 0.70 | 1.55 | 1.56 | 1.60 |
| 30/6/2016 | 0.64 | 0.62 | 0.62 | 1.54 | 1.52 | 1.52 |
| 31/7/2016 | 0.55 | 0.48 | 0.45 | 1.45 | 1.38 | 1.35 |
| 31/8/2016 | 0.38 | 0.41 | 0.48 | 2.18 | 1.31 | 1.38 |
| 30/9/2016 | 0.38 | 0.40 | 0.48 | 1.28 | 1.30 | 1.38 |

Please note PWLB rates are standard rates

Cost of Early Replacement of PWLB Loans

Appendix 4

| Loan No | Balance Outstanding | PREM | DISC | Years to Maturity | Loan rate | New Rate to Match Profile | Interest Pymt to Maturity | Interest to Maturity New Rate | Cost of Early Repayment | Net Cost / Saving of Early Repayment |
|---------------|-----------------------|----------------------|------|-------------------|-----------|---------------------------|---------------------------|-------------------------------|-------------------------|--------------------------------------|
| 452514 | 10,650,715.68 | 1,713,644.72 | 0 | 1.641096 | 10.125% | 1.01% | 1,769,733 | 219,940.86 | 1,933,585.58 | 163,852.45 |
| 452731 | 823,210.28 | 247,122.46 | 0 | 3.060274 | 10.375% | 1.15% | 261,372 | 40,400.52 | 287,522.98 | 26,150.90 |
| 452732 | 6,777,728.16 | 2,034,630.62 | 0 | 3.060274 | 10.375% | 1.15% | 2,151,952 | 332,629.18 | 2,367,259.80 | 215,307.90 |
| 496953 | 3,872,987.52 | - | 0 | 3.430137 | 0.670% | 1.15% | 89,009 | 152,781.68 | 152,781.68 | 63,773.00 |
| 453310 | 6,777,728.16 | 2,576,501.29 | 0 | 4.063014 | 10.125% | 1.26% | 2,788,223 | 510,288.21 | 3,086,789.50 | 298,566.76 |
| 501694 | 5,000,000.00 | 392,864.84 | 0 | 5.054795 | 2.360% | 1.37% | 596,466 | 379,591.80 | 772,456.64 | 175,990.89 |
| 501715 | 5,000,000.00 | 375,768.51 | 0 | 5.057534 | 2.290% | 1.37% | 579,088 | 378,366.10 | 754,134.61 | 175,046.94 |
| 450600 | 2,947,470.96 | 1,637,329.79 | 0 | 5.967123 | 10.500% | 1.43% | 1,846,732 | 416,498.15 | 2,053,827.94 | 207,096.06 |
| 483960 | 16,702,258.68 | 4,549,142.78 | 0 | 7.421918 | 4.875% | 1.62% | 6,043,186 | 2,596,573.94 | 7,145,716.72 | 1,102,530.65 |
| 483959 | 2,178,555.48 | 643,428.72 | 0 | 8.421918 | 4.875% | 1.73% | 894,446 | 417,359.90 | 1,060,788.62 | 166,342.38 |
| 490024 | 12,103,086.00 | 4,467,280.60 | 0 | 18.58082 | 4.450% | 2.46% | 10,007,395 | 7,714,254.40 | 12,181,534.99 | 2,174,139.78 |
| 492069 | 2,904,740.64 | 1,550,041.87 | 0 | 35.85479 | 4.200% | 2.42% | 4,374,253 | 3,890,400.66 | 5,440,442.54 | 1,066,189.63 |
| 492208 | 2,904,740.64 | 1,442,825.36 | 0 | 35.94521 | 4.050% | 2.42% | 4,228,666 | 3,796,704.50 | 5,239,529.86 | 1,010,864.14 |
| 492070 | 2,904,740.64 | 1,598,995.56 | 0 | 36.85479 | 4.200% | 2.40% | 4,496,252 | 4,009,099.53 | 5,608,095.09 | 1,111,843.08 |
| 492209 | 2,904,740.64 | 1,489,364.68 | 0 | 36.94521 | 4.050% | 2.40% | 4,346,308 | 3,911,301.63 | 5,400,666.31 | 1,054,358.60 |
| 492071 | 2,904,740.64 | 1,638,092.64 | 0 | 37.85479 | 4.200% | 2.38% | 4,618,251 | 4,118,611.91 | 5,756,704.55 | 1,138,453.43 |
| 492210 | 2,420,617.20 | 1,271,855.69 | 0 | 37.94521 | 4.050% | 2.38% | 3,719,958 | 3,347,353.71 | 4,619,209.40 | 899,251.31 |
| 493430 | 7,261,851.60 | 5,302,094.20 | 0 | 38.25205 | 4.800% | 2.37% | 13,333,476 | 11,502,980.13 | 16,805,074.33 | 3,471,598.55 |
| 492072 | 2,904,740.64 | 1,677,119.37 | 0 | 38.85479 | 4.200% | 2.37% | 4,740,250 | 4,245,411.74 | 5,922,531.11 | 1,182,280.89 |
| 493431 | 7,261,851.60 | 5,421,779.36 | 0 | 39.25205 | 4.800% | 2.36% | 13,682,045 | 11,864,152.34 | 17,285,931.70 | 3,603,887.05 |
| 491796 | 14,523,703.20 | 9,547,064.56 | 0 | 39.71781 | 4.450% | 2.35% | 25,669,810 | 22,695,092.99 | 32,242,157.55 | 6,572,347.76 |
| 492073 | 2,904,740.64 | 1,716,085.73 | 0 | 39.85753 | 4.200% | 2.35% | 4,862,584 | 4,354,547.11 | 6,070,632.84 | 1,208,049.26 |
| 497811 | 9,682,468.80 | 5,411,345.66 | 0 | 43.88219 | 3.920% | 2.32% | 16,655,608 | 15,443,398.19 | 20,854,743.85 | 4,199,136.10 |
| Totals | 158,233,115.74 | 57,479,644.39 | | | | | 131,755,060.70 | 106,337,739.17 | 163,042,118.19 | 31,287,057.49 |

Report for: Corporate Committee – 29 November 2016

Item number: 8

Title: Internal Audit Progress Report 2016/17 – Quarter 2

Report authorised by : Assistant Director of Corporate Governance

Lead Officer: Anne Woods, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: anne.woods@haringey.gov.uk

Ward(s) affected: N/A

**Report for Key/
Non Key Decision: Information**

1. Describe the issue under consideration

1.1 This report details the work undertaken by the Internal Audit and Counter Fraud Teams in the quarter ending 30 September 2016 and focuses on progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars).

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the audit coverage and follow up work completed.

4. Reasons for decision

4.1 The Corporate Committee is responsible for monitoring the completion of the annual internal audit plan and the implementation of agreed recommendations as part of its Terms of Reference.

4.2 In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the work undertaken by the Internal Audit Service in completing the annual audit plan. Where further action is required or recommended, this is highlighted with appropriate recommendations for the Corporate Committee.

5. Alternative options considered

5.1 Not applicable.

6. Background information

6.1 The information in this report has been compiled from information held within Audit & Risk Management and from records held by Mazars.

7. Contribution to strategic outcomes

7.1 The internal audit work makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

There are no direct financial implications arising from this report. The work completed by Mazars is part of the framework contract which was awarded to the London Borough of Croydon and extended to 31 March 2018, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget. The maintenance of a strong internal audit function and a proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal

The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and has no comments.

8.3 Equality

There are no direct equality implications for the Council's existing policies, priorities and strategies. However, ensuring that the Council has effective governance arrangements in place and takes appropriate action to improve these where required will assist the Council to use its available resources more effectively. This report deals with how risks to service delivery are managed across all areas of the Council, which have an impact on various parts of the community.

9. Use of Appendices

Appendix A – Mazars Progress report – Internal audit

10. Local Government (Access to Information) Act 1985

Not applicable.

11. Performance Management Information

11.1 Although there are no national or Best Value Performance Indicators, local performance targets have been agreed for Audit and Risk Management. Table 1 below shows the targets for each key area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1

| Ref. | Performance Indicator | 2 nd Quarter | Year to date | Target |
|------|---|-------------------------|-----------------|--------|
| 1 | Internal Audit work (Mazars) – Days Completed vs. Planned programme | 71% | 27% | 95% |
| 2 | Priority 1 recommendations implemented at follow up (2014/15) | 100% (16/16) | 100% (16/16) | 95% |

12. Internal Audit work – Mazars

- 12.1 The activity of Mazars for the second quarter of 2016/17 is detailed at Appendix A. Mazars planned to deliver 190 days of the annual audit plan (772 days) during the quarter and actually delivered 138 days audit work during the quarter; annual leave commitments of client departments meant that completion of planned work was held over until quarter 3. Ongoing monthly contract monitoring reviews ensure that performance levels are kept under review and no issues have been identified to prevent the annual target from being achieved; a larger proportion of the planned work will therefore be delivered in quarters 3 and 4, this is consistent with previous years' plans.
- 12.2 Members of the Corporate Committee receive detailed summaries of all projects for which a final report has been issued on a monthly basis to allow for any concerns which members may have to be considered in a timely manner. Appendix A provides a list of all final reports which have been issued during the quarter.
- 12.3 **Significant issues arising in Quarter 2.** One school audit has been issued with a 'Nil' assurance rating. The report has been discussed with the Assistant Director for Schools and Learning and the Chair of Governors at the school. An action plan has been agreed with the school; internal audit will undertake a formal follow up review at the school on 12 December 2016 to ensure recommendations have been implemented. Further action to improve governance and financial management arrangements at the school and ensure that this is sustainable in the longer term is being undertaken in conjunction with the Assistant Director for Schools and Learning and Chair of Governors. The Corporate Committee will receive details of the follow up audit outcome at the meeting in January 2017.
- 12.4 **Follow up work 2014/15.** Appendix A also includes details of follow up work completed in Quarter 2 for the 2014/15 audit work. Out of a total of 110 recommendations, 95 had been implemented at the time of follow up, nine were no longer applicable and one was in progress, with 5 not implemented, giving a compliance rate of 95%. No high priority recommendations remain outstanding.
- Details of the 25 recommendations that remained outstanding are provided in summary in Appendix A. These will be kept under review and reported to the Corporate Committee to ensure all recommendations which remain relevant are fully implemented.
- 12.5 **Pendarren Centre audit.** Six Priority 1 recommendations remained outstanding at the time of the September 2016 Corporate Committee meeting. Further work has been undertaken and the centre's management committee have worked with the centre manager to complete the implementation of outstanding recommendations. All recommendations have been evidenced as implemented. No further action is required.
- 12.6 **Follow up work 2015/16.** At the meeting of the Corporate Committee on 16 September 2016, members noted that the 2015/16 audits of Housing Benefit, Special Education Needs and Disability and Commercial Property all received a 'limited' level of assurance. At members' request, these audits have been subject to a follow up audit and the results are included in Appendix, together

with any information provided by management in response to the follow up audit.

Members will note the progress made in implementing recommendations since the Corporate Committee meeting on 16 September:

- **Housing Benefits:** seven out of nine recommendations implemented; one recommendation implementation date not yet due; one recommendation not implemented. No high priority recommendations outstanding.
- **SEND:** four out of seven recommendations implemented; two recommendations in progress; one recommendation implementation date not yet due. No high priority recommendations outstanding.
- **Commercial Property:** seven out of eleven recommendations implemented; three recommendations in progress; one recommendation not implemented; one high priority recommendation outstanding. Further action is required and planned by the service to conclude the implementation process. Internal Audit are satisfied with the progress to date has mitigated the risks identified to a greater extent, but will continue to monitor the situation and report to members.

Internal Audit
Quarter 2 Internal Audit Report
2016/17
London Borough of Haringey

Mazars Public Sector Internal Audit Ltd.
November 2016

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Executive Summary

Introduction

This is our second quarter report to the Corporate Committee for the 2016/17 financial year including details of all reports which are now at final stage. The report provides information on those areas which have achieved full or substantial assurance and gives an indication of the direction of travel for key systems work which will provide Members with information on how risks are being managed over time. The format of this report is also designed to highlight the key risks facing individual departments and the Council which have been identified during the course of our internal audits. A more detailed summary of the limited assurance audit findings is included for information. The report draws together the summary information which is provided on a monthly basis to Members of the Corporate Committee. Members of the Committee will also be provided with full copies of our audit reports upon request.

All recommendations are agreed with Council officers, and any disputes are discussed prior to the final report being issued. All recommendations to address any control weaknesses highlighted within this report have been agreed. Officers' actions to address the recommendations, including the responsible officer and the deadline for completion, are fully detailed in the individual final audit reports.

The attached tables reflect the status of the systems at the time of the audit, and recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

As a reminder, our recommendations are prioritised according to the following categories:

- Priority 1* - major issues for the attention of senior management
- Priority 2* - other recommendations for local management action
- Priority 3* - minor matters and/or best practice recommendations

Key Highlights/Summary of Quarter 2 2016/17:

2015/16 Internal Audits finalised in the quarter:

- Child Protection Information Service
- Nuisance Vehicles
- Hornsey Town Hall
- NSL Application Review
- OneSAP
- Procurement of contracts below OJEU threshold

2015/16 Internal Audits drafts issued in the quarter:

- Pensions Administration
- Earlham Primary School

2016/17 Internal audits finalised in the quarter

- Tuition Service
- Stamford Hill Primary School
- North Haringay Primary School

2016/17 Drafts issued in the quarter

- SEN Transport
- Northumberland Park School
- Fortismere School
- Seven Sisters Primary School
- St Aidens Primary School
- St Michael's Primary school
- Rokesley Junior School

Audit Progress and Detailed Summaries

The following table sets out the audits finalised in Quarter 2 of 2016/17 financial year and the status of the systems at the time of the audit. It must be noted that the recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee. Detailed summaries of all audits which do not receive ‘Full’ or ‘Substantial’ assurance ratings are also provided for Members’ information.

| Audit Title | Date of Audit | Date of Final Report | Assurance Level | Direction of Travel | Number of Recommendations (Priority) | | |
|---|---------------|----------------------|-----------------|---------------------|--------------------------------------|---|---|
| | | | | | 1 | 2 | 3 |
| 2015/16 | | | | | | | |
| Child Protection Information Service | March 16 | Aug 16 | Full | N/A | 0 | 0 | 0 |
| Nuisance Vehicles | Feb 16 | July 16 | Substantial | ↔ | 0 | 1 | 2 |
| New Homes | Sept 15 | Aug 16 | Substantial | N/A | 0 | 4 | 1 |
| Hornsey Town Hall | March 16 | Sept 16 | Substantial | N/A | 0 | 5 | 0 |
| Civica Enforcement Application Review | Feb 16 | Aug 16 | Limited | N/A | 0 | 7 | 0 |
| OneSAP Application Review | April 16 | Aug 16 | Substantial | N/A | 0 | 5 | 0 |
| Procurement of Contracts below OJEU Threshold | April 16 | Aug 16 | Limited | N/A | 1 | 1 | 0 |
| 2016/17 | | | | | | | |
| Tuition Service | June 16 | Sept 16 | Limited | N/A | 5 | 9 | 2 |

As part of the 2016/17 Internal Audit Plan we have visited the following schools, completed a probity audit and during Quarter 2 issued a final report.

| School | Date of Audit | Date of Final Report | Assurance Level | Number of Recommendations (Priority) | | |
|-------------------------------|---------------|----------------------|-----------------|--------------------------------------|----|---|
| | | | | 1 | 2 | 3 |
| Stamford Hill Primary School | July 16 | Aug 16 | No | 9 | 18 | 2 |
| North Haringey Primary school | July 16 | Sept 16 | Substantial | 0 | 5 | 2 |

| Audit area | Scope | Status/key findings | Assurance |
|---|--|---|-----------------------|
| Corporate IT Audit | | | |
| <p>Civica Enforcement Application Review</p> | <p>Audit work was undertaken to cover the following areas:</p> <ul style="list-style-type: none"> • Application Management and Governance • System Security • Interface Controls and Processes • Data Input • Data Output • Change Control • System Resilience and Recovery • System Support | <p>Weaknesses in the system of internal controls are such as to put the client’s objectives at risk. The key findings are as follows:</p> <ul style="list-style-type: none"> • Ownership and management responsibilities for the Civica-CE application have been formally defined and assigned. A site software licence is in place and currently allows a maximum of 300 users. • Comprehensive training documents are available for staff to use as application guides. No recommendations have been raised. • The system is accessed through a logon process requiring a unique username and password. • However, it was noted that the password parameters currently in place on the application are not in line with best practice guidelines. User access reviews were not being performed and unsuccessful logins were not being reviewed. Although requested, system activity logs were not provided, evidence of database changes were not provided and segregation of duties couldn’t be confirmed. Recommendations have therefore been raised concerning these. • Civica-CE application interfaces were confirmed and reconciliations were performed. However, evidence was not provided to confirm that interface processing jobs were adequately managed. Management sought and obtained clarification on this point. The evidence requested is aimed at “batch” type interfacing, i.e. data is compiled into files and transferred to another system for processing i.e. payment transfers from ICON. The interface between CE and ICON is a dynamic interface, i.e. ICON acts as an extension of CE for the purpose of taking payments in real-time. ICON is called by CE with details of a payment, and ICON sends a response. It was not made clear to us that processing occurs on Icon and not CE during the audit but these arrangements appear satisfactory. Data Input | <p>Limited</p> |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|---|-----------|
| | | <ul style="list-style-type: none"> • The application itself has strong validation controls over the data entry fields within it, such as completeness checks, format checks and reasonableness checks. Some proportion of all data held within the application is input manually; therefore the validation controls over the data entry fields are a key control. No recommendations have been raised. • Civica-CE application has good functionality to produce reports to suit the requirements of the Council. However, evidence provided did not confirm if the process of providing access to specific reports was adequately managed. A recommendation has therefore been raised. • Corporate wide change management procedures are followed and changes are performed by the system administrators internally together with internal IT and the service provider. However, change management procedures were not approved and evidence was not provided to confirm that changes were adequately authorised, tested and performed. A recommendation has therefore been raised. • Backups are performed by the service provider (Civica). The backup procedures were included in the contract agreement and backups are held offsite by the service provider. Backup restoration tests are performed on a monthly basis by the service provider. It was also noted that Disaster Recovery was the responsibility of the Council with assistance of the service provider and disaster recovery expectations were also agreed between the service provider and the Council. No recommendation has been raised. • There is an active contract in place between the third party vendor of the Civica-CE application, and the Council. Additionally, regular service review meetings are held with the Account Manager, which are formally documented. As part of the contract in place with the third party, there is a formalised escalation process documented, should issues remain unaddressed by the third party. No recommendation has been raised. | |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|--|-----------|
| | | <p>As a result of our audit work we have raised seven Priority 2 recommendations.</p> <p>It should be ensured that across all user accounts, the following best practice password parameters are implemented:</p> <ul style="list-style-type: none"> • Minimum length of 8 characters; • Password history of at least 10 previous passwords is maintained; <p>and</p> <p>Default password change after first attempt or password reset must be set.</p> <p>Management response: Changes have already been made to comply with this recommendation. Deadline – Already Implemented.</p> <p>Management should ensure that:</p> <ul style="list-style-type: none"> • access to master data is limited to system support; • all master data changes logged, authorised by senior management; and tested before change implementation. <p>Management response: There is no “system support team” but access is already controlled and by its very nature the fact that some users will retain permission to make parameter changes means those users are authorised to make those changes. There is an audit log within CE of each and every change a user makes. Evidence of this was supplied. Deadline – Already Implemented.</p> <p>Failure to produce and review system activity logs increases the risk that unauthorised changes will not be identified and investigated in a timely manner.</p> <p>Management response: Within the course of a day thousands of changes are made to specific PCN and permit records. To monitor this activity (at least 500 cases a day) would require considerable extra resource. Quality checking is carried out which includes a review of cancelled cases and evidence of this was supplied as part of this audit. Login attempts are not recorded by Civica and the risk of “unauthorised changes” being made is mitigated by the access controls</p> | |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|--|-----------|
| | | <p>already in place. The service would need to consider any residual risk in light of the cost of a system upgrade and additional resources to monitor activity logs. Deadline – January 2017</p> <p>Login attempts are not recorded by Civica CE but accounts are logged out on the 3rd unsuccessful attempt. If this is not considered sufficient any residual risk will need to be considered in light of the cost of a system upgrade and additional resources to monitor unsuccessful log ins. Deadline – January 2017</p> <p>Periodic and formalised reviews of user accounts should be performed at least once a year to ensure the appropriateness of the accounts active on the application. The review should also ensure that user functions are in line with their job descriptions. Management response: Managers within the service will implement a yearly review of user accounts as per the recommendation. Deadline – January 2017</p> <p>Management should ensure that access to reports is granted based on a need to know basis and only authorised users are provided with access. Management response: Managers will complete a review of who has permission to amend or delete reports. However, in light of reduced resources, Management requires a high level of resilience and flexibility. If further controls of the ability to view are required then some discussion would be required on how to achieve the required balance. Deadline – January 2017</p> <p>Management should ensure that changes follow the corporate change procedures, changes are logged, and changes are authorised before implementation on to the live environment. Management response: Evidence was provided in relation to UAT testing for V6.4 of CE and the change controls associated with this. <i>Audit Comment: User acceptance testing for V6.4 was obtained, however evidence of major system change logs, change request and</i></p> | |

| Audit area | Scope | Status/key findings | Assurance |
|--|---|--|-----------------------|
| | | <i>change authorisation was not provided.</i> | |
| Procurement | | | |
| <p>Procurement of Contracts Under OJEU Thresholds</p> | <p>Audit work was undertaken to cover the following areas:</p> <ul style="list-style-type: none"> • Contract identification and need • Procurement route • Transparency agenda • Contract management • Contracts | <p>Weaknesses in the system of internal controls are such as to put the client’s objectives at risk. The key findings are as follows:</p> <ul style="list-style-type: none"> • There are guidelines in place within the Council for managing the procurement of goods and services including the Contract Standing Orders and the Guide to Procurement. • The Contract Procedure Rules specify the following with regard to the award of contracts for the supply of goods and services: <ul style="list-style-type: none"> ○ At least three written quotations shall be obtained for contracts where the estimated value is greater than £5,000 and less than £100,000; ○ The procurement process shall be managed by the Head of Procurement where the estimated contract value is in excess of £50,000; ○ Where the estimated contract value is greater than £25,000 and advertised, the opportunity shall be published on Contracts Finder within 24 hours of the advertisement; ○ Where the estimated value exceeds £5,000, the contract shall be in a form approved by the Assistant Director of Corporate Governance; and ○ All contracts exceeding £5,000 in value shall be published on the Contracts Register. • A Contracts Register is maintained on the Council website to record contracts entered into with suppliers. • We examined 10 suppliers with expenditure incurred on the supplier in value between £50,000 and £170,000 in 2015/16 (some transactions involved contracts that have been procured in | <p>Limited</p> |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|---|-----------|
| | | <p>previous years) and noted the following (see Appendix A for full sample details):</p> <ul style="list-style-type: none"> ○ In three cases, the contract was awarded by waiver of the requirement to obtain quotes or tenders; ○ There was no evidence of advertisement of contract in three instances; ○ We could not find any of the contracts required to be advertised on Contracts Finder; a government portal which allows the general public to search for information about contracts worth over £10,000 with the government and its agencies; ○ A business case or contract award report specifies the rationale for the contract, but could not be found in three cases; ○ Three cases where the contract itself could not be made available; ○ Five contracts were not recorded on the Contracts Register; ○ The involvement of Central Procurement could not be confirmed in one instance. ○ A Lead Officer was not in place to monitor contract delivery in three contracts; ○ Key Performance indicators (KPIs) were not set to monitor one of the contracts; and ○ Evidence of monitoring reports and meetings with contractors not available in three cases. <p>As a result of our audit work we have one Priority 1 and one Priority 2 recommendation, which should assist in improving the control environment.</p> <p>Our priority 1 recommendation is as follows:</p> | |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|--|-----------|
| | | <p>Central Procurement should periodically review spend reports per supplier and confirm such suppliers are recorded on the Contract Register. Where it is identified that suppliers are not recorded as required, the reasons for such non-compliance and the means by which the supplier was engaged should be determined.</p> <p>Management response: Since June, spend reports are produced monthly and any off contracts spend is reported to SLT/Priority boards. CPU and the priority board have agreed that all off contract spend needs to be investigated. AD's are tasked with working with CPU to either locate or submit the original contracts or to agree a timescale to undertake a process to ensure their expenditure is on contract. This is high on the agenda of SLT. Since/during audit there has been a compliance programme focused on Purchase to Pay (P2P). The compliance Manager is now also looking at breaches that are raised as they are discovered. There is a Waiver and breach register for offences to be recorded. The Compliance Strategy addresses how to deal with non compliance Deadline – November 2016</p> <p>Our priority 2 recommendation is as follows: Contracts with contractors engaged by the Council should be recorded on the contracts register and on the government 'contract finder' portal in all cases. It should be considered to introduce a central online contracts management portal where Central Procurement could monitor progress made from when contracts are being initiated, through the award process to completion.</p> <p>Management response: The regulation states that the council's CSO thresholds take priority over the regulations and therefore if the procurement is for under £100k, there is no requirement to publish the opportunity. Even where the procurement is over £100k and a waiver has been agreed not to publish (tender), in theory there is no requirement to publish the opportunity on Contract Finder. The requirement to publish opportunities will be automated in the new e-procurement system coming in during November 2016 Deadline</p> | |

| Audit area | Scope | Status/key findings | Assurance |
|-------------------------------|--|--|-----------------------|
| | | November 2016 | |
| Ad hoc Work | | | |
| <p>Tuition Service</p> | <p>Audit work was undertaken to cover the following areas:</p> <ul style="list-style-type: none"> • Management Organisation • Procurement • Income & Banking • Safeguarding • Staffing • Finance Control • Asset Management | <p>Weaknesses in the system of internal controls are such as to put the client’s objectives at risk.</p> <p>The key findings are as follows:</p> <ul style="list-style-type: none"> • The service has been managed by the Haringey Alternative Provision Management Committee (the Management Committee) which has met approximately once every other month since January 2014. • The composition of the Management Committee is governed by its Instrument of Government, which was effective as from 1 April 2014. • Minutes are taken of meetings of the Management Committee. • The Management Committee has established a Tuition Service Sub-committee which met until January 2014, and has recently created a Finance & Site Committee and a Pay & Personnel Committee. • Terms of Reference for the Management, Finance & Site and Pay & Personnel Committees have been developed and were approved by the Management Committee in February 2016. • The Terms of Reference define how the Chair is appointed, their membership, quorum requirement, meeting frequency and remit. But while the Terms of Reference for Finance & Site state how the Clerk will be appointed, this is not covered for Pay & Personnel. • There was no Scheme of Delegation for the service or documented financial procedures. • The budget for the service is maintained on SAP, but the interim Head of Service did not have SAP access. As a result, where Purchase Orders are raised on SAP, they are required to be authorised by the Assistant Director for Schools & Learning. During the course of the audit, the Interim Head of Service obtained SAP access. • Nine of the 11 Management Committee members have completed a Declaration of Interest in 2015. | <p>Limited</p> |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|--|-----------|
| | | <ul style="list-style-type: none"> • Since April 2014, there is an opportunity at each Management Committee meeting for any relevant interests to be declared. • Development plans have been developed for Simmons House for 2015/16 and the Tuition Service 2014 – 2016. • While the Development Plans set areas for improvement, actions to achieve this, intended outcome, lead officer, timescale and monitoring, there was no identification of resources required. • Examination of the Management Committee minutes confirms that Development Plans were considered up to November 2014. There was no evidence of review after this date. • The Management Committee ratifies the overall budget and budget headings as follows: <ul style="list-style-type: none"> ○ 2014/15 overall budget agreed 1 October 2014 and approval of allocation to budget headings 25 March 2015; and ○ 2015/16 overall funding agreed 13 May 2015 and approval of allocation to budget headings 1 July 2015. • Total funding for Tuition Service is £627,000. This is composed as follows: <ul style="list-style-type: none"> ○ £550,000 DSG funding per year based on 55 places at £10,000 per year ○ £77,000 Alternative Provision Commissioning Service funding. • The SAP employee budget was different from that as per the make-up of the Tuition Service employee costs (see Appendix A for full details). • The Head of Service prepares a report for each meeting of the Management Committee which includes a finance update, these figures could not be agreed back to SAP. • The payroll is provided by Haringey Payroll; as the Interim Head of Service did not possess SAP access, review and checking of the payroll could not be completed. The Interim Head of Service has received the establishment list for the service as per payroll. • A Central Record of all staff is maintained by the Office Manager, | |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|---|-----------|
| | | <p>which states when DBS clearance was received for Council and agency staff. This did confirm that all staff listed had an Enhanced CRB Disclosure, though for three, the Disclosure Number and date was not recorded.</p> <ul style="list-style-type: none"> • There were 12 staff recorded on the Central Record who were not on the payroll establishment, or on SAP as being paid. • There was an unbudgeted £22,000 utilities charge incurred. The Interim Head of Service stated this was for an agreement between the Head of Service and the Bruce Grove Youth Centre for the service to make a contribution towards the utility costs of the shared site, which had been paid by the Youth Centre. No documentation could be found to confirm this agreement or how the sum was determined. • An examination of 15 payments identified the following: <ul style="list-style-type: none"> ○ No SAP purchase orders were raised, though we were informed that this is now the practice; and ○ One payment for £2,462 for a new printer. • As per the Office Manager the service does not have any petty cash. • An inventory could not be found for the service. The Interim Head of Service stated that all a Portable Appliance Test (PAT) was to be completed for electrical assets, and from this an inventory would be created. • Laptops and iPADS are held by the service and issued to staff, but no forms were retained to evidence what devices have been loaned to who. • The service is funded through the DSG, and a further NHS grant which funds the educational provision at Simmons House, which is a mental health facility managed by the Whittington Health NHS Trust No income is received at the service. • Where a student is entitled to a Free School Meal the service provides a packed lunch, which is provided to the service from Bruce Grove Primary School. There are no paid for meals taken. <p>As a result of our audit work we have raised Five Priority 1, nine Priority 2 and two Priority 3 recommendations.</p> | |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|---|-----------|
| | | <p>Our priority 1 recommendations were as follows A Scheme of Delegation should be documented for the Tuition Service covering the authority to incur expenditure. A Scheme of Delegation will be presented to the FGB to be agreed and signed off. Deadline: Already Implemented</p> <p>A program of risk assessments should be developed covering all rooms and areas of the service, as well as all activities. Responsibility for completion of each risk assessment should be assigned. All risk assessments should be reviewed for completion by the Head of Service. All risk assessments to be reviewed, training provided to relevant staff and risk assessments to be updated. Deadline: Already Implemented</p> <p>The service should agree a budget timetable. Chair of Management Committee to present the budget timetable to the Finance Committee. Finance Committee to monitor. Deadline: Already Implemented</p> <p>The budget on SAP should be reviewed to reflect the actual staffing of the service. All employee cost to be reviewed with the Local Authority Officer in Finance and an application to be completed to the School Forum to via additional funds to support the additional cost of the suspension of two senior staff. Deadline: Already Implemented</p> <p>An inventory of all assets employed by the service should be completed. One office should be named as responsible for maintenance of the inventory. On an annual basis, there should be a check of the inventory to actual assets, with the findings reported to the Management Committee (or delegated Committee). PAT Testing took Place July 2016. Management is waiting for the completed inventory. Inventory will be completed by end of October Half Term. Template to be agreed by The Management Committee.</p> | |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|---|-----------|
| | | <p>Deadline October 2016</p> <p>Our priority 2 recommendations were as follows The Development Plans for Simmons House and the Tuition Service should be presented to the Management Committee once every term. Where the actions outlined in the plans have not been achieved, this should be identified with remedial action proposed. Termly review of the SDP will be a fixed item on the Management committees agenda Deadline: Already implemented</p> <p>The Development Plans for Simmons House and the Tuition Service should be reviewed to identify the resources needed to implement each action. Interim Head of Service to present new format with separate column identified for resources and cost. Deadline: Already implemented</p> <p>Minutes should be produced for all meetings of the Management Committee, signed and agreed by the Chair at the next meeting, and the signed minutes retained on site. Minutes to be signed and filed into school file immediately after each meeting. File to be kept in the Head’s office. Deadline: Already implemented</p> <p>The actual cost of utility charges incurred by the Youth Service for 10 Bruce Grove should be determined and a clear method of determining those due to the Tuition Service be agreed and documented in a formal agreement. Interim Head of Service to meet with Senior Staff from Bruce Grove Youth Service to agree a Service Level Agreement which must clearly identify costs incurred to Haringey Tuition Service. Deadline: Already implemented</p> <p>Evidence should be retained to show what efforts have been made to ensure value for money is obtained through purchasing Interim Head of Service to investigate why a large amount was spent</p> | |

| Audit area | Scope | Status/key findings | Assurance |
|------------|-------|--|-----------|
| | | <p>on a printer and ensure in future a business case is prepared and presented to justify expenditure on expensive items. Deadline: October 2016.</p> <p>The Central Record should be reviewed and updated to include only current staff employed, and should show when former staff left, and all records should be complete showing date when checks completed. Local Authority has recommended a new Single Central Record Database – HTS/Simmons House are in the process of completing. Interim Head of Service will review and the School Improvement Advisor will scrutinise on his first visit to the service. Deadline: Already implemented</p> <p>Financial reports submitted to the Management Committee should include an extract from SAP. Request the Local Authority Officer in partnership with the Interim Head of Service prepare a SAP report that reflects a true picture of the financial position of the Service. Deadline: December 2016</p> <p>Where an individual seeks to be paid for works performed on an invoice, the service should confirm that the works can be classified as self-employed through use of the HMRC Self Employment Tool. Office Manager to complete HMRC Self Employment Tool to ensure all self-employed staff are classified correctly.</p> <p>A form should be drafted which should be completed for each asset loan. The form should include:</p> <ul style="list-style-type: none"> • Full description of asset, including make, model, serial numbers; • Statement of loanee responsibility to keep the asset safe; • Signature of loanee confirming receipt of asset; • Approval of loan by Head of Service; and • Confirmation of satisfactory return of asset. <p>IT Equipment Loan Agreement to be distributed to all staff and collected once complete - Interim Head of Service to sign off and forms kept in a secured file reviewed annually Deadline: Already</p> | |

| Audit area | Scope | Status/key findings | Assurance |
|-------------------|--------------|----------------------------|------------------|
| | | implemented. | |

Follow Up Table – 2014/15 Audit Work

| AUDIT AREA | Assurance Level | Recommendations | | | | | | | | | | | | Priority 1 Recs. Outstanding |
|--|-----------------|-----------------|---|-------|----|-------------|---|-------|-----|----------|-------------|---------|---|------------------------------|
| | | Category | | | | Implemented | | | | | | | | |
| | 1 | 2 | 3 | Total | 1 | 2 | 3 | Total | N/A | Not Imp. | In Progress | Not due | | |
| Key Financial Systems | | | | | | | | | | | | | | |
| Strategic Financial Management and Budgetary Control | Substantial | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| Cash Receipting | Substantial | 0 | 1 | 1 | 2 | 0 | 1 | 1 | 2 | 0 | 0 | 0 | 0 | 0 |
| Accounting & General Ledger | Substantial | 0 | 2 | 0 | 2 | 0 | 2 | 0 | 2 | 0 | 0 | 0 | 0 | 0 |
| Accounts Payable | Limited | 3 | 5 | 0 | 8 | 3 | 4 | 0 | 7 | 1 | 0 | 0 | 0 | 0 |
| Accounts Receivable | Substantial | 0 | 2 | 2 | 4 | 0 | 2 | 2 | 4 | 0 | 0 | 0 | 0 | 0 |
| Housing Benefits | Substantial | 0 | 2 | 1 | 3 | 0 | 2 | 1 | 3 | 0 | 0 | 0 | 0 | 0 |
| Payroll | Substantial | 0 | 2 | 2 | 4 | 0 | 2 | 2 | 4 | 0 | 0 | 0 | 0 | 0 |
| Contract & Procurement | | | | | | | | | | | | | | |
| IT Services – Disposal of IT Assets | Substantial | 0 | 4 | 0 | 4 | 0 | 4 | 0 | 4 | 0 | 0 | 0 | 0 | 0 |
| BSF ICT Managed Services Contract | Substantial | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Off Site Storage Contract | Limited | 1 | 6 | 0 | 7 | 1 | 5 | 0 | 6 | 0 | 1 | 0 | 0 | 0 |
| E U Public Contract Compliance | Substantial | 0 | 1 | 1 | 2 | 0 | 0 | 1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Procurement Strategy | Substantial | 1 | 5 | 0 | 6 | 1 | 2 | 0 | 2 | 3 | 0 | 0 | 0 | 0 |
| Scheme of Delegation and Contract Standing orders | | 0 | 4 | 0 | 4 | 0 | 3 | 0 | 3 | 0 | 0 | 1 | 0 | 0 |
| Corporate IT Audits | | | | | | | | | | | | | | |
| Website Management | Substantial | 0 | 0 | 3 | 3 | 0 | 0 | 3 | 3 | 0 | 0 | 0 | 0 | 0 |
| ICT Strategy & Governance | Substantial | 0 | 1 | 1 | 2 | 0 | 1 | 1 | 2 | 0 | 0 | 0 | 0 | 0 |
| Comino Document Management System | Substantial | 1 | 2 | 2 | 5 | 1 | 2 | 2 | 5 | 0 | 0 | 0 | 0 | 0 |
| ePay Application | Substantial | 0 | 1 | 3 | 4 | 0 | 1 | 3 | 4 | 0 | 0 | 0 | 0 | 0 |
| M3PP Environmental Enforcement Application | Substantial | 0 | 6 | 7 | 13 | 0 | 6 | 7 | 13 | 0 | 0 | 0 | 0 | 0 |
| Environmental Services & Community Safety | | | | | | | | | | | | | | |
| Highways Income | Limited | 2 | 0 | 1 | 3 | 2 | 0 | 1 | 3 | 0 | 0 | 0 | 0 | 0 |

| AUDIT AREA | Assurance Level | Recommendations | | | | | | | | | | | | Priority 1 Recs. Outstanding |
|---------------------------------------|-----------------|-----------------|-----------|-----------|------------|-------------|-----------|-----------|-----------|----------|-------------|----------|----------|------------------------------|
| | | Category | | | | Implemented | | | | | | | | |
| | 1 | 2 | 3 | Total | 1 | 2 | 3 | Total | N/A | Not Imp. | In Progress | Not due | | |
| Environmental Services - Enforcement | Substantial | 0 | 1 | 1 | 2 | 0 | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 0 |
| Children's Services | | | | | | | | | | | | | | |
| Children in Care | Limited | 2 | 2 | 1 | 5 | 2 | 2 | 1 | 5 | 0 | 0 | 0 | 0 | 0 |
| Adult Services | | | | | | | | | | | | | | |
| Safeguarding Adults Board | Substantial | 0 | 3 | 3 | 6 | 0 | 3 | 3 | 6 | 0 | 0 | 0 | 0 | 0 |
| Private Sector Leasing | | 0 | 0 | 3 | 3 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 |
| Corporate Risks | | | | | | | | | | | | | | |
| Data Quality & Performance Indicators | Substantial | 0 | 2 | 0 | 2 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ad hoc Work | | | | | | | | | | | | | | |
| Pendarren Outdoor Education Centre | Limited | 6 | 4 | 1 | 11 | 6 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Free School Meals | | 0 | 3 | 0 | 3 | 0 | 3 | 0 | 3 | 0 | 0 | 0 | 0 | 0 |
| Total | | 16 | 60 | 34 | 110 | 16 | 49 | 30 | 95 | 9 | 2 | 1 | 0 | 0 |

Implemented – officers has indicated through self-certification the progress of recommendations. We have verified a sample of responses.

N/A – the recommendation is no longer applicable due to changes in the system, or alternative action has been taken to address the risk.

Not implemented – the recommendation has not been addressed, alternative action has not been taken.

In Progress – officers have started implementation of recommendations

Detailed Progress Report – Outstanding Recommendations 2014/15

| Ref | Recommendation | Priority | Original Implementation Deadline | Progress/Status |
|--|---|----------|----------------------------------|---|
| Off Site Storage Contract | | | | |
| 1 | Team Managers across the Council should be formally reminded of the requirement to maintain a register of documents, detailing documents in storage, accountability, date sent to storage, destruction dates, and documents retrieved. The register should be kept up-to-date. | 2 | September 2014 | Not Implemented Each individual Business Unit has a responsibility to adhere to keeping their own records and managing their finances. The FM Soft Services Manager will look to produce a set of reminders communications to be published on the intranet and will investigate how Stor-A-File can produce reports for the individual Budget Holders. There are currently 100+ BU on the system. |
| Scheme of Delegation and Contract Standing Orders | | | | |
| 2 | The Financial Schemes of Delegation displayed on the intranet should be reviewed and updated to reflect the current management structure of the Council. Corporate Finance should seek to obtain notice from SAP HR of changes to staff with financial powers, such that the Directorate Schemes of Delegation can be amended. | 2 | August 2015 | In progress This forms part of the finance department restructure. There is a stream of work being undertaken across the Shared Service Centre around starters & leavers that will address updating the scheme of delegation to be completed by January 2017. |
| Environmental Services – Enforcement | | | | |
| 3 | The Enforcement Strategy should be reviewed and updated to reflect the priorities of the current Corporate Plan and to provide a transparent link to Corporate objectives. The updated Strategy should be made available on the Council's intranet. Management should also ensure that the document is reviewed and updated in a timely manner, when due. | 2 | November 2015 | Not Implemented In light of proposals to join up current noise/ASB and street enforcement functions. The Enforcement Strategy will now be incorporated into an overall Enforcement Policy. The Enforcement Policy will reflect current Corporate Plan priorities linked to Corporate objectives. It is anticipated that a draft Enforcement Policy will be ready for consultation by December 2016 and published by April 2017. |

INTERNAL AUDIT - QUARTERLY AUDIT REPORT 2016/17

APPENDIX A

Follow Up 2015/16

At the request of Corporate Committee we have followed up our 2015/16 audits of Housing Benefit; Special Education Needs and Disability; and Commercial Property. The results of our work are shown in the tables below

| AUDIT AREA | Assurance Level | Recommendations | | | | | | | | | | | | Priority 1 Recs. Outstanding |
|---------------------|-----------------|-----------------|---|---|-------|-------------|---|---|-------|-----|----------|-------------|---------|------------------------------|
| | | Category | | | | Implemented | | | | | | | | |
| | | 1 | 2 | 3 | Total | 1 | 2 | 3 | Total | N/A | Not Imp. | In Progress | Not due | |
| Housing benefit | Limited | 0 | 8 | 1 | 9 | 0 | 7 | 0 | 7 | 0 | 1 | 0 | 1 | 0 |
| SEND | Limited | 0 | 4 | 3 | 7 | 0 | 3 | 1 | 4 | 0 | 0 | 2 | 1 | 0 |
| Commercial Property | Limited | 1 | 8 | 2 | 11 | 0 | 6 | 1 | 7 | 0 | 1 | 3 | 0 | 1 |

Detailed Progress Report – Outstanding Recommendations 2015/16

| Ref | Recommendation | Priority | Original Implementation Deadline | Progress/Status |
|----------------------------|---|----------|----------------------------------|---|
| Housing Benefit | | | | |
| 1 | Notification letters should be issued to claimants informing them of the decision regarding backdated housing benefit. | 2 | May 2016 | Not Implemented – Selected a sample of five backdated claims. 4 were not applicable for testing however in the one instance a backdated letter should have been sent it was not – (Case reference: 10070111). |
| SEND | | | | |
| 2 | A consistent, central system of monitoring and recording information should be followed for the co-ordination of EHC Plans. | 2 | August 2016 | Partially Implemented Mosaic being re-designed to includes SEND workflow. Reports have been coded so that timescales can be managed once the workflow is on Mosaic. |
| 3 | EHC Plans should be produced within the statutory 20 week deadline in line with the SEN Code of Practice. Sample checks should be undertaken to ensure this deadline is met. | 2 | August 2016 | Partially Implemented Mosaic being re-designed and reports written when the system goes live. |
| Commercial property | | | | |
| 4 | Current tenants should be contacted to confirm compliance with lease and statutory requirements. Where no response is received from tenants, or the response received is deemed inadequate, inspections of those properties should be completed. | 2 | August 2016 | Not Implemented – This concerns tenant’s statutory compliance with Health & Safety requirements. A letter will be sent out in the first week of December to all tenants. It was intended to send the letter with all December quarters rent demand however this proved to be difficult to achieve so it will be sent out separately. |
| 5 | Property Commercial Estates should liaise with Financial Systems Team to ensure that the reports can be produced automatically as and when required. A schedule of dates for running the reports should be agreed. | 2 | June 2016 | Partially Implemented – An automatic and standard report facility through SAP has not been achieved despite requests and escalation to complaints. Therefore whilst we have tried to achieve a user friendly report from SAP we have worked out a temporary solution to get around this situation and this involves writing a series of individual instructions to SAP in order to produce a spread sheet that contains the information necessary to review and manage tenancies i.e. rent |

| Ref | Recommendation | Priority | Original Implementation Deadline | Progress/Status |
|-----|---|----------|----------------------------------|---|
| | | | | <p>review and lease expiry dates.</p> <p>We have tried to create an all inclusive single report for rent reviews and lease renewals independently of SAP but have been unable to so instead we now write individual rent review and lease renewal reports which will be produced no less than quarterly. In addition to these reports arrears reports are run every month.</p> |
| 6 | Where the lease expiry date has expired more than two years previously, such leases should be identified and progress on renewing/terminating the lease reported to the Assistant Director. | 1 | June 2016 | <u>Partially Implemented</u> – As in 5 above this has proven to be problematic but our solution to the problem has mitigated the situation, |
| 7 | Commercial Estates should review the current use and options available for the Munro Works and develop an appropriate use for the site. | 2 | Already Implemented | <p><u>Partially Implemented</u> – This is an ongoing matter; which has included:</p> <ul style="list-style-type: none"> • Exercising our option to purchase our landlords interest; which would remove the current constraints in our lease to let the property and reduce/eradicate the ongoing losses. • Acquisition of the landlord's interest with a back to back sale to an Education provider. This was to provide a much needed local facility whilst thus eradicating ongoing losses. • Both options have been affected by Cross Rail 2 because the property has been identified as required for the project. With regards to i. above Cross Rail reduces our ability to make the purchase viable because this project will severely affect tenant demand and Education are no longer interested in the proposition because this now offers a short life potential. • We are now obtaining a fee proposal to sell our interest to our Landlords who have shown interest in the acquiring our interest. <p>We will continue to explore ways of mitigating ongoing losses.</p> |

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited**London****November 2016**

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Report for: Corporate Committee – 29 November 2016

Item number: 9

Title: Counter Fraud Update Report 2016/17 – Quarter 2

Report authorised by : Assistant Director of Corporate Governance

Lead Officer: Anne Woods, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: anne.woods@haringey.gov.uk

Ward(s) affected: N/A

**Report for Key/
Non Key Decision: Information**

1. Describe the issue under consideration

- 1.1 This report details the work undertaken by the Counter Fraud Team in the quarter ending 30 September 2016 and focuses on:
- Details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house counter Fraud Team.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 The Corporate Committee is recommended to note the counter-fraud work completed in the quarter.

4. Reasons for decision

- 4.1 The Corporate Committee is responsible for Monitoring the effectiveness of Council policies on Anti-Fraud and Corruption. In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the responsive and pro-active fraud investigation work.

5. Alternative options considered

- 5.1 Not applicable.

6. Background information

- 6.1 The information in this report has been compiled from information held within Audit & Risk Management.

7. Contribution to strategic outcomes

- 7.1 The counter-fraud team makes a significant contribution through its pro-active work in ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

There are no direct financial implications arising from this report. The work completed by the Fraud Team is funded from within the Audit and Risk Management revenue budget. The maintenance of a strong proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal

The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and has no comments.

8.3 Equality

There are no direct equality implications for the Council's existing policies, priorities and strategies. The report contains details of how fraud investigation work is undertaken and pro-active fraud projects are managed; preventing and detecting fraud will assist in improving services to residents.

9. Use of Appendices

Appendix A – In-house Team – investigations into financial irregularities

10. Local Government (Access to Information) Act 1985

Not applicable.

11. Performance Management Information

- 11.1 Although there are no national or Best Value Performance Indicators, local performance targets have been agreed for Audit and Risk Management. Table 1 below shows the targets for each key counter-fraud area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1

| Ref. | Performance Indicator | 2 nd Quarter | Year to date | Target |
|------|--|-------------------------|--------------|--------|
| 1 | Tenancy fraud – properties recovered | 6 | 21 | 40 |
| 2 | Right to Buy – fraudulent applications prevented | 22 | 58 | 80 |

12. In-house Counter-Fraud Team: Fraud investigation/Pro-active work

12.1 Internal employee investigations

In accordance with the Council's Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees. Appendix A details the individual cases that were completed by the team in the second quarter 2016/17 relating to Council employees.

Quarter 2 investigations. Within the second quarter, two new cases relating to permanent and temporary employees were referred to the Fraud Team. Three cases were completed during the quarter: evidence was found to substantiate the allegations made in two cases relating to permanent employees, although

the members of staff subsequently left the Council therefore no disciplinary action was taken in both cases.

Nine cases remained under investigation at the end of the quarter; disciplinary hearings were scheduled in five cases and the outcomes will be reported to a future meeting. The Fraud Team work closely with officers from HR and the service area involved to ensure that the investigation is completed as quickly as possible.

Details of the investigations relating to allegations against employees completed by the Fraud Team in 2016/17 are contained at Appendix A.

Whistleblowing referrals. The Head of Audit and Risk Management maintains the central record of referrals made using the Council's Whistleblowing Policy. Two whistle blowing referrals were made during Quarter 2, one of which were anonymous.

One referral related to non-financial issues and the relevant Assistant Director agreed to investigate the allegations raised. One referral was investigated by Audit and Risk Management; no evidence was found to substantiate the allegation and the outcome of the investigation was reported to HR and the service.

In total, eight referrals have been reported using the Whistleblowing policy in 2016/17 to date.

12.2 Tenancy Fraud – council properties

In 2016/17, the numbers of referrals received, investigations completed and properties recovered to date by the Fraud Team are summarised below.

2016/17 – Referrals received

| | |
|---|------------|
| Brought forward from 2015/16 | 88 |
| Referrals received in 2016/17 | 80 |
| Total referrals received for investigation | 168 |

2016/17 Outcomes

| | |
|-----------------------------|-----------|
| Properties Recovered | 21 |
| No Fraud identified | 62 |
| Total cases concluded | 83 |

Ongoing Investigations

***See Note 1 below**

85*

Note 1: Of the 85 ongoing investigations; 39 of these cases (45%) are where tenancy fraud has been identified and court proceedings were in progress as at 30 September 2016. The property will be included in the 'recovered' data when the keys are returned and the property vacated.

The Fraud Team liaise with Legal Services on individual cases to ensure these are progressed as quickly as possible. For the ongoing investigations where tenancy recovery is in progress, the status of the tenancy has been investigated and the case is either: awaiting a Court Hearing; the Particulars of Claim are with Legal Services; an NTQ is awaiting expiry; a succession application has been refused and the tenant is awaiting an offer of smaller accommodation; or the rent account is showing an 'Unauthorised Account' on the Housing database.

The Fraud Team works with Homes for Haringey (HfH) to target and investigate housing and tenancy fraud, which forms part of HfH's responsibilities in the Management Agreement. The DCLG provided funding to local authorities to support tenancy fraud work and a Tenancy Management Officer was seconded to the Fraud Team (with the DCLG grant paid to HfH to enable cover for the TMO to be obtained) to undertake reactive tenancy fraud investigations. This grant funding ended in May 2015, with no further grant funding available from the DCLG or other sources. HfH have continued to fund the seconded officer directly after the end of the DCLG grant, and this agreement has been extended to 31 March 2017, with the Fraud Team part funding the secondment in 2016/17.

The Fraud Team will continue to work with HfH to identify the most effective use of fraud prevention and detection resources across both organisations to enable a joined up approach to be taken, especially where cases of multiple fraud are identified e.g. tenancy fraud, right to buy fraud and benefit fraud.

Other tenancy investigations. In addition, during Quarter 2 the Fraud Team investigations have recovered **one** Temporary Accommodation (TA) property which was not being used by the assigned tenant; and have prevented **three** fraudulent housing applications from being accepted.

12.3 Right-to-buy (RTB) applications

In 2016/17, the Fraud Team has approximately 307 ongoing applications under investigation. The team reviews every RTB application to ensure that any property where potential benefit or succession fraud is indicated can be investigated further.

In the second quarter, 22 applications have been withdrawn or refused either following the applicants' interview with the Fraud Team, further investigations and/or the requirement to complete money laundering processes.

12.4 Financial Values 2016/17

Tenancy Fraud – council stock and temporary accommodation: The Audit Commission valued the recovery of a tenancy, which has previously been fraudulently occupied, at an annual value of £18,000, mainly relating to average Temporary Accommodation (TA) costs. No new national indicators have been produced; therefore although this value is considered low compared to potential TA costs if the property has been identified as sub-let for several years, Audit and Risk Management continue to use this figure of £18k per property for reporting purposes.

In 2016/17 to date, **21** council stock properties and **one** temporary accommodation property have been recovered through the actions and investigations of the Fraud Team; therefore **a total value of £396k** can be attributed to the recovery, or cessation, of fraudulent council and temporary accommodation tenancies.

RTB Fraud: Overall, the 58 RTB applications withdrawn or refused represent **over £5.9m** in potential RTB discounts; and means the properties are retained for social housing use.

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IN HOUSE AUDIT – IRREGULARITIES INVESTIGATED 01/04/16- 30/09/16 (Q2)

| Service Area | Irregularity Type | No. of cases investigated | No. of cases proven at 30/09/2016 | No. of Officers subject to Disciplinary Investigation | Disciplinary Outcome | Value (£) (if known/relevant) |
|-------------------------|---|---------------------------|-----------------------------------|---|-----------------------|-------------------------------|
| Chief Operating Officer | Allegation of bribery | 1 | 0 | 0 | N/A | |
| Chief Operating Officer | Alleged misuse of position | 1 | 0 | 0 | N/A | |
| Chief Operating Officer | Alleged misuse of position | 1 | 0 | 0 | N/A | |
| Chief Operating Officer | Allegation of misuse of Council's IT | 1 | 1 | Reported to Service Management | N/A | |
| Chief Operating Officer | Allegation of misuse of Council's IT | 1 | 1 | Reported to Service Management | N/A | |
| Chief Operating Officer | Alleged misuse of position | 1 | 0 | 0 | N/A | |
| Chief Operating Officer | Alleged misuse of Council resources/ running a business during work hours | 1 | 1 | 1 | Dismissed | |
| Adult Social Services | Alleged misuse of Blue Badge | 1 | 1 | 1 | Final Written Warning | |
| Chief Operating Officer | Allegation of Bribery | 1 | 0 | 0 | N/A | |
| TOTAL | | 9 | 4 | 2 | 2 | |

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Report for: Corporate Committee – 29 November 2016

Item number: 10

Title: External Audit Appointment Process

Report authorised by: Assistant Director of Corporate Governance

Lead Officer: Anne Woods, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: anne.woods@haringey.gov.uk

Ward(s) affected: N/A

**Report for Key/
Non Key Decision: Non-Key Decision**

1. Describe the issue under consideration

- 1.1 Under the Local Audit and Accountability Act 2014, the Audit Commission, which had previously managed the appointment of external auditors for local government bodies and health trusts, was abolished and new responsibilities to manage their own appointment of local auditors given to those bodies.
- 1.2 The Local Audit and Accountability Act also provides for the appointment by the secretary of state of a 'sector led body' to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it. Public Sector Audit Appointments Limited (PSAA) has now been approved by the Department for Communities and Local Government (DCLG) to be a sector led body for principal authorities – councils, police and fire bodies, including London borough councils.
- 1.3 The decision for the Council to appoint its own external auditors itself, or to join the sector led approach, must be made by Full Council and cannot be delegated.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 That Corporate Committee recommends to Full Council that the external auditor for the Council and for the pension fund should be appointed by Public Sector Audit Appointments Ltd (PSAA), a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association.

4. Reasons for decision

- 4.1 Following the abolition of the Audit Commission, local authorities will be required to make their own decisions about how and by whom their external auditors are appointed. High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money

has been well managed and properly spent, therefore the appointment of the Council's external auditors is a significant decision for the Council.

- 4.2 The Corporate Committee's responsibilities in relation to audit include: '*Considering arrangements for the appointment of the external auditor*'. This report is provided to advise the committee of the options available to the Council following the end of the current external audit contract and recommend a preferred solution.
- 4.3 The recommendation is based on the most economically advantageous approach, which will provide an appropriately qualified and suitable external audit function for the Council; and which will achieve economies of scale by opting in to a national procurement process to provide competitive prices for local audit services.

5. **Alternative options considered**

- 5.1 The new local audit framework must be in place by 1 April 2018. In practice this means that the appointment of the next external auditor for the Council and for the pension fund must be completed by 31 December 2017.
- 5.2 There are a number of options which are available to the Council in making the appointment; the choice of which route to take must be made by Full Council and cannot be delegated. The options, which are set out in more detail in the sections below, are:
- Auditor Panel Options**
1. To establish a separate and individual auditor panel to advise on the external auditor appointment, with the final decision again being made by Full Council;
 2. To work collaboratively with one or more authorities, sharing an auditor panel if they choose;
 3. Use an existing committee or sub-committee to act as the auditor panel – provided that the committee fully complies with the provisions and regulations relating to auditor panels;
 4. To ask another authority's auditor panel to carry out the functions of the authority in question;
- Other options to Auditor Panels**
1. To follow a 'sector led' approach by which an 'appointing person' operates a nationwide, EU compliant procurement and appoints the external auditors on the Council's behalf. PSAA was specified as an appointing person by the Secretary of State in July 2016 for this purpose.
- 5.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) produced non-statutory guidance in September 2015 to advise local authorities of what they need to be aware of in relation to auditor panels. This report summarises the possible advantages and disadvantages of each option

5.4 Analysis of the Auditor Panel options

| Ref | Option | Possible Advantages | Possible Disadvantages |
|-----|---|--|--|
| 1. | Set up own separate and individual panel to oversee separate and individual procurement | <ul style="list-style-type: none"> • Full ownership of the process • Fully bespoke contract with the auditor • Tendering process more based on local circumstances (within EU procurement rules) | <ul style="list-style-type: none"> • May experience difficulties in appointing majority independent panel members and independent panel chair as per the regulations • Will need to ensure that panel members are suitably qualified to understand and participate in the panel's functions • Will have to cover panel expenses completely • May not be able to procure at a lower cost than other options, for example, a single authority contract may be less attractive to some providers • Will not achieve economies of scale |
| 2. | Set up a panel jointly with other authority/ authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts | <ul style="list-style-type: none"> • Less administration than a sole auditor panel • Will be able to share the administration expenses • May be easier to attract suitable independent panel members • If procuring a joint audit contract: <ul style="list-style-type: none"> ○ May still be a relatively locally tailored process ○ May be able to achieve some economies of scale • If procuring separate audit contracts: <ul style="list-style-type: none"> ○ An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree | <ul style="list-style-type: none"> • If procuring a joint audit contract: <ul style="list-style-type: none"> ○ May need to compromise on the arrangements or auditor contract ○ May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together • Need to agree appointment of members across multiple authorities and set up an appropriate joint decision-making process |
| 3. | Use existing committee or sub-committee | <ul style="list-style-type: none"> • Existing administrative structure in place • Existing (sub)committee should already have a better basic understanding of the authority's objectives and requirements | <ul style="list-style-type: none"> • Need to appoint new (sub) committee members to comply with independence regulations • May not be able to procure at a lower cost than other options, for example, a single authority contract may be less attractive to some providers • Will not achieve economies of scale |

| Ref | Option | Possible Advantages | Possible Disadvantages |
|-----|-------------------------------|---|--|
| 4. | Use another authority's panel | <ul style="list-style-type: none"> • Will not have to set up an auditor panel • Arguably most independent option for the authority using the host authority's panel | <ul style="list-style-type: none"> • The panel may not understand the specific needs of the authority • May need to enter into a formal arrangement with the other authority • May be difficult to find an authority willing to enter into such an arrangement • May be more difficult to ensure adequate liaison with authority's own audit committee |

- i. The arrangements for an auditor panel must comply with the requirements of the Act and must have a majority of independent, non-elected members. The auditor panel must also be chaired by an independent non-elected member. The rules about independence are very specific and must comply with The Local Audit (Auditor Panel Independence) Regulations 2014. The panel can be an existing committee or sub-committee of an existing committee provided that the membership criteria are met.
- ii. In view of the likely value of a contract for external audit provision a full EU procurement would be required which the auditor panel would oversee. Following this, the committee would make a recommendation to Full Council which is the body that would make the final decision.
- iii. Once the external auditor is appointed, the auditor panel will continue to have roles in monitoring the auditor's performance, ensuring the auditor's independence and in the event of any relationship problems with members or officers. In the event of a breakdown of the relationship, or poor auditor performance, the Council would be faced with a re-procurement exercise.

5.5 Appointment by the Sector Led Route

- 5.5.1 Local authorities may opt into any sector-led body that may be established to fulfil the 'appointing person' role as per section 17 of the Local Audit and Accountability Act 2014. Authorities that opt into such arrangements will not need to pursue further options for establishing an auditor panel.
- 5.5.2 In July 2016, PSAA was specified as a designated person for the purposes of making external audit appointments. They are the only body to be designated as such. As part of the transitional arrangements moving from the Audit Commission, PSAA has been managing the existing novated external audit contracts.
- 5.5.3 If the Corporate Committee agrees to the recommendation and Full Council decided to opt for this route, the Council would confirm its intention to PSAA to participate in the sector led scheme. PSAA would then carry out the EU procurement on behalf of all councils and NHS trusts that have signed up with them and would then allocate external auditors, probably on a geographic basis as has happened in the past.

- 5.5.4 PSAA would then be the body that would support the external auditor's independence and would be involved if there were relationship problems. Monitoring the work of the external auditor would continue to be undertaken by the Corporate Committee.
- 5.5.5 PSAA would be the contracting authority, so there would be no procurement by the Council. The fees paid for the audit service would include PSAA's costs. It is however a non-profit making organisation and if any surpluses were achieved these would be returned to the scheme members.
- 5.5.6 This route would be the most straightforward and least resource intensive. It would enable the achievement of more competitive prices because of the volume being procured. In the event of a breakdown of the relationship or poor auditor performance, PSAA would be able to replace the auditor with another that it has contracted with without the cost implications or interruption of service which might be experienced if the Council contracted with a single supplier.
- 5.5.7 The current PSAA proposal is to let three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. By having contracts with a number of firms, PSAA will be able to demonstrate independence and avoid dominance of the market by a small number of providers.
- 5.5.8 Audit fees will continue to be met by each local authority. PSAA will manage the fee levels and pool scheme costs to enable costs to be charged to authorities in accordance with an agreed scale of fees. PSAA will consult with audited bodies on the proposed scale of fees until the initial procurement has been completed and contracts have been let. It should be noted that the Council has no influence on the current scale of external audit fees charged, so will be in no worse position under the sector led approach.

6. Background information

- 6.1 Prior to its final abolition in March 2015, external auditors for local authorities were appointed by the Audit Commission. The auditor currently appointed for Haringey Council and for its pension fund is BDO LLP and they remain as the external auditors. The current audit contracts were novated from the Audit Commission to PSAA on 1 April 2015.
- 6.2 The contracts were due to expire following conclusion of the audits of 2016/17 accounts, but could be extended by PSAA, subject to DCLG amendment of the transitional provisions to extend the period in which the statutory functions are delegated to PSAA.
- 6.3 In October 2015, the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year for audits of principal local government bodies to include the audit of 2017/18 accounts.

7. Contribution to strategic outcomes

7.1 External audit makes a significant contribution to ensuring the adequacy and effectiveness of internal control and use of resources throughout the Council, which covers all key Priority areas.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

The External Audit plan of work in relation to the 2016/17 year is currently estimated to cost £240k and appropriate provision has been made within the budget for 2016/17 under the current contractual arrangements. The Medium Term Financial Strategy (MTFS) at this stage assumes a similar level of budget will be required in future years.

8.2 Legal

The changes to the arrangements for appointing external auditors, and the range of options available under the framework of the Local Audit and Accountability Act 2014, are set out in the main body of this report.

If an authority fails to appoint an external auditor the Secretary of State has the power to direct the authority to appoint a particular auditor, or appoint one on its behalf.

8.3 Equality

There are no direct equality implications for the Council's existing policies, priorities and strategies. However, ensuring that the Council has effective external audit arrangements in place will assist in providing assurance to residents and other stakeholders that the Council manages public money appropriately and in accordance with statutory requirements.

9. Use of Appendices

N/A

10. Local Government (Access to Information) Act 1985

Not applicable.



LONDON BOROUGH OF HARINGEY COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 2015/16. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office’s Code of Audit Practice (the Code), and to review and report on:

- the Council and pension fund financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
19 October 2016

Audit conclusions

FINANCIAL STATEMENTS

We issued unqualified true and fair opinions on the Council and pension fund financial statements on 29 September 2016.

We reported our detailed findings to the Corporate Committee on 15 September and Pension Committee on 20 September. The majority of audit differences identified were corrected in the final published financial statements and the remaining misstatements did not have a material impact on our opinions.

USE OF RESOURCES

We issued an unqualified conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2016.

Whilst there are uncertainties around future grant funding, demographics and demand pressures the Council’s future planning and assumptions appear to be adequate. We concluded that the Council understands the financial challenges that it faces and has adequate arrangements in place to manage the financial position moving forward.

EXERCISE OF STATUTORY POWERS

We received objections regarding the lawfulness of the Council’s Lender Option Borrower Option (LOBO) loans. Our work remains ongoing although we were satisfied that this does not impact on the financial statements or on our value for money conclusion.

GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of the housing benefit subsidy claim for 2015/16 is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

OPINION

We issued unqualified true and fair opinions on the Council and pension fund financial statements on 29 September 2016.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's and pension fund's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and the pension fund and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

| REVENUE RECOGNITION | RESPONSE | FINDINGS |
|--|--|--|
| Risks of fraud in revenue recognition may arise from the use of Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. | Our review of revenue recognition focused on testing completeness and existence of fees and charges income and whether any conditions attached to grants have been met. | No issues were identified from our testing. |
| For the pension fund, this included contributions income from employees and employers. | <p>A sample of contributions during the year were vouched to member payroll records.</p> <p>Our work also included a detailed analytics comparing movement in employer and employee normal contributions based on changes in active members and member grade bandings.</p> | <p>No issues were identified from our testing of a sample of contributions to payslips.</p> <p>However, we identified discrepancies between the contributions received in the pension fund bank account and the total contributions per Haringey Council payroll for the months tested. The differences were not material but should be investigated by management to confirm that the correct amounts have been paid to the pension fund.</p> |

FINANCIAL STATEMENTS

Continued

| LAND AND BUILDINGS VALUATIONS | RESPONSE | FINDINGS |
|---|---|---|
| <p>The valuations for land and buildings included in Property, Plant and Equipment is estimated based on market values for existing use or depreciated replacement cost (DRC). The valuations for investment property is based on the highest and best use method.</p> <p>We identified a risk that the basis of valuation for these assets may not be appropriate or may not be supported by available valuation data.</p> <p>The Council engaged an external valuer to value its council dwellings, offices, car parks, public conveniences, surplus assets and investment properties as at 1 April 2015, and a further review to identify any further material movements during the year.</p> <p>This resulted in a net upwards revaluation movement of £158.243 million in the year for PPE and a loss of £9.724 million for investment properties.</p> | <p>We assessed the valuer’s competence, independence and objectivity and determined we could rely on the management expert.</p> <p>We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements.</p> <p>We compared the outputs of the valuation exercise to benchmarking information made available to us by a consulting valuer engaged by the National Audit Office.</p> | <p>We compared the valuations to expected movements using available market information and concluded that the movements are within expectations.</p> <p>We noted that the valuer informed the Council that housing indices suggested that local prices had increased by 11.5% from the 1 April 2015 valuation to 31 March 2016. However, the Council indexed dwellings by only 11% suggesting that the valuations may be overly prudent. We accept that the estimate is within a tolerable range.</p> |

FINANCIAL STATEMENTS

Continued

| PENSION LIABILITIES | RESPONSE | FINDINGS |
|--|---|---|
| <p>An actuarial estimate of the pension fund liability to pay future pensions, and the Council's share of the local government pension scheme, is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.</p> <p>At 31 March 2016 the total liabilities for the pension fund decreased by £118 million to £1,590 million.</p> <p>The Council's share of the total liabilities decreased by £113m to £1,391 million. The Council's share of the net liabilities decreased by £116 million to £529 million.</p> <p>These reductions were mainly as a result of the lower discount rate applied to the liabilities.</p> | <p>We reviewed the assumptions used by the actuary for reasonableness by reference to a consulting actuary's report commissioned by the National Audit Office.</p> <p>The key changes to the financial assumptions related to:</p> <ul style="list-style-type: none"> • A reduction in future salary increases from 4.3% to 4.2% • A reduction in future pension increases from 2.4% to 2.2% • An increase in the discount rate from 3.2% to 3.5% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). | <p>The main assumptions used by the actuary to calculate the present value of future pension liabilities was generally consistent with the consulting actuary's report commissioned by the National Audit Office.</p> <p>The only exception was the longevity at 65 for female future pensioners at 26.5 years, which compared with an expected range of 26.6 - 27 years. The actuary stated that this lower mortality reflected local factors for female scheme members.</p> |

FINANCIAL STATEMENTS

Continued

| ALLOWANCE FOR NON-RECOVERY OF RECEIVABLES | RESPONSE | FINDINGS |
|--|--|---|
| <p>The Council’s provision for estimated non-recovery of aged debt is determined for each income stream using available collection rate or write off data. The largest areas of provision include council tax arrears, non-domestic rates arrears, housing rent arrears and PCNs (parking).</p> <p>We identified a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates.</p> | <p>We reviewed provision rates applied by management with collection rates and write off data available.</p> | <p>Overall we concluded that the impairment allowances for receivables are reasonable and based on observable collection rates.</p> <p>The provision for housing benefit overpayments was calculated at 100% for balances over three years, 90%, 70% and 55% for two, one and current year balances. However, limited information could be provided to support the collection rates used by management.</p> |

FINANCIAL STATEMENTS

Continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Council's financial statements as a whole was set at £17.2 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.5 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

The materiality for the pension fund's financial statements as a whole was set at £10 million. This was determined with reference to a benchmark of net assets (of which it represents 1 per cent) which we consider to be one of the principal considerations for the pension fund in assessing the financial performance.

We agreed with the Corporate Committee that we would report all individual audit differences in excess of £500,000. We agreed with the Pension Committee that we would report all individual audit differences in excess of £200,000.

Audit differences - Council

We identified a number of presentational audit differences that were corrected by management in the published financial statements, mainly covering netting off internal recharges.

The following audit differences were not corrected that impact on the reported surplus in the Comprehensive Income and Expenditure Statement:

- (£4.35) million understatement of depreciation expenditure on housing dwellings
- +£2.01 million understatement of housing benefit debtors

Correcting for these remaining misstatements would result in the Council reporting a £2.34 million lower surplus for the year.

We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Audit differences - pension fund

Our audit found one difference that was not corrected in the final financial statements that impacts on the reported net assets:

- (£0.2) million error on valuation reports on investment assets.

Correcting for this remaining misstatement would result in the pension fund reporting £0.2 million lower net assets.

We consider that this misstatement did not have a material impact on our opinion on the financial statements.

FINANCIAL STATEMENTS

Continued

Other matters we report on

Annual governance statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We are satisfied that the information given in the narrative report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Internal controls

We identified two significant deficiencies in internal controls during the course of our audit:

- Manual journals posted in the general ledger with no header description
- Bank reconciliation process is incomplete and does not fully reconcile the ledger control account through the cash book to the bank statements.

A number of other areas for improvement were identified which we have discussed with management:

- Records of signed contracts of employment
- Evidence of approving transactions and reconciliation of cash balances held for others
- Regular checks for Single Person Discounts
- Amending the declaration of interests form to include company directorships.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non current assets); liabilities (excluding pension liabilities); income or expenditure.

We have completed our review in accordance with the Group Audit Instructions issued by the National Audit Office. This requires that we compare the information in your Data Collection Tool (DCT) submission with the audited financial statements, undertake testing of completeness and accuracy of WGA counter party transactions and balances, and provide an assurance statement to the National Audit Office.

The DCT was amended as a result of the audit and our assurance statement was submitted on 21 October 2016. We reported that the Council had not been accurately coding a number of counter party transactions in accordance with the Treasury's schedule of coding, and therefore these were not being correctly recorded in the DCT. As a result our overall audit opinion was that the DCT was consistent with the audited financial statements, except for completeness of CPIDs.

USE OF RESOURCES

CONCLUSION

We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

Our assessment of significant risks

Our audit was scoped by information obtained from your previous auditor, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

USE OF RESOURCES

Continued

| SUSTAINABLE FINANCES | RESPONSE | FINDINGS |
|--|--|---|
| <p>We identified a risk over the sustainability of the Council’s financial position due to the reductions in government funding and inflationary and pay pressures.</p> <p>The Council had an overspend compared to budget of £6.8 million in 2015/16. This was mainly due to demand-led services such as Adults, Children’s and the need for Temporary Accommodation.</p> | <p>We carried out a review of the MTFS to assess the key assumptions and the plans in place to deliver the necessary savings over the medium term.</p> <p>The Council is half way through the Corporate Plan 2015-2018 that was jointly prepared by the Executive Team and Members. It is recognised that there are challenges with managing the demand-led services, but the Corporate Plan and the aligned Medium Term Financial Strategy (MTFS) are providing the Council with direction and planning processes are continuing to improve.</p> <p>The Council identified £70 million of savings needed to be achieved in the period to 2017/18. It has already made savings of £100 million since 2010 and management is conscious further savings will be challenging especially in the demand-led areas. Savings estimated over the life of the Corporate Plan in the MTFS are 2015/16 £19.8m, 2016/17 £24.7m and 2017/18 £24.2m.</p> <p>Plans are in place to deliver these savings and the MTFS makes reasonable assumptions about increasing cost pressures due to population growth and increased demand for services, along with the amount of Government grant reductions that are expected to be applied.</p> <p>The Council is currently working on producing an updated MTFS that will cover the period from 2017/18 to 2020/21 that will be approved by the Cabinet and Council as part of the 2017/18 budget setting process in February 2017.</p> | <p>Whilst there are uncertainties around future grant funding, demographics and demand pressures the Council’s future planning and assumptions appear to be adequate.</p> <p>The Council is looking further ahead and has strong capital programmes with the aim of bringing additional income in future years and has moved away from a year to year financial planning cycle. Future plans are focused on achieving the best use of resources for residents.</p> <p>The Council need to continue to monitor the control of demand led services, the delivery of the savings necessary to meet the MTFS and the impact of the changes being implemented on the delivery of services, to ensure that there are no unanticipated detrimental outcomes.</p> <p>We concluded that the Council understands the financial challenges that it faces and has adequate arrangements in place to manage the financial position moving forward.</p> |

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We have received objections regarding the lawfulness of the Council's Lender Option Borrower Option (LOBO) loans.

Use of statutory powers

Local electors submitted objections regarding the lawfulness of the Council's Lender Option Borrower Option (LOBO) loans.

Our work remains on going although we were satisfied that this does not impact on the financial statements or on our value for money conclusion.

We will formally respond to the objectors upon completion of our work.

Audit certificate

The audit certificate for the previous year has not yet been certified by your predecessor auditor as there remains on going review of an objection regarding the lawfulness of certain parking income included in the financial statements. Your predecessor auditor will continue to investigate this matter.

We are unable to issue the audit certificate to close the audit for 2015/16 until we have completed our investigations and responded to the objectors with regard to the LOBO objection and the predecessor auditor issues the audit certificate for the 2014/15 audit.

GRANT CLAIMS AND CERTIFICATION

CERTIFICATION WORK

Our review of the housing benefit subsidy claim for 2015/16 is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

The audit of the 2014/15 housing benefits subsidy claim, completed by your predecessor auditor, found a significant number of errors in relation to calculations for benefit entitlement. This resulted in the Council not being able to recover the full amounts for benefits paid out through the subsidy system.

The Head of Benefits and the Finance department agreed to address many of the concerns including:

- Strengthening the governance framework and quality assurance processes
- Appointing Team Leaders to improve performance monitoring and support assessors
- Improved training and guidance with focus on high-risk and complex areas of work
- Re-establish quality monitoring and random sampling reviews of assessor's work.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2016.

APPENDIX

Reports issues

We have issued the following reports since our previous annual audit letter.

| REPORT | DATE |
|-----------------------------------|-------------------|
| Audit Plan - Council | 19 February 2016 |
| Audit Plan - pension fund | 29 February 2016 |
| Final audit report - Council | 15 September 2016 |
| Final audit report - pension fund | 20 September 2016 |
| Annual Audit Letter | 19 October 2016 |

Fees

We reported our original fee proposals in our Audit Plan. We have not had to amend our planned fees.

| AUDIT AREA | PLANNED FEES | FINAL FEES |
|---|----------------|----------------|
| Code audit - Council | 206,475 | 206,475 |
| Code audit - pension fund | 21,000 | 21,000 |
| Certification of housing benefits subsidy | 33,190 | 33,190 |
| Fee for audit services | 260,665 | 260,665 |
| Audit related services: | | |
| - None | - | - |
| Non audit related services: | | |
| - None | - | - |

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising.. No responsibility to any third party is accepted.

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LONDON BOROUGH OF HARINGEY

Audit Progress Report

November 2016



INTRODUCTION

Background

This report is intended to provide the Corporate Committee with an outline of our progress against our proposed work for 2015/16.

The Local Audit and Accountability Act 2014 makes the Comptroller and Auditor General for the National Audit Office responsible for the preparation, publication and maintenance of the Code of Audit Practice.

The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act:

Audit of the financial statements

- to be satisfied that the accounts present a true and fair view, and comply with the requirements of the enactments that apply to them
- to be satisfied that proper practices have been observed in the preparation of the accounts

Value for money arrangements

- to be satisfied that the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources

Reporting

- issue an audit plan that sets out how the auditor intends to carry out their duties
- report the findings of the audit to those charged with governance
- to express an opinion on the accounts
- the opinion on the organisation’s arrangements to secure economy, efficiency and effectiveness in the use of resources
- to certify the completion of the audit
- issue an annual audit letter highlighting the results of the auditor’s work.




Other assurance work

We are also undertaking work to provide grant certification assurance on the Housing Benefit Subsidy Claim and other grant claims and returns required by the Council.

Progress to date

We have assessed whether the arrangements put in place by the Council will allow us to complete our work by the expected deadlines and whether there are any issues that are likely to have a significant impact on our ability to provide unmodified audit reports and opinions.

This is included as a ‘RAG’ assessment in the report.




| ASSESSMENT | EXPLANATION |
|---|---|
| RED  | Unlikely to be able to meet reporting deadlines, significant concerns over governance or finance, or expected modification of audit report or opinion. |
| AMBER  | Some concerns around meeting reporting deadlines, some concerns over governance or finance, or potential risk of modification of audit report or opinion. |
| GREEN  | On target to meet deadlines and no current concerns over governance or finance. |
| TBC | Work not yet started or sufficiently progressed to include a ‘RAG’ assessment |

Tracking progress




In order to allow you to track our progress, where work has been completed and previously reported to you we have ‘greyed’ out the text.

The key completion and reporting dates are also noted in the following tables.


AUDIT PROGRESS 2015/16


| AUDIT AREA | SCOPE | PROGRESS | REPORTS / OUTPUTS | RAG |
|-----------------------------|---|--|--|---|
| PLANNING | | | | |
| Planning letter | We are required to provide you with a planning letter setting out the scope of the audit for the year and the proposed fees set by Public Sector Audit Appointments Limited (PSAA). | <p>We have issued our planning letter and the proposed fees for the NAO Code audit are £206,475.</p> <p>We estimate that the fees for the grant certification review of the Housing Benefit Subsidy Claim will be £33,190.</p> | <p>Planning Letter</p> <p>Issued April 2015.</p> |  |
| Audit plan | We are required to report to you the results of our detailed audit planning and the proposed audit response to significant audit risks ahead of commencement of the audit work. | We issued our audit plan in February. | <p>Audit Plan</p> <p>Reported to the Corporate Committee on 14 March 2016.</p> |  |
| FINANCIAL STATEMENTS | | | | |
| Interim visit | Audit of the significant financial systems that support the financial statements to be completed before draft accounts are prepared. | <p>Review and testing of the operating effectiveness of internal controls operated by the Council undertaken.</p> <p>Initial audit testing on transactions also undertaken at this visit.</p> | <p>Significant deficiencies in internal controls</p> <p>No significant deficiencies in internal controls identified through our audit work to date.</p> <p>All other observations on internal controls reported in our Final Audit Report to the Corporate Committee on 15 September 2016.</p> |  |

AUDIT PROGRESS 2015/16

| AUDIT AREA | SCOPE | PROGRESS | REPORTS / OUTPUTS | RAG |
|--|---|--|--|---|
| FINANCIAL STATEMENTS (continued) | | | | |
| Final audit visit | <p>Audit of the draft financial statements to determine whether these give a true and fair view and have been prepared in accordance with the CIPFA's Code of Practice.</p> <p>The audit also includes a review of the annual governance statement.</p> | Final audit testing of the financial statements commenced upon receipt of the draft financial statements, and on site at the Council from 4 July 2016. | <p>Final Audit Report</p> <p>The findings of our audit on the financial statements were reported to the Corporate Committee on 15 September ahead of the deadline of 30 September.</p> <p>Auditor's report</p> <p>The opinion on the financial statements was included in the auditor's report and issued on 29 September, ahead of the 30 September deadline.</p> |  |
| Whole of Government Account (WGA) schedules audit | We are required to provide an opinion whether the Council's WGA consolidation pack is consistent with the financial statements. | Our review was undertaken following the completion of the financial statements audit at the final audit visit. | <p>Opinion on the WGA consolidation schedules</p> <p>The opinion on the consistency of the consolidation pack was issued on 21 October, in accordance with the 21 October deadline.</p> |  |
| USE OF RESOURCES | | | | |
| Review of arrangements to secure economy, efficiency and effectiveness | <p>The NAO has published revised guidance (AGN 03) for the scope of the work on value for money arrangements for 2015/16 and supporting information for Councils.</p> <p>We are required to be satisfied that the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p> | Review of the Council's arrangements, financial outturn and updates to the 2016/17 and medium term financial planning. | <p>Final Audit Report</p> <p>The findings of our review on the use of resources were reported to the Corporate Committee on 15 September ahead of the deadline of 30 September.</p> <p>Auditor's report</p> <p>The conclusion on the use of resources was included in the auditor's report and issued on 29 September, ahead of the 30 September deadline.</p> |  |

AUDIT PROGRESS 2015/16

| AUDIT AREA | SCOPE | PROGRESS | REPORTS / OUTPUTS | RAG |
|---|--|---|---|---|
| GRANTS AND RETURNS | | | | |
| Review of the Housing Benefit Subsidy claim | To review and submit the Housing Benefit Subsidy grant claim in accordance with the PSAA HBCOUNT arrangements by 30 November 2016. | Review is in progress. | Housing Benefit Subsidy grant claim to be audited and submitted by 30 November 2016 deadline. | Deadline 30 November 2016 |
| REPORTING | | | | |
| Audit certificate | To certify the completion of the audit at the point that the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged. | To be issued on completion of the audit of the financial statements and review of the arrangements to secure economy, efficiency and effectiveness. The issue of the audit certificate has been delayed pending the issue of the certificate for the previous year by the previous auditors, and the objection in respect of 2015/16 on LOBO's being fully concluded upon. | Auditor's report The audit certificate to close the audit for the year has been delayed pending the issue of certificates for previous years by the previous auditors and the objection in respect of 2015/16 on LOBO's being fully concluded upon. | Deadline 30 September 2016 |
| Annual audit letter | Public-facing summary of audit work and key conclusions for the year. | Annual Audit Letter drafted upon completion of audit work. | Annual audit letter The key findings from our audit are included in the annual audit letter being reported to the Corporate Committee on 29 November. |  |
| Grants report | Summary of our certification work completed on 31 March 2016 claims, to be issued by February 2017. | To be drafted after certification work concluded. | Grants Report The key findings from our work will be reported to the Corporate Committee. | Deadline 28 February 2017 |



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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