



---

## AGENDA FOR THE AUDIT COMMITTEE AND AUDIT COMMITTEE (ADVISORY)

---

Members of the Audit Committee and Audit Committee (Advisory) are summoned to a meeting, which will be held in Committee Room 4, Town Hall, Upper Street, N1 2UD on **17 March 2016 at 7.30 pm.**

**John Lynch**  
**Head of Democratic Services**

Enquiries to : Jackie Tunstall  
Tel : 020 7527 3068  
E-mail : [democracy@islington.gov.uk](mailto:democracy@islington.gov.uk)  
Despatched : 9 March 2016

### Membership

Councillor Satnam Gill OBE (Chair)  
Councillor Olly Parker (Vice-Chair)  
Councillor Raphael Andrews  
Councillor Richard Greening  
David Bennett (Independent Member)

### Substitute Members

Councillor Alex Diner  
Councillor Clare Jeapes  
Councillor Robert Khan  
Councillor Alice Perry

**Quorum: is 3 Councillors**



**A. Formal Matters**

**Page**

1. Apologies for Absence
2. Declaration of substitute members
3. Declarations of interest

If you have a **Disclosable Pecuniary Interest\*** in an item of business:

- if it is not yet on the council's register, you **must** declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may **choose** to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you **must** leave the room without participating in discussion of the item.

If you have a **personal** interest in an item of business **and** you intend to speak or vote on the item you **must** declare both the existence and details of it at the start of the meeting or when it becomes apparent but you **may** participate in the discussion and vote on the item.

**\*(a) Employment, etc** - Any employment, office, trade, profession or vocation carried on for profit or gain.

**(b) Sponsorship** - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.

**(c) Contracts** - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.

**(d) Land** - Any beneficial interest in land which is within the council's area.

**(e) Licences**- Any licence to occupy land in the council's area for a month or longer.

**(f) Corporate tenancies** - Any tenancy between the council and a body in which you or your partner have a beneficial interest.

**(g) Securities** - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to **all** members present at the meeting.

4. Minutes of previous meeting 1 - 6

**B. Items for Decision - Audit (Advisory) Committee**

**Page**

1. External Auditor report 7 - 24
2. Internal Audit Annual Plan 2016/17 25 - 36

- |    |   |         |
|----|---|---------|
| 3. | Teachers' pensions grant claim                          | 37 - 40 |
| 4. | Internal Audit Fraud Investigation: Anti-Fraud Strategy | 41 - 54 |

**C. Items for Decision - Audit Committee**

**D. Urgent non-exempt items**

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

**E. Exclusion of press and public**

To consider whether, in view of the nature of the remaining item on the agenda, it is likely to involve the disclosure of exempt or confidential information within the terms of the Access to Information procedure rules in the Constitution and, if so, whether to exclude the press and public during discussion thereof.

**F. Confidential/exempt items**

**G. Urgent exempt items (if any)**

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The next meeting of the Audit Committee and Audit Committee (Advisory) will be on 26 May 2016

This page is intentionally left blank

London Borough of Islington

## **Audit Committee and Audit Committee (Advisory) - 28 January 2016**

Minutes of the meeting of the Audit Committee and Audit Committee (Advisory) held at Committee Room 4, Town Hall, Upper Street, N1 2UD on 28 January 2016 at 7.30 pm.

**Present:**           **Councillors:**           Satnam Gill (Chair), Olly Parker and Raphael Andrews.  
**Also Present:**       **Independent member:**           David Bennett

### **Councillor Satnam Gill OBE in the Chair**

**71**        **APOLOGIES FOR ABSENCE (Item A1)**

Councillor Richard Greening.

**72**        **DECLARATION OF SUBSTITUTE MEMBERS (Item A2)**

None.

**73**        **DECLARATIONS OF INTEREST (Item A3)**

Councillor Olly Parker declared a non-pecuniary interest in Item B1 – Internal Audit Interim Report 2015/16 as a member of The Factory Children’s Centre.

**74**        **MINUTES OF PREVIOUS MEETING (Item A4)**

**RESOLVED**

That the minutes of the meetings of the Committee held on the 22 September and the 6 October 2015 be confirmed as a correct record of proceedings and the Chair be authorised to sign them.

**75**        **EXTERNAL AUDITOR REPORTS (Item B1)**

The Council’s external auditor presented the annual report on grants and returns work 2014/15 and an update on elector queries.

The following points were made during the discussion:-

- It was necessary to undertake extensive addition work to the Teachers’ Pensions return to avoid a qualification.
- It was considered that the problems regarding the Teachers’ Pensions had now been resolved and an action plan was now in place. A report would be brought back to the Audit Committee showing how this matter was progressing in terms of the Action Plan.
- The work on the Council’s Housing Benefit Subsidy was subject to a qualification letter. The impact of the claim was relatively small based on the claim value. The external auditors were not concerned about the Housing Benefit system as there had been no major problems in this area.
- Islington Council received a significant number of elector queries in comparison with other London Boroughs. Of the six elector queries over 2011/12 and 2012/13, two were accepted.

**RESOLVED**

- a) That the grants audit work and the elector queries reports from KPMG be noted.

- b) That an update report on the work being carried out on Teachers Pensions be submitted to a future meeting.

**76** **INTERNAL AUDIT INTERIM REPORT 2015/2016 (Item B2)**

The Head of Internal Audit summarised the work undertaken by Internal Audit from 1 April to 31 October 2015.

During consideration the following points were made:-

- Where a revised assurance was still moderate this was not a cause for concern as moderate was a good assurance rating. If an assurance rating remained limited this would be an area for concern.
- Braithwaite TMO was now indicative of moderate assurance. This had been based on a detailed response from management on the recommendations which had been accepted.
- The leaseholder service and major works charges for Partners had received a limited assurance but following implementation of recommendations they had now received a moderate assurance and there were no further concerns.
- Members should notify any further concerns to the Head of Internal Audit.

**RESOLVED** that the report and the appendix be noted.

**77** **ANNUAL TREASURY MANAGEMENT STRATEGY (Item B3)**

The Head of Pension Fund and Treasury Management, Joana Marfoh, introduced the Annual Treasury Management and Investment Strategy.

During the discussion the following points were made:-

- The Council's strategy was to borrow internally at times when there was a low rate. If future rates were expected to increase then some external borrowing could be taken ahead of spend.
- The level of borrowing for capital purposes would not be increasing whilst the level of long term liabilities were decreasing. External borrowing should not exceed the Capital Financing Requirement.
- The figure for reserve forecasts reflected the use of some reserves for capital projects.
- It was noted that 60% of existing borrowing did not fall due for another ten years.
- Loans would be taken out to replace those loans that had matured where necessary.
- Members requested that a training session be held on Treasury Management over the next year.

**RESOLVED**

- 1) That the report be noted;
- 2) That a training session for members on Treasury Management be held during the next year.

**78** **WHISTLEBLOWING REPORT APRIL 2015 TO DECEMBER 2015 (Item B4)**

The Head of Internal Audit introduced details of whistleblowing arrangements and referrals made between April 2015 and November 2015.

During the discussion the following points were made:-

- It was noted that all allegations were taken seriously.
- Case WB6 could potentially be the most serious and an investigation was on going.

**RESOLVED**

- 1) That the report be noted;
- 2) That there be a report back to a future meeting.

**79** **INTERNAL AUDIT FRAUD INVESTIGATION REPORT: APRIL 2015 TO NOVEMBER 2015 (Item B5)**

The Head of Internal summarised the work undertaken by the Council in creating a robust anti-fraud culture across the Council.

During the discussion the following points were made:-

- That the Anti-Fraud Strategy be submitted to the Audit Committee if it had not already been previously submitted.
- The Single Fraud Investigation Service (SFIS) had taken over the investigation of Council Tax Benefit Fraud and there was concern that this may lead to an increase in fraud.
- It was considered that there may be an increasing trend in referrals although this may be a spike in trend. Future reports would include the numbers of cases and direction of travel.

**RESOLVED**

- 1) That the report be noted;
- 2) That the Anti-Fraud Strategy be submitted to a future meeting.
- 3) That future reports include numbers and the direction of travel.

**80** **THE COUNCIL'S USE OF SURVEILLANCE UNDER THE REGULATION OF INVESTIGATORY POWERS ACT 2000 (Item B6)**

The Assistant Chief Executive, Governance and HR, updated the committee on the council's use of covert surveillance under the Regulation of Investigatory Powers Act (RIPA) 2000.

The following was noted during discussion:-

- The trend in the number of RIPA investigations was downwards.
- Investigations will still occur but would only be used for serious criminal behaviour.

**RESOLVED**

That the nature and level of covert surveillance undertaken by the council be noted.

**81** **COUNCIL TAXBASE AND NATIONAL NON DOMESTIC RATES 2016/17 (Item C1)**

The Director of Financial Management, outlined the Council Tax base calculation and the National Non Domestic Rates (NNDR) estimate for the financial year 2016-17.

During consideration of the report the following points were made:-

- Officers were confident that a 97% collection rate would be achieved.
- The number of dwellings in the Borough had increased by 1%.
- There was a total Council Tax surplus of £4 million forecast for 2015/16.
- The surplus was due to the growth in the tax base and the buoyant collection rate.
- The bad debt provision was now forecast to be less for 2015/16 than originally forecast and reflected the 2014/15 outturn.
- Concern was expressed regarding the number of business rate appeals and this had proved difficult to forecast. There was also a concern regarding backdated appeals. This uncertainty was reflected in the increased provision for 2016/17.
- The Committee noted that there was no disadvantage for businesses to put in an appeal.

**RESOLVED**

- 1) That the Council Tax base for the whole area for 2016-17 (or until rescinded) shall be 75,339.6 Band D equivalent properties after adjusting for non-collection shall be agreed.
- 2) That the Council Tax base for meeting the special expenses issued by the Lloyd Square Garden Committee for 2016/17 (or until rescinded) shall be 44.4 Band D equivalent properties after adjusting for non-collection be agreed.
- 3) The Council Tax forecast for 2015/16 be noted.
- 4) That the business rates estimate for 2016/17 be agreed and authority be delegated to the Corporate Director of Finance for finalising the NNDR1 form (detailed business rates estimate) in line with this estimate.
- 5) That the NNDR forecast for 2015-16 be noted.

**82**

**REVIEW OF RECRUITMENT OF AGENCY WORKERS TO DIRECTLY EMPLOYED POSTS (Item C2)**

The Assistant Chief Executive, Governance and HR, updated the Committee on the policy approach to recruiting agency workers to directly employed positions.

The following was noted in discussion:-

- Posts would always be advertised to redeployees first internally.
- The number of agency staff used by Islington Council had been reduced and were now below the London Council average at 13.9%.
- The numbers of agency staff should be kept under review and reported back to a future meeting.
- There was a cross-cutting review of agency workers in the Audit Plan.
- Agency workers were sometimes required for seasonal work or in areas where vacancies existed but a reorganisation was due. The reorganisation may lead to redundancies.

**RESOLVED**

- 1) That the report be noted and the policy approach as detailed in paragraph 4 of the report be agreed;
- 2) That an update report in respect of the use of agency staff be submitted in January 2017.

**83**

**BRIBERY ACT RISK ASSESSMENT (Item C3)**

The Assistant Chief Executive, Governance and HR, updated the Committee on the findings of the risk assessment process in relation to Section 1 of the Bribery Act 2010 and the action plan arising from this. She also recommended a Bribery Policy for adoption by the Committee.

It was noted that iCo was a limited trading company owned by the Council that was starting to commence trading. iCo had not yet considered the adoption of a Bribery Policy but this was on the company's next agenda.

**RESOLVED**

- 1) That the action plan be noted;
- 2) That the Bribery Policy as detailed in Appendix 3 be agreed;
- 3) That it be recommended that iCo adopt a Bribery Policy.



**84** **PERSONNEL SUB-COMMITTEE: AMENDMENT OF TERMS OF REFERENCE AND APPOINTMENT OF MEMBERSHIP 2015/16 (Item C4)**

The Committee received a report detailing the revised Terms of Reference and membership of the Personnel Sub-Committee.

**RESOLVED**

- 1) That the composition of the Personnel Sub-Committee and its Terms of Reference as detailed in the report at Appendix A be confirmed;
- 2) That the members as detailed in Appendix A of the report be agreed for the municipal year 2015/16 or until successors are appointed.

**85** **WHISTLEBLOWING REPORT EXEMPT APPENDIX (Item F1)**

**RESOLVED**

That the exempt appendix be noted.

**86** **REGULATION OF INVESTIGATORY POWERS ACT - EXEMPT APPENDIX (Item F2)**

**RESOLVED**

That the exempt appendix be noted.

The meeting ended at 9.05 pm

**CHAIR**

This page is intentionally left blank

Report of: Corporate Director of Finance

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	17 March 2015		All

## 1. Synopsis

- 1.1 KPMG has produced an external audit plan (2015/16) for the March 2015 meeting of the Audit Committee.

## 2. Recommendations

- 2.1 To note the attached report from KPMG.

## 3. Background

- 3.1 KPMG provides various reports to the Audit Committee throughout the year. The following report is included on the agenda for this meeting:

- External Audit Plan - 2015/16

## 4. Implications

### 4.1 Financial Implications:

These are contained within the body of the report.

**4.2 Legal Implications:**

There are no legal implications.

**4.3 Environmental Implications:**

There are no direct environmental implications.

**4.4 Equalities Impact Assessment:**

An equality impact assessment is not relevant as this is a report from an external body.

**5. Conclusion and reasons for recommendations:**

5.1 The Committee is asked to note the contents of this report.

**Appendices:**

- External Audit Plan - 2015/16

**Background papers:** (available online or on request)

- None

Final Report Clearance:

**Signed by:**



Corporate Director of Finance and Resources

4 March 2016

Date

**Received by:**

Head of Democratic Services

Date

Report Author: Alan Layton, Director of Financial and Asset Management

Tel: 020 7527 2835

E-mail: alan.layton@islington.gov.uk



# External Audit Plan 2015/2016

London Borough of  
Islington and  
associated Pension  
Fund

March 2016

## Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Council needs to comply with.

### Materiality

Materiality for planning purposes has set at **£13 million** for the Council and **£10 million** for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £650,000 for the Council and £500,000 for the Pension Fund.

### Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Revenue recognition; and
- Fair value of Property plant and equipment
- Actuarial valuation - Pension assets and liabilities;

### Other areas of audit focus

We have identified investments in the pension fund as an area that is less likely of giving rise to a material error but which is nevertheless worthy of audit understanding given its value.

See pages 3 to 5 for more details.

## Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment is ongoing and we will report VFM significant risks during our audit or Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial Resilience; and
- Better Care Fund

See pages 6 to 9 for more details.

## Logistics



Our team is:

- Phil Johnstone - Director
- Paul Cuttle – Senior Manager
- Jonathan Ware – Assistant Manager

More details are on page 12.

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on page 11.

Our fee for the audit is ££202,830 (£270,440- 2014/2015) for the Council and £21,000 (£21,000 - 2014/15) for the Pension Fund; see page 10.

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office’s Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

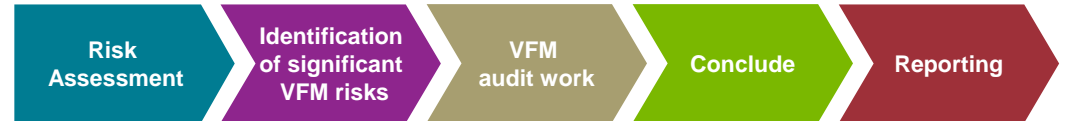
## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2015/16 and the initial findings of our VFM risk assessment.



## Financial Statements Audit Planning

Our planning work takes place during January to February 2016. This involves the following key aspects:

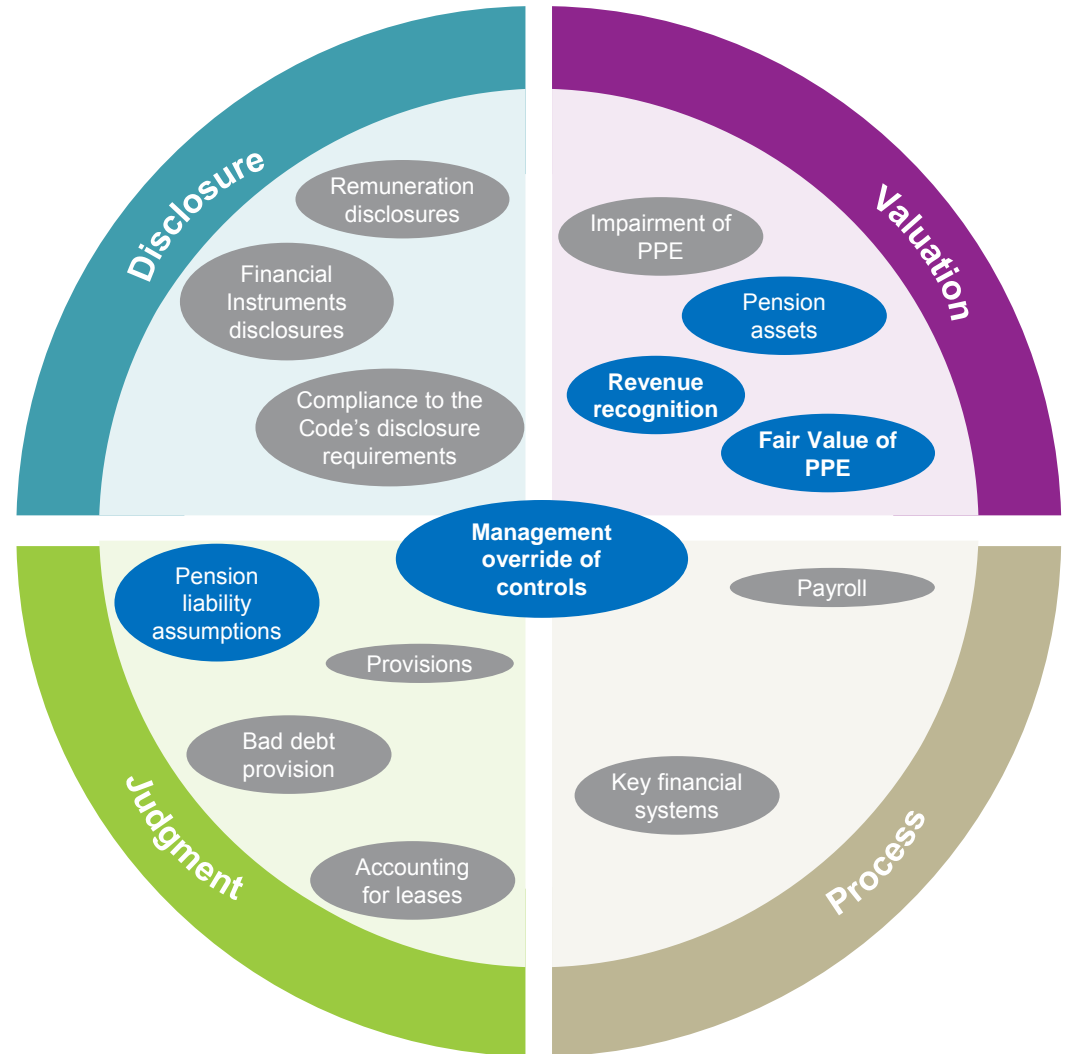
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

### Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We will obtain an understanding of revenue controls. We will evaluate and test accounting policies for income recognition to ensure they are consistent with the requirements of the Code of Practice on Local Authority Accounting. We will perform detailed testing of revenue transactions, focusing on the areas we consider to be of greatest risk, for example, fees and charges and grant income where there are conditions attached to the grant income.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach



## Pension Fund Financial Statements Audit Planning

Our planning work takes place during January and February 2016. This involves the following key aspects:

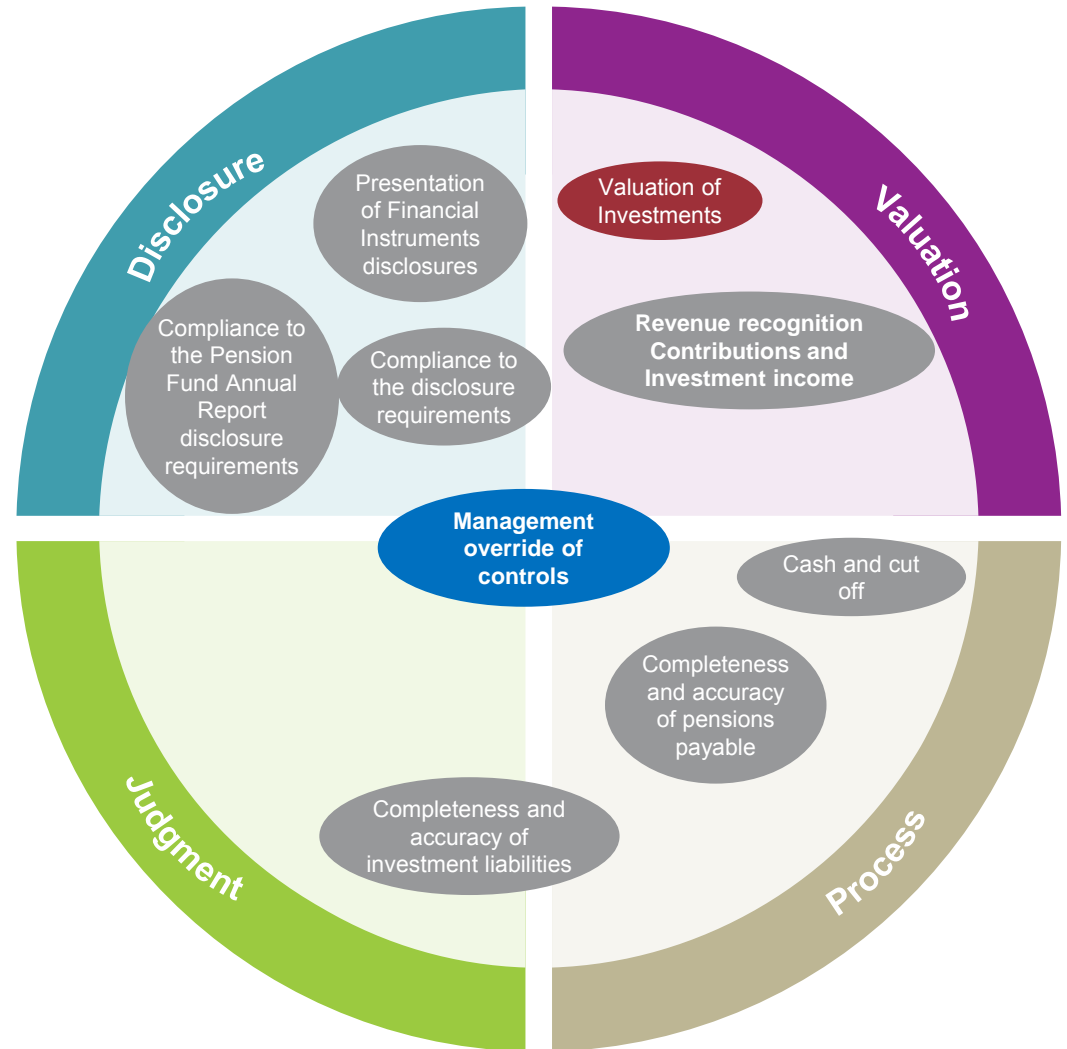
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

### Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authority Pension Funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach



## Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

### Fair value of Property, Plant and Equipment

**Risk:** Risk: In 2014/15 the Council reported Property, Plant and Equipment of £1,477m. Local authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an area of audit focus.

**Approach:** We will understand the approach to valuation, the qualifications and reports by the Authority's valuers and the judgements made by the Authority in response to the information received. Where valuations are made other than at the year end we will review the Authority's judgement in assessing movements from the valuation date.

### Actuarial valuation - pension assets and liabilities

**Risk:** There is an inherent valuation estimate in respect of the Council's defined benefit liability. Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.

**Approach:** Our audit will include confirming the information provided to the actuary from the Council, a review of the actuarial valuation consideration of the assumptions made by your actuaries to benchmarks, which are collated by our KPMG actuaries, and a review of management's assessment of the accounting requirements to satisfy ourselves that they comply with the requirements of the Local Government SORP for 2015/16.

## Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

### Pension Funds area of focus = Investments

**Risk:** The Pension Fund held £1,087 million of investments at 31 March 2015. Some of these were unquoted investments which management valued at the year end using unaudited accounts.

**Approach:** We will obtain confirmations from the Fund managers and Custodians, and reconciliations between the two, as well as reviewing ISAE3402 compliance reports on each Fund Manager. For unquoted investments we will check the basis of the valuations and also to audited accounts as they become available.



## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgment to represent 'misstatements' unless the application of that judgment results in a financial amount falling outside of a range which we consider to be acceptable.

## Reporting to the Audit Committee

For the Council, materiality for planning purposes has been set at £13 million which equates to 1.2% percent of gross expenditure. (0.5% of net assets)

For the Pension Fund, materiality for planning purposes has been set at £10 million which equates to 0.9% of net assets.

We design our procedures to detect errors in specific accounts at a lower level of precision. For the Council this is £9.75 million, and for the Pension Fund this is £7.5 million for the year ended 31 March 2016, and we have some flexibility to adjust this level downwards.

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 (UK&I), we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance, and to request that adjustments are made to correct such matters. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

- In the context of the Council we propose to report all individual unadjusted differences greater than £650,000 to the Audit Committee.
- In the context of the Pension Fund we propose to report all individual unadjusted differences greater than £500,000 to the Audit Committee.
- We will also have regard to other errors below this amount if evidence of systematic error or if material by nature.

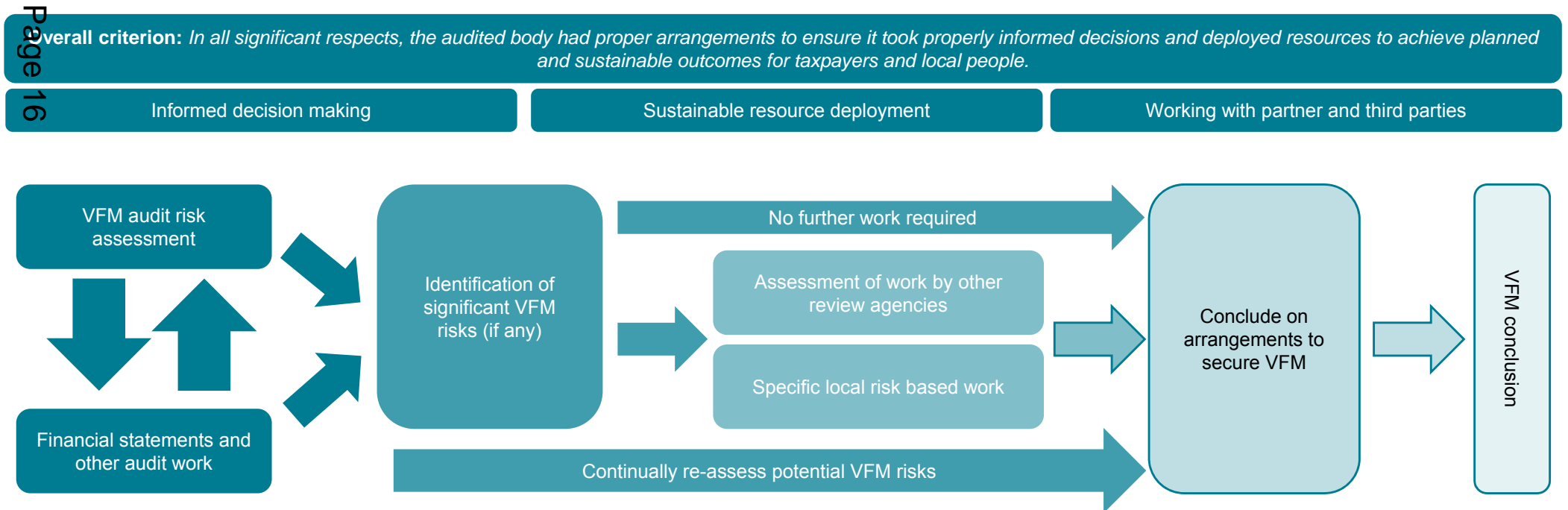
If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Council. The full guidance is available from the NAO website at: <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>. Our approach to the value for money is recorded below:





VFM audit stage	Audit approach
<b>VFM audit risk assessment</b>	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>■ The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ Information from the Public Sector Auditor Appointments Limited VFM profile tool;</li> <li>■ Evidence gained from previous audit work, including the response to that work; and</li> <li>■ The work of other inspectorates and review agencies.</li> </ul>
<b>Linkages with financial statements and other audit work</b> <span style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 17</span>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, including the Council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<b>Identification of significant risks</b>	<p>The Code identifies a matter as significant <i>'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'</i></p> <p>If we identify significant VFM risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ Considering the results of work by the Council, inspectorates and other review agencies; and</li> <li>■ Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> <li>■ Meeting with senior managers across the Council;</li> <li>■ Review of minutes and internal reports;</li> <li>■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.</li> </ul>
<p>Concluding on VFM arrangements</p> <p>Page 18</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM), which forms part of our audit report.</p>



## Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

### Financial Resilience

- Risk: Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents.
- Approach : We will review overall management arrangements that the Council has for managing its financial position. This will include the processes to develop a robust Medium Term Financial Strategy, ongoing monitoring of the annual budget, responsiveness to increasing costs of demand led services and changes in funding allocations and the governance arrangements of how the figures are reported through to Full Council.

### Better Care Fund

Risk: The Better Care Fund was set up by Government to encourage joint work across health and adult social care to ensure local people receive better care. Joint arrangements have been established with Islington CCG to administer the local Better Care Fund (2015/16 expenditure £18m). As the arrangements are new, crossing the health and social care boundary with organisations who have different legal structures there is a risk that the governance and accounting arrangements may not be well developed to manage this partnership arrangement appropriately.

- Approach: We will review the legal, governance and accounting arrangements that have been put in place to govern and administer the Better Care Fund within Islington. These include the s75 agreement with Islington CCG, and the functioning of the governance structure that has been put in place under the Health and Wellbeing Board.

### Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

### Electoral challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

### Our audit team

Our audit team will be led by Phil Johnstone (Director) and Paul Cuttle (Senior Manager) providing continuity at a senior level. Appendix 2 provides more details on specific roles and contact details of the team.

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

### Independence and Objectivity

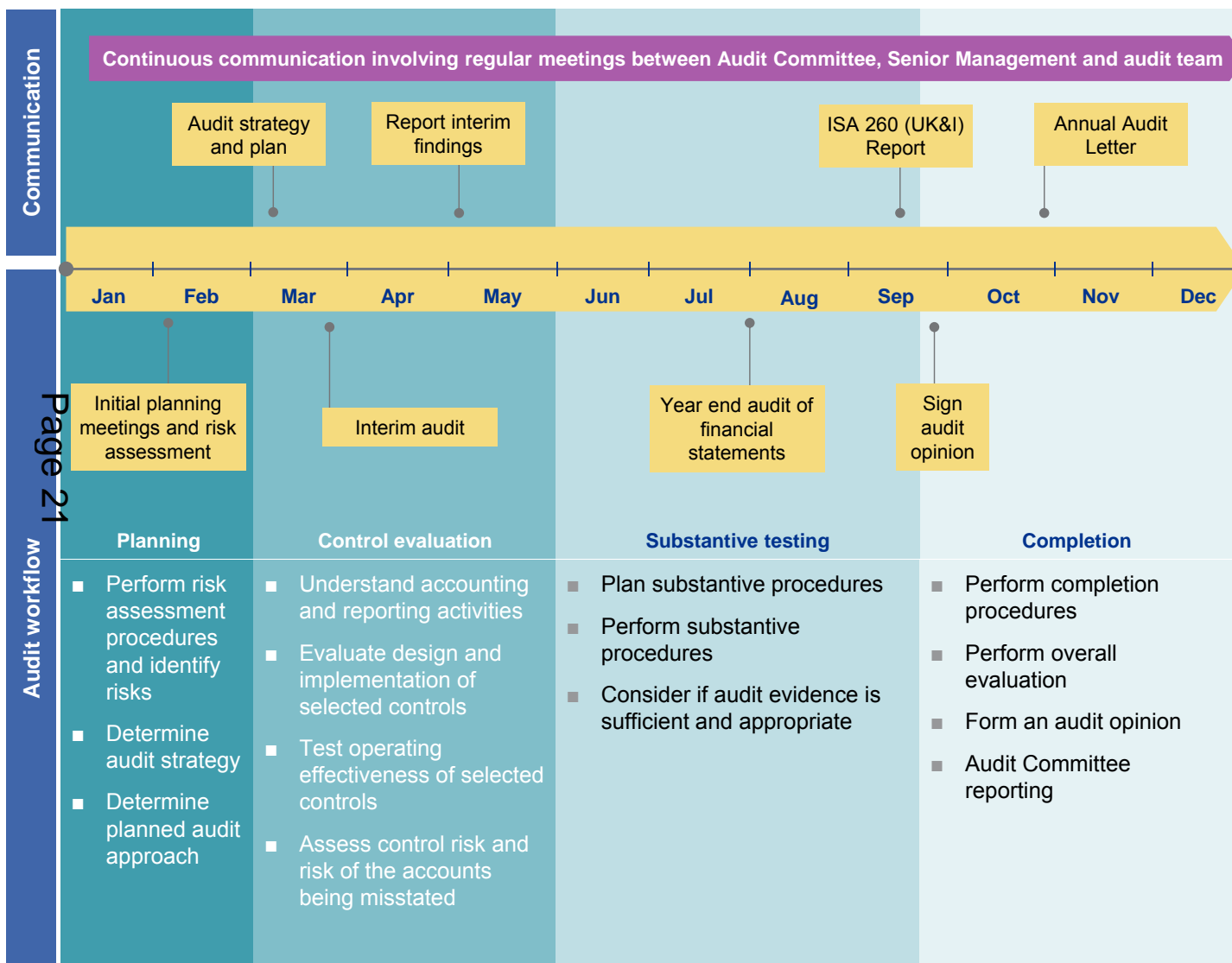
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

### Audit fee

*Our Audit Fee Letter 2015/2016* presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £202,630 for the Council. This is a reduction in audit fee, compared to 2014/15, of £270,440 (or 25%). The planned audit fee for 2015/16 is £21,000 for the Pension Fund. (2014/15 £21,000).





## Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals.



Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the London Borough of Islington audit last year.



<b>Name</b>	Phil Johnstone philip.johnstone@kpmg.co.uk
<b>Position</b>	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee, Chief Executive and Executive Directors.'</p>



<b>Name</b>	Paul Cuttle paul.cuttle@kpmg.co.uk
<b>Position</b>	Senior Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Phil to ensure we add value.</p> <p>I will liaise with the Director of Finance and the Finance Team.'</p>



<b>Name</b>	Jonathan Ware jonathan.ware@kpmg.co.uk
<b>Position</b>	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>

### Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

### Confirmation statement

We confirm that as of 1 March 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.

Produced by Create Graphics/Document number: CRT053550A

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Phil Johnstone the engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk) After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



Report of: **Corporate Director of Finance and Resources**

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	17 <sup>th</sup> March 2016		

Delete as appropriate		Non-exempt	
-----------------------	--	------------	--

## **SUBJECT: Internal Audit Annual Plan for 2016/17**

### **1. Synopsis**

1.1. The report seeks approval for the Annual Internal Audit Plan for 2016/17.

### **2. Recommendations**

2.1. To note the content of this report and approve the Annual Internal Audit Plan for 2016/17.

### **3. Background**

3.1. The Council has a statutory duty to maintain an adequate and effective internal audit function.

3.2. The Internal Audit's primary objective is to offer the Council (via the Audit Committee), Chief Executive, S151 Officer, External Audit and senior managers an independent and objective appraisal of whether objectives are being met efficiently, effectively and economically. Internal Audit also provides advice and guidance to management on risk and control issues within individual systems. We aim to achieve this through a planned programme of work based on an annual assessment of the major risks facing the authority.

3.3. The attached plan details the work to be undertaken by the Internal Audit Service in 2016/17 to deliver this objective.

## **4. Preparation and consultation**

4.1. The plan has been prepared taking the following steps:

- A list of all auditable systems was identified;
- Auditable areas was evaluated against risk criteria, departmental risk registers, and CMB principle risks and then ranked, and
- Departmental Management teams, Corporate Governance Group and the Corporate Management Board have noted and commented on plans at meetings attended by the Head of Audit.

## **5. Internal Audit Resources**

5.1. The annual plan has been drawn up to address the statutory requirements and key risks for the Council, taking into account available resources. We will be working jointly with our audit partners, PWC, to deliver the annual plan. Changes to the annual plan may be necessary during the year to reflect changing priorities and risk environment.

5.2. A contingency has been set aside to cover requests from management for ad hoc, consultancy type work on risk identification and subsequent control design (as well as urgent, unplanned reviews arising during the year).

## **6. Follow-up audits**

6.1. All planned audit work undertaken will be subject to a formal follow up to ensure that all agreed actions have been implemented. The timing of each follow up review is agreed with the client for the original audit. We report to the Audit Committee summary findings of all internal audit work as well as levels of implementation of agreed actions and the impact that this has on our risk assessment of that area.

## **7. Assurance Levels**

7.1. The majority of internal audit projects result in a statement of assurance of either 'substantial', 'moderate', 'limited' or 'no' assurance. These conclusions are based on the number of critical and high priority risks identified in the report. The Audit Committee will receive details of high priority issues raised in audit reviews which result in 'limited' or 'no' assurance statements.

## **8. Continuous Auditing**

8.1. The audit plan includes resource allocated to continuous auditing work. This includes automated monitoring of key controls within finance and IT systems to assess whether they are operating effectively and to flag areas and report transactions that appear to circumvent control parameters.

## 9. Financial implications

9.1. The programme of audit work will be met from within the existing Internal Audit revenue budget. Due to further budget reductions of £73,000, the total number of direct audit days for 2016/17 is 847 (a reduction of 141 days (17%) from 2015/16 and 461 days (55%) since 2014/15); this translates in to 480 days available for new projects, after management time, follow ups, risk and fraud support and contingency have been taken in to account.

## 10. Legal Implications

10.1. The Council has a duty to maintain an adequate and effective system of internal audit in accordance with proper internal audit practices (regulation 6 Accounts and Audit Regulations 2003 amended 2006 and 2011). Due regard must be had by the Council to the CIPFA code of practice for internal audit and Public Sector Internal Audit Standards (PSIAS). Any officer or member must supply necessary documents and other records and provide any necessary information and explanation required in the course of an internal audit

## 11. Resident Impact Assessments

11.1. There are no direct Resident Impact Assessment implications arising from the recommendations in this report.

## 12. Environmental Implications

12.1. There are no environmental implications

## 13. Conclusion and reasons for recommendations

13.1. This report indicates the level of work being undertaken by Internal Audit in order to provide assurance over Islington's control environment.

### Final Report Clearance:

Signed by



.....

.....

.....  
Corporate Director of Finance

Date

Received by

.....  
Head of Democratic Services

.....  
Date

Report author: Michael Bradley, Head of Internal Audit  
Tel: 07979834012  
E-mail: [michael.bradley@islington.gov.uk](mailto:michael.bradley@islington.gov.uk)

This page is intentionally left blank





ISLINGTON

# Islington Council

## Internal Audit

Annual Audit Plan – 2016/17 - Draft

## 1. Summary of Allocation of Planned days

Due to budget reductions of £73,000, the total number of direct audit days for 2016/17 is 847 (a reduction of 141 days from 2015/16 and 461 days since 2014/15); this translates in to 480 days available for new projects, after management time, follow ups, risk and fraud support and contingency have been taken in to account. See table 1 below for more detail:

**Table 1: Analysis of Audit Days**

	2016/17	2015/16	1 year diff	%	2014/15	2 year diff	%
In house	499	491			497		
PWC	211	358	-147		669	-458	
HIA & AM	137	139			142		
<b>Total Direct audit days</b>	<b>847</b>	<b>988</b>	<b>-141</b>	<b>-17%</b>	<b>1308</b>	<b>-461</b>	<b>-54%</b>
Management Time	137	139			142		
Follow Ups	117	125			140		
Risk Support	15	15			0		
Fraud Support	40	55			180		
Contingency	58	69			100		
<b>Days available for New Projects</b>	<b>480</b>	<b>585</b>	<b>-105</b>	<b>-22%</b>	<b>746</b>	<b>-266</b>	<b>-55%</b>

The impact on the number of audit days allocated to each directorate in 2016/17 is outlined below:

Directorate	2016/17 days	2015/16 days	reduction	%
Chief Executive's	30	45	-15	-13%
E&R	50	60	-10	-20%
Finance	125	185	-60	-48%
Children's Services	105	105	0	-0%
HASS	70	70	0	-0%
Cross-Cutting	85	105	-20	-33%
Public Health	15	15	0	-0%
	<b>480</b>	<b>585</b>	<b>-105</b>	

## 2. Internal Audit Plan 2015/16

### 2.1. Corporate / Cross Cutting Audits

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days	Link to Islington's Principle Risks (where applicable)
CC16_1	Voluntary Organisations	Review of cross-council relationship with voluntary organisations. Review of VCS team plus deep dive into at least one organisation	2	25	
CC16_2	Cyber Security	Assessing vulnerabilities of IT systems across the Council which hold personal and sensitive data	2	20	<i>ITT/IG – IT Transformation/Information Governance</i>
CC16_3	Health and Safety	Review will include a follow up of recommendations made in 2015-16, and will also focus on a deep dive in to the current risks.	3	15	<i>H&amp;S – Significant H&amp;S Risk</i>
CC16_4	Information Governance	Assessment of preparation for new Data Protection Regulations	2	15	<i>IG – Information Governance</i>
CE16_2	Equalities	Review of the processing, recording, administering and monitoring of council equality processes. Compliance with the Act.	1	10	
		<b>Total Days</b>		<b>85</b>	

### 2.2. Finance and Resources

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
FR16_1	Continuous Auditing/Key Financial Systems	As per annual CAM scope	4	80
FR16_2	Digital Strategy/IT	TBC following discussions with IT management	1 to 4	30
FR16_3	Cash Handling & Safes	Extended follow up to the 2013/14 Review taking into account the processes for cash handling and safes across the Council.	3	15
		<b>TOTAL DAYS</b>		<b>125</b>

## 2.3. Children's Services

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
CS16_1	Schools Audits x 7	Internal audits of schools on a risk basis	1 to 4	35
CS16_2	Stronger Families	Audit review and sign off of claims	1 to 4	15
CS16_3	Personal Budgets	Extended Follow Up to 15/16 review	1	10
CS16_4	SEN (Special Educational Needs)	Extended Follow Up to 15/16 review	2	10
CS16_5	School monitoring	Extended Follow Up to 15/16 review. To include review of schools' budget setting process including robustness of forecasted budgets, reasonability of forecast parameters and support to prevent schools' going into deficit.	2	10
CS16_6	Foster Care & Adoption Payments	Review of arrangements for deciding amounts Foster Carers are paid and how this is reviewed. Also how extra payments are approved and monitored. Review resilience of the payment system and the payroll run. To also cover payments to people who have been given adoption, residency and guardianship orders and how these are reviewed.	3	20
CS16_7	Hornsey Road Children's Centre	Risk based review of financial management, governance and HR procedures	1	5
<b>TOTAL DAYS</b>				<b>105</b>

## 2.4. Environment and Regeneration

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
ER16_1	Commercial Waste	Review of the collection of waste from commercial premises, including processes and procedures as well as income and debt recovery. To also consider fraud risks.	2	15
ER16_2	Transforming Street Scene	Programme Management review	2	15
ER16_3	Street Trading	Review of the operation of markets across the borough, licencing, income, monitoring etc. incl four council run markets - Chapel, Exmouth, Camden Passage and Whitecross Street	3	15
ER16_4	Planning	Provision of advice and guidance of risk and control design	(as needed)	5
<b>Total Days</b>				<b>50</b>

## 2.5. Housing and Adults Social Services (HASS)

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days	Link to Islington's Principle Risks (where applicable)
HASS16_1	Care Homes	Review of residential care homes - includes in and out of borough care homes. Under the Care Act Local Authorities also have a responsibility for care homes located in the borough which they may not use/commission. To include controls over commissioning and monitoring.	1	15	<i>TASC – Transforming Adult Social Care/ SA – Safeguarding Adults</i>
HASS16_2	Support for Carers	To review the Council arrangements for providing support to carers in the borough. To also consider arrangements with Carers UK who provide a Carers Hub on behalf of Islington Council. The Hub, which is currently in development, will provide advice and information, support, and events and activities.	2	15	
HASS16_3	TMOs	Risk based review of activities undertaken by TMOs in the borough	1 to 4	25	
HASS16_4	Responsive Repairs	Risk based review of the Responsive Repairs service	3	15	<i>HR – Housing Repairs</i>
<b>TOTAL DAYS</b>				<b>70</b>	

## 2.6. Chief Executive's Department

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
CE16_1	Payroll	Review of the administration of salaries, addition of staff to payroll, removal, amendments, payroll payments, deductions, overpayments, overtime. Review of staff expenses and any special payments to staff. Include maintenance of master establishment list and processing and recording of holiday pay.	3	20
CE16_3	Gifts and Hospitality/Declarations of Interest	Review of the processing, recording, administering and monitoring of gifts and hospitality and declaration of interests processes.	1	10
<b>Total Days</b>				<b>30</b>

## 2.7. Public Health

Ref	Audit title	Indicative scope	Planned Quarter	Planned Days
CC16_5	Transforming Public Health Programme	Programme Review	3	15

## 2.8. Follow up reviews

117 days have been allocated for follow up work to ensure that agreed actions contained in our 2015/16 reports have been implemented. Status of implementation of 2015/16 audit recommendations will be updated and reported in our progress reports to senior management and the Audit Committee throughout 2016/17.

<b>Corporate/Cross Cutting</b>	
Operational Business Continuity	
Use of Agency Staff incl SES agency Staff	
Anti-Social Behaviour	
Cross Council Savings	
Information Assurance	
Public Health	
Health & Safety (to be included in main audit)	
Digital Strategy and Technology Roadmap	
Sunnyside Community Gardens	
Leaseholder service & Major Works charges - Direct Services	
<b>Finance &amp; Resources incl. DST</b>	
Bank Account Transfer	
ICo Trading Company	
PCI Compliance	
PSN Audit	
Abacus	
Ticket Viewer	
<b>Children's Services</b>	
Asylum Seekers - Children	
Alternative Provision	
Personal Budgets	
Virtual School	
School Admissions (main 2015/16 audit plus data audit)	
The Factory Children Centre	
<b>Schools:</b>	
Canonbury	
Highbury Grove	
St Aloysius	
Tufnell Park	

## Chief Executive's Office

Islington Assembly Hall

Governance and Member Support

Film Service

Refugee Therapy Centre

## Environment & Regeneration

Vehicle Maintenance (Extended Follow Up)

Leisure Centre Contract Arrangements

Open Spaces/Parks Management

Planning/S106/Building Control

High Rise Insulation Project

E&R Purchase Orders

## HASS

Harry Weston TMO

Holbrook TMO

Wenlake TMO

Direct Payments

Housing Needs Service Overspend

Stock Procedures

Housing Allocations

Safeguarding Adults

Moving Forward Programme - Benefits Realisation

Partners Unavailability

This page is intentionally left blank





Report of: the Corporate Director of Finance and Resources

<b>Audit Committee</b>	<b>Date: 17 March 2016</b>	<b>Ward(s): All</b>
------------------------	----------------------------	---------------------

<b>Delete as appropriate</b>	<b>Exempt</b>	<b>Non-exempt</b>
------------------------------	---------------	-------------------

## **SUBJECT: Teachers' Pensions Grant Claim – Process Improvements**

### **1. Synopsis**

- 1.1 In response to the Audit Committee's request this report provides an update on the Teachers' Pensions claim process improvements as a result of issues identified during the external audit of the 2014/15 Teachers' Pensions claim.

### **2. Recommendations**

- 2.1 To note the agreed Teachers' Pensions claim process improvements which have been implemented for 2015/16.

### **3. Background**

- 3.1 The external audit of the Teachers' Pension claim for 2014/15 identified a number of issues to be addressed including the clear identification of refunds and adjustments made during the financial year and need to issue letters to staff for all pensions refunds and adjustments.
- 3.2 The table below sets out the agreed process improvements which have all been implemented for 2015/16 except for the systems changes which will be implemented from 1 April 2016.

<b>Issue Identified</b>	<b>Action Taken</b>	<b>Implementation Date</b>
Letters had not been issued to inform teachers' of pension changes	The payroll team now issues letters to staff for all pension deduction changes.	Immediate
Pension deductions changes were not shown separately on the payroll system which created issues when identifying reasons for the changes in deductions	For pension deduction changes during 2015/16 the payroll system will include a manual calculation for each change along with supporting notes.  From 1 April 2016 all changes to the teachers' pensions deductions will be automatically calculated by the payroll system and include relevant notes.	Immediate  1 April 2016
Financial Reconciliations and Dealing with queries. Financial reconciliations were completed during 2014/15 but due to the volume of queries some of the issues had not been resolved in time for the financial year end.	Financial reconciliations have been completed monthly for 2015/16 and all deduction changes are being checked to establish the reason for the change and is included on the payroll system.  A monthly timetable has been agreed for the completion of the teachers' pensions reconciliations.  Specific staff responsibilities for completion of the reconciliations and dealing with the queries both in finance and payroll have been clearly set out and will be monitored by senior staff as part of quarterly review meetings.	Immediate

## 4. Implications

### Financial implications:

4.1 There are no direct financial implications as a result of this report.

### Legal Implications:

4.2 There are no specific legal implications on this report.

### Environmental Implications

4.3 None.

### Resident Impact Assessment:

4.4 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

## 5. Reasons for the recommendations:

5.1 To note the improvements

Signed by:



**Audit Committee: Corporate Director of  
Finance and Resources**

Date

**Background papers:**

None

Report Author: Annette Trigg  
Tel: 020 7527 2365  
Email: [Annette.trigg@islington.gov.uk](mailto:Annette.trigg@islington.gov.uk)

This page is intentionally left blank



Report of: **Head of Internal Audit**

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	17 <sup>th</sup> March 2016		

Delete as appropriate		Non-exempt	
-----------------------	--	------------	--

## **SUBJECT: Internal Audit Fraud Investigation Report: Anti- Fraud Strategy**

### **1. Synopsis**

- 1.1. The provision of an Anti-Fraud Strategy that focuses on the prevention and detection of fraud protects the Council's valuable resources by ensuring that the Council continues to be vigilant in preventing losses through fraud.
- 1.2. This report presents the revised Anti-Fraud Strategy that was summarised at Audit Committee on the 28<sup>th</sup> January 2016. An Anti-Fraud Strategy and implementation plan was designed and formally agreed through CMB in June 2015 and the Trade Unions at the Joint Secretaries meeting in July 2015. Some minor amendments were made by the Fraud Forum in November 2015.

### **2. Recommendations**

- 2.1. To note and approve the content of the Anti-Fraud Strategy at Appendix 1.
- 2.2. The Audit Chair to give consideration to signing the foreword.

### 3. Background

3.1. The provision of an Anti-Fraud Strategy assists the Council in ensuring that fraud risk is reduced and so supports the delivery of the Council's services.

### 4. Implications

#### 4.1. Financial implications

None

#### 4.2. Legal Implications

None

#### 4.3. Resident Impact Assessments

There are no direct Resident Impact Assessment implications arising from the recommendations in this report.

### 5. Conclusion and reasons for recommendations

5.1. The Anti-Fraud Strategy presents a clear commitment by the Council in preventing and detecting fraud.

Final Report Clearance

**Signed by**



.....

Corporate Director of Finance

Date

**Received by**

.....  
Head of Democratic Services

.....  
Date

Report author: Michael Bradley, Head of Internal Audit  
Tel: 07979834012  
E-mail: michael.bradley@islington.gov.uk

# London Borough of Islington

## **Anti - Fraud Strategy**

# Contents

1. Anti-Fraud Strategy	P3
------------------------	----



## **Anti-Fraud Strategy:**

### **Foreword by XXXXXXXXX**

Islington Council's stated aim is to make Islington fairer: to create a place where everyone, whatever their background, has the same opportunity to reach their potential and enjoy a good quality of life.

Members and officers of Islington Council, as well as individuals and organisations who deal with the Council are expected to treat those we deal with in a fair and honest way. We are committed to the prevention and detection of fraud and corruption and we seek to engender a culture of zero tolerance.

We believe that the overwhelming majority of the council's employees, councillors, customers, contractors and suppliers are honest and have no thought to defraud the Council. However, we recognise that a small minority will attempt to do just that. Any money lost in this way is money that we cannot spend delivering the critical public services we provide to the citizens of Islington. Fraudsters not only cheat local taxpayers, but they deprive local people of the services they depend upon.

We are determined to keep up a strong guard against it through the approach set out in this document. We all have a part to play in stamping out fraud. As we deliver our services, we must recognise the importance of the controls set out in this document to protect us from fraud. We must all remain vigilant and recognise the many forms that fraud and corruption may take. We must have the conviction and confidence to raise any concerns we come across. And we must act professionally to investigate those concerns promptly and to take tough action against proven fraudsters.

This document sets out a comprehensive approach to ensuring that fraud is reduced to an absolute minimum. Its success will depend on our co-operation to send out the robust message to potential fraudsters that they will be rooted out and dealt with.

### **Signature**

## 1. Introduction: Strategy: Aims and Objectives

The aims and objectives of the policy are to prevent, deter and detect fraud, corruption and other irregularity and its intentions where it is suspected and/or committed. In addition, the aim of this Strategy to clearly communicate the Council's stance on fraud both internally and externally and to generally strengthen the Council's anti – fraud culture.

The Anti – Fraud Strategy links into the National Fraud Strategy, “**Fighting Fraud Locally.**” This provides a strategic approach for Local Authorities to tackle fraud, by **Acknowledging** and understanding the fraud risks. **Preventing** and detecting more fraud and **Pursuing** those who commit fraud against the Council, by prosecuting and prioritising fraud recovery.

The Council is committed to the highest ethical standards and requires Members, Chief Officers and all other staff, including those of contractors to make them aware of and comply with the *seven principles of public life* as defined in the Nolan Report. These principles are: **SELFLESSNESS, INTEGRITY, OBJECTIVITY, ACCOUNTABILITY, OPENNESS, HONESTY and LEADERSHIP.**

The London Borough of Islington is committed to fighting fraud with high ethical and moral standards, and recognises that any fraud perpetrated against the Council is costly, both in financial terms and reputation. The London Borough of Islington is committed to a programme of creating a culture of zero tolerance.

The anti-fraud strategy applies to all Members and employees of the London Borough of Islington and has the full support of the elected Members, Directors, Chief Officers and Trade Unions representing Council employees.

The London Borough of Islington will not tolerate fraud or corruption by its suppliers, contractors, staff, agency workers, service users or any other parties with a business relationship with the Council.

## 2. Definitions: Fraud and Corruption

**Fraud:** Fraud encompasses an array of irregularities and illegal acts characterised by intentional deception with intent to make a gain or to cause a loss, or to expose another to a risk of loss. There are a number of Acts which can to be considered

under this broad heading. However, the best definitions are encompassed in the Fraud Act 2006.

The Fraud Act 2006 provides for a general offence of fraud and three ways of committing it:

- By false representation
- By failing to disclose information; and
- By abuse of position

**Corruption:** Corruption is the is the abuse of entrusted power for personal gain

### **3. Our Written Rules**

We have a number of procedures and rules to make sure that our financial and organisational procedures are efficient, effective and economic. These are an important part of our internal control environment and are the building blocks to create an effective Counter Fraud Framework. It is important that all Members and staff know about them.

#### **Standards and Guidance:**

#### **Council Constitution**

#### **Risk Assessment/Management:**

#### **Employee Code of Conduct:**

#### **Council Disciplinary Procedures:**

#### **Confidential Whistleblowing procedures:**

#### **Information Governance and Data Security:**

#### **Money Laundering Procedures**

#### **Bribery Act Policy.**

#### **Regulation of Investigatory Powers Act Policy**

### **4. Schools**

All schools must have a strong system of controls and procedures to safeguard themselves against fraudulent or inappropriate use of public money and assets. The governing body, head teacher, business manager and other staff with financial responsibilities must be aware of Islington Council's Anti – Fraud Strategy. The Head Teacher and governing body will inform all staff of school policies and procedures related to fraud, theft, the controls in place to prevent them; and the consequences of

breaching these controls. This information must also be included in induction for new school staff and governors. Members of each Governing Body will apply the standard for schools and give their full support to all systems and controls in place to assure probity.

School specific documents in addition to those set out in this strategy are:

**Scheme for Financing Schools**

**LBI Model School Financial Regulations**

**Schools Financial Value Standard self evaluation questionnaire and DFE supporting documentation.**

**5. Expected Behaviour**

We expect all people and organisations that are in any way associated with us to be honest and fair in their dealings with us and our clients and customers. We expect our Members and employees to lead by example in these matters. Our Code of Conduct sets out an approach to work that is both honest and fair. Employees must act in line with the code at all times.

Our employees have an important part to play in combating fraud and corruption and a responsibility to provide information if they suspect a case of fraud (**Code of Conduct 17.1**).

We will deal with all referrals fairly and confidentially and we encourage our staff to report through the provision of a safe reporting line; as far as possible we will not reveal the names of the people who reported the matter to us. However, confidentiality cannot be guaranteed, e.g. if an investigation leads to a prosecution and the person who reported the matter may be required to give evidence in court.

We expect our managers to deal firmly, consistently and quickly with anyone (including 3<sup>rd</sup> parties) who they are aware of, or suspect is responsible for fraud or corruption. We will refer matters to the Police if we suspect any criminal activity has taken place in accordance with the **Corporate Prosecution Policy**.

**6. Preventing and Managing the Risk of Fraud and Corruption**

We believe that if we are to beat fraud and corruption, we must prevent it from happening in the first place. It is essential that we have clear rules and procedures, within which Members, employees, consultants and contractors can

work. These include the main corporate rules, which are set out in Section 3 above.

The Council will regularly review and update our written rules.

Managers must make sure that suitable levels of internal checking are included in working procedures, particularly financial procedures. It is important that duties are organised so that no one person can carry out a complete transaction without some form of checking process being built into the system.

Managers must include and consider fraud risk on their departmental risk registers in accordance with Islington's **Risk Assessment/Management Policy**. Further information on Risk Management can be found in **"Islington's Approach to Risk and Opportunity Management"**

The Human Resources Recruitment Team and Service Managers are responsible for ensuring that pre-employment checks appropriate to the nature of the post are carried out. These may include checks on: identity, qualifications, previous employment and permission to work in the UK, credit status and DBS. This applies to both permanent and temporary staff. Where false references are provided or identity fraud is found, then the job offer will be rejected. In the case of permanent or temporary staff, an investigation will be carried out and in some cases, will be subject to arrest by the relevant authorities.

Managers are responsible for ensuring adequate and proportionate Customer Due Diligence checks and anti-bribery measures are followed in any pre- and post-engagement with suppliers and/or contractors of any value. This will include declaring any Conflicts of Interest between supplier and officer. Failure to do this will result in disciplinary action as gross misconduct. Where fraud is identified, then both the employee and the supplier or contractor will be subject to investigation and possible prosecution. All procurement must be in accordance with the Procurement Rules and Contract Regulations

We will make sure that all work undertaken by contractors is necessary and carried out to the specifications in the contract, ensuring effective contract management. If fraud is suspected on the part of the officer or the contractor, then a Criminal Investigation will take place.

## 7. Internal and External Data Sharing – Directed Anti-Fraud

It is essential to implement measures to prevent and detect occurrences of fraud within systems. As such, managers are responsible for managing the risk of fraud and implementing these measures. The Councils Information Sharing Agreements offer guidance on the legal requirements and permissible exchange of data within the Council and externally with other organisations and individuals.

## 8. Whistle Blowing

Under Islington's Employee Code of Conduct and the Whistleblowing Policy and Procedure employees **must** report any suspected cases of fraud, financial irregularity or bribery and corruption to the appropriate manager, or, if necessary, directly to the Head of Internal Audit. Reporting cases in this way is essential to the success of the Anti-Fraud and Corruption Strategy. Details of how to report fraud are contained within the ***(Fraud Response Plan – Need this)***

The guidance for officers/Members is set out in the Islington Council's Whistleblowing Policy. This is important in the context of fraud prevention and detection and the following paragraphs set out officers' and Members' responsibilities, when a Whistleblower comes forward.

Islington Council encourages both members and officers to report their concerns when the interests of others or the organisation are at risk. The Whistle-blowing Policy and guidelines have been developed so that Members and staff know how to raise a concern in the right way at an early stage and are assured that concerns raised will be dealt with properly and appropriately.

Islington Council will not tolerate the victimisation or harassment of anyone raising a genuine concern. Employees are protected from victimisation and harassment when raising genuine concerns by the Public Interest Disclosures Act 1998. This legislation aims to ensure employees who may be worried about coming forward can do so in the knowledge that it is safe to do so.

Members and staff are advised that where their concern falls into one or more of the following areas they should come forward:

- A criminal act;

- A failure to comply with any legal obligation;
- Danger to health and safety;
- Breaking the Law;
- Any damage to the Environment;
- Breach of the Code of Governance;
- An attempt to cover up any of these.

## **9. Anti-Fraud and Corruption Training and Awareness**

Islington Council places a high emphasis on ensuring that the Anti-Fraud and Corruption Policy and Strategy are well publicised and that all those who have obligations under the policy and strategy understand this ensuring that all staff are properly trained to fulfil their responsibilities. It recognises that the continuing success of its Anti-Fraud & Corruption Strategy and its general credibility will depend largely on the effectiveness of programmed training and the responsiveness of staff throughout the organisation.

The Council supports the concept of induction training for all new staff. Formal induction training sessions will incorporate appropriate elements relating to the Council's Anti- Fraud & Corruption Strategy and will be arranged by Corporate Learning and Workforce Development which will ensure that it forms part of every new employee's induction. A checklist will be produced for individual service areas for managers to work through with staff.

Relevant fraud awareness training will be provided on an ongoing basis in particular for officers involved with internal control systems, with an assessment function or in areas where there is an application process, such as Benefits, Housing, and Direct Payments.

We will devise a system to promote fraud awareness and develop a form of on line training to consolidate learning where completion rates can be monitored.

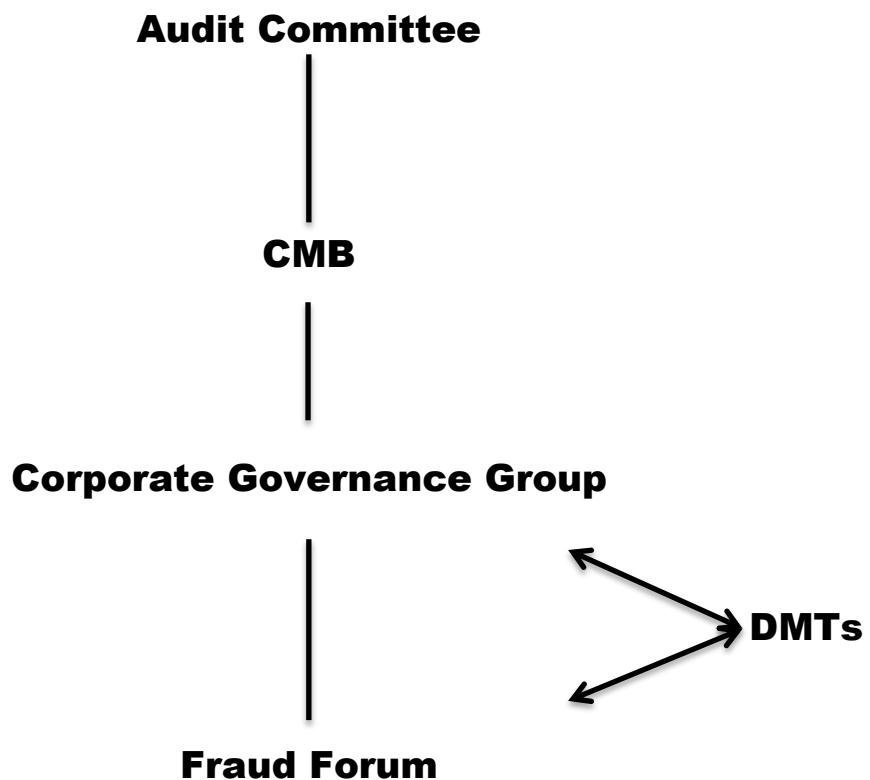
To ensure that anti – fraud work is prioritised, Departmental Management Teams will:

- Assess the exposure to fraud risks in Departmental activities on a 6 monthly basis
- Consider any new or increased exposures to fraud & corruption in current activities
- Escalate serious concerns as appropriate
- Ensure that the action taken to address fraud & corruption risks in Directorate activities is adequate and effective (whether aimed at prevention, deterrence or detection)

- Cascade through to individual Service area Management Teams for dissemination to staff.

We are also committed to training our staff who are involved in investigating fraud and corruption and to promote the development of professionalism within the Fraud Investigative Services of The Council. As the Fraud Services are working closer together, we will support a training programme which will raise standards and knowledge. We will do this by accredited fraud training and through Continuous Professional Development. (CPD)

**Appendix 1:  
Fraud Prevention Governance**



**Appendix 2: Other Related Legislation**

- a. Money Laundering Procedures (Appendix 4 Legal Service Office Manuals)



Money Laundering is an act falling within the Proceeds of Crime Act 2002 (POCA). Money laundering is also an offence under section 18 of the Terrorism Act 2000. The Administrative requirements of an anti-money laundering regime are found in the Money Laundering Regulations 2007. The term “money laundering” is used for a number of offences involving the proceeds of crime or terrorist funds. The following actions constitute money laundering:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, or from Scotland, or from Northern Ireland;
- Becoming concerned in an arrangement in which someone knowingly or suspects or facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person;
- Acquiring, using or possessing criminal property.

**The Money Laundering Reporting Officer (MLRO) for the London Borough of Islington is the Assistant Chief Executive – Governance and HR. The MLRO is responsible for:**

- Making those staff most likely to be exposed to or suspicious of money laundering situations aware of the requirements and obligations placed on the Council, and on them as individuals, by the Proceeds of Crime Act 2002 and the Terrorism Act 2000;
- Arranging targeted training for those considered to be most likely to encounter money laundering;
- Making arrangements to receive and manage the concerns of staff (and contractors) about money laundering and their suspicion of it, to make internal enquiries, and to make reports, where necessary to the National Crime Intelligence Service (NCIS);

**b. Regulation of Investigatory Powers Act 2000 (RIPA)**

If surveillance is considered necessary during the course of an investigation this must be conducted in line with the Regulation of Investigatory Powers Act 2000 (RIPA) and the **Council's corporate RIPA policy** which is available at on the intranet. Failure to follow this policy could have severe consequences for the Council and only officers trained in this specialist area of investigations should carry out this role. The Corporate Director of Finance and Resources is the Senior Responsible Officer (SRO) under the Act, responsible for maintaining the Council's corporate system regarding RIPA authorisations.

### **c. The Bribery Act 2010**

The Bribery Act Includes the corporate offence of failing to prevent bribery. In addition, the Act simplifies other law on the bribery of individuals by making it a criminal offence to give, promise or offer a bribe and to request, agree to receive or accept a bribe.