

Final Internal Audit Report 2017/18

London Borough of Haringey Haringey Development Vehicle July 2017

This report has been prepared on the basis of the limitations set out on page 7.

This report and the work connected therewith are subject to the Terms and Conditions of the Engagement Letter dated 30 March 2012 between the London Borough of Haringey and Mazars Public Sector Internal Audit Limited under an arrangement agreed with Croydon Council. The report is confidential and produced solely for the use of the London Borough of Haringey. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

Introduction

As part of the 2017/18 Internal Audit Plan approved by the Corporate Committee on 21 March 2017, we have undertaken a review of the planned joint venture the Haringey Development Vehicle (HDV).

The agreed objective and scope of our work is set out in the Terms of Reference issued on 20 April 2017. The Terms of Reference outlines a three stage approach to the planned internal audit work for 2017/18.

It should be noted that we took into account the scope of work to be completed by External Audit in preparing for this audit, and this will be considered again at the point of commencing further phases of our internal audit work, to ensure minimum duplication of effort.

Phase one of the planned work was to undertake some high level assurance and advisory work regarding the planned governance of the HDV project and how risk is being identified managed and communicated. This work was completed in May 2017 through contribution to workshops with Management to develop and provide independent challenge on: the risks identified in relation to the HDV; the main causes and consequences of these risks and the mitigations currently in place or planned for the short term future.

The Council's Risk Register relating to the HDV dated 19 May 2017 has been provided to Senior Management and Members for review and challenge and was published on the Council's website on 9th June 2017.

The second phase of the work was originally scheduled for quarter two, and proposed a more detailed review of the management of risks relating to the HDV identified during phase one, including review of the proposed governance arrangements and testing the controls and mitigations in place to manage the identified risks when the approval to establish the HDV has been obtained.

In response to requests from Management phase two of the planned work has been commenced earlier than originally timetabled, to ensure assurances and independent challenge on the risk management activity continue in a timely fashion as the decision date arrives. Due to the timing of the work being brought forward it has not been possible to undertake any detailed testing regarding controls established within the HDV.

The planned audit work for 2017/18 will be reviewed post 3 July 2017 after the Cabinet decision has been taken. The resources required will be considered in light of the risk rating assigned to the HDV by the Head of Audit and Risk Management and the assurances required by Management and Members at that time. If required, phase two of the audit work will be revisited and, early testing of the controls implemented by Management at the outset of the HDV can be undertaken.

The main focus for this phase of work has therefore been to consider the contents of the current Risk Register relating to HDV and in particular the robustness of mitigating actions that are in place, challenging and confirming again the existence of these where required as the Cabinet deadline is met and the decision date approaches. Actions have been agreed with Management and these are included within the report. These will be reviewed as part of the next phase of audit work.

We have also discussed with Management how the wider Governance Framework is being developed to mitigate the high inherent risks to the Council that will be affected by HDV, such as Information Governance, and sought assurance whilst challenging the robustness of activity to mitigate as the focus of activity moves from pre decision to post decision risk management.

This work is advisory therefore no overall assurance opinion has been given.

Key Findings

- In reviewing the current Council HDV Risk Register, dated 19th May, the initial observations made were that:
 - The Risk Register is reporting contains a number of risks that at the point of the decision by Cabinet will change;
 - Ownership of the risks identified is currently limited to two Council officers;
 - For a number of post decision risks the HDV Board is identified as a shared owner of the Council's risk.
- A full review of the Risk Register took place on 5th July 2017 and Internal Audit were invited to facilitate this session. The focus of the session was to refresh the risks; consider current risk ratings and therefore the adequacy of the mitigations in place; and, also the ownership of the risk and where, going forward, the risk should be owned and monitored.
- The Cabinet decision on 3rd July and planned review of the risks will also impact on other Risk Registers across the Council, reviews of which occur periodically as part of the governance framework of the Council and the specific Priority Boards. Due to the significance of the HDV it is anticipated that all risk registers will be affected even if it is just in terms of the source of assurance received. The Priority Board Risk Registers were requested as part of this audit but, due to time constraints, could not be considered in detail. This work will, however, be completed post drafting of the report and observations shared with Management. Further work to review the Priority Board risk registers following the decision on the HDV will be undertaken in the next phase of the audit.
- In meetings with Management for this audit it has been noted that:
 - There are newly identified or emerging risks where prompt action has been taken by Management but these are yet to be reflected in the Risk Register, areas noted include the arrangements for transfer of property; and
 - For identified risks there are further mitigating actions that are not captured within the Risks Register which may mean that ratings and assurances are out of date. Management confirmed that these issues will be addressed both as part of the 5th July workshop and on an ongoing basis; updates will be independently challenged as part of future audit work.
- When reviewing the current Risk Register three key risk areas were identified for further work:
 - a) **Capacity of Resources** is a risk identified in its own right but also is identified as a cause for a number of other risks on the register. It is noted that changes at Senior Management level have been implemented recently to reflect the need for increased capacity in the longer term and an Head of Service post and more junior officer post have been approved, currently filled on an interim basis by Haringey officers, reporting to the Director of Housing and Growth. There have also been a number of external specialist resources deployed to provide advice and support the preparations for the Cabinet report. Due to the pace of this programme of work and the deadline for the Cabinet report, the risks around capacity have been high with significant investment from key officers across the Council. Although the work around HDV is across all parts of the Council, Legal Services is noted as one area where significant risk management activity has been undertaken relating to capacity of resources.

The Cabinet report also includes some delegation of responsibility for final amendments to legal documentation; however the delegations fall within the financial limits held by Officers and assurance was provided that resources have been focused on the legal documents that need to be completed to enable Cabinet to make their decision and ensure the Council's interests are protected. External legal advice has been available and utilised by the Council's legal team to provide assurance and advice in the management of Council risk.

Through discussions with Management it was reported that, due to the timescales involved and the complexity of the work, it would not have been effective to increase resources across Council teams, in the weeks prior to the Cabinet deadline.

Capacity of resources is identified in the current Risk Register for the periods both pre and post the 3 July Cabinet decision, noting that ensuring the right capacity and skills are available will be critical to the achievement of objectives especially as retention of external expertise will not be financially sustainable indefinitely. The capacity of resources was a focus of the workshop on 5th July to ensure that robust mitigations are in place and captured to provide assurances to Senior Management and Members. As the creation of the HDV moves forward the clarity of plans and therefore the ability to challenge the rational of resource plans both relating to people and structure and the financial budgets that align will become easier. This work will form part of the next phase of the audit, starting with the risk session on 5th July.

Agreed Action Points:

1. *Management to focus on further developing the resource plan, including the financial resources required, to ensure that the HDV and Council teams interacting with the new entity have the sufficient capacity and skills to ensure that the objectives of all stakeholders are achieved on an ongoing basis.*
2. *The resource plan will need to be approved in accordance with the delegations and responsibilities within the Council's Governance Framework and Finance Procedure Rules; and the new Governance Arrangements implemented relating to the HDV.*
3. *The plan will need to be approved in accordance with the delegations and responsibilities within the Council's Governance Framework and the new Governance Arrangements implemented relating to HDV.*

b) Communications and Engagement is another risk area identified in its own right within the Risk Register but also, if not well managed, could prove a cause for a number of other risks to escalate. The Communications Strategy regarding HDV was reviewed and how the Council developed this Strategy; is delivering the Strategy; and what plans are in place to transition arrangements post decision was considered as part of our work. It is noted the mitigations in the risk register do not fully reflect the significant activity being undertaken to mitigate this risk; and the resources required to respond to Freedom of Information (FOI) Requests and other correspondence relating to HDV have been significant. Responses to FOI Requests have been published on dedicated Council webpages and 'Frequently Asked Questions' have also been presented to help inform the residents. Discussions with the Assistant Director Strategy and Partnerships indicated that there may be periods post the Cabinet decision on 3 July where the delivery of the Communications Strategy and Plan may have to be paused; it is noted that mitigating the risk at this time will need to be considered to provide positive assurances to stakeholders and residents. Like many other elements of the Governance arrangements the approach around communication in particular will be split with the Council and the HDV itself needing to have clearly defined roles and responsibilities and Strategy and Procedure that efficiently and effectively complement each other. This was captured as part of the refresh of the Risk Register on 5 July; assurances are contained in the updated version of the risk register which is planned for publication in mid-July.

Agreed Action Point:

4. *Certain risks may increase in the period following the Cabinet decision where further democratic and legal process may take place. The Communication Strategy will be kept under review to ensure appropriate communication and engagement still takes place.*

c) Development of Governance Framework has been on-going as part of the preparations for the Cabinet Report. However, in reviewing the Risk Register and through meetings with Management it is noted that there will be significant activity between July and September when, subject to the Cabinet decision and due process, the HDV will become operational. An internal Operational Board has existed in the same way that the five Council Strategic Priorities have Boards; this has helped to manage the risks and a similar forum will need to continue post decision at least until governance arrangements of the HDV are fully determined. If it is determined that the governance structures of the Priority Boards should be replicated for the Council's internal HDV board, relevant Lead Members should be included on the Strategic Board. This would enable Strategic and Operational Risk Registers to drive risk management at the right level at the relevant timetabled meetings.

Management should note that in supporting the Priority Boards to embed Risk Management into their governance arrangements, Internal Audit noted that the separation of operational and strategic risk did not occur at the outset. The separation only came when the role of the Board matured and the separation of the meeting agendas was possible; the Risk Registers helped to drive the setting of both the Strategic and Operational agendas and strengthen further the risk management arrangements in place. The experience of prior Boards can inform the development and operation of the HDV Board; the Board will have a critical role in ensuring Risk Management drives the decision making. It was noted during our work that the timeline to publish the Risk Register was not as succinct as may be required in future. Management indicated that the plan for the next refresh is to publish promptly after internal challenge and scrutiny is complete and the target for this is mid-July.

Internal Audit have highlighted a number of operational risks that will become relevant post the decision date, relating to the impact of a potential lack of clarity regarding roles and responsibility for Council staff, either working within the HDV or within Council teams working with the HDV. They will need clarity on their roles and how the arrangements around governance align and where they are different. Ensuring adequate induction and training for HDV officers and Members, and providing ongoing briefings will be essential. Using dedicated HDV email addresses would be one way to ensure clarity of role and function. There are also other arrangements to consider for example ensuring the culture around Declaration of Interests and Gifts and Hospitality will be essential for Officers and Members who will be working in a higher risk environment going forward.

Agreed Action Points:

5. *The timeline from review and appropriate approval of the risk register and publication of risk register should be agreed and ideally completed within 5 working days.*
6. *The Governance Framework and Decision-Making processes within the Council will need to be established and approved promptly after the Cabinet decision is confirmed.*
7. *Management actions aimed at ensuring clarity of roles and responsibilities should be further developed to ensure that officers in both the Council and the HDV are clear on the governance framework in which they are working.*

As part of this work a number of intentions and planned actions have been captured and recognised. No formal recommendations have been raised as a result of our work however for each of the areas reviewed 'Agreed Action Points' has been raised and an adequacy of controls in place and the effectiveness of those controls in light of the risks faced have been provided. This is a snap shot in time and, it should be noted, is in part reflective of the pace of the work and also the timing of the audit. It is acknowledged that Management do have plans to undertake these actions however due to the risk levels it was deemed necessary to draw out specific actions within the report. The completion of these actions will be followed up as part of later audit work and the planned on-going support and challenge to be provided by Internal Audit in coming months.

Area of Scope	Adequacy of Controls	Effectiveness of Controls
Capacity of Resources	Amber	Green
Communication & Engagement	Green	Green
Governance Framework	Amber	Amber

Please refer to Appendix A for a definition of the adequacy and effectiveness of controls and recommendation priorities.

Acknowledgement	We would like to thank the Director of Housing and Growth; Assistant Director of Strategy and Partnerships and their teams; and the officers within Legal Services for their time and co-operation during the course of the internal audit.
------------------------	---

Appendix A – Definition of Recommendation Priorities

Adequacy and Effectiveness Assessments

Please note that adequacy and effectiveness are not connected. The adequacy assessment is made prior to the control effectiveness being tested.

The controls may be adequate but not operating effectively, or they may be partly adequate / inadequate and yet those that are in place may be operating effectively.

In general, partly adequate / inadequate controls can be considered to be of greater significance than when adequate controls are in place but not operating fully effectively, i.e. control gaps are a bigger issue than controls not being fully complied with.

	Adequacy	Effectiveness
	Existing controls are adequate to manage the risks in this area	Operation of existing controls is effective
	Existing controls are partly adequate to manage the risks in this area	Operation of existing controls is partly effective
	Existing controls are inadequate to manage the risks in this area	Operation of existing controls is ineffective

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****July 2017**

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.