

Audit, Pensions and Standards Committee

Additional Documentation

Thursday 28 June 2012

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

At its meeting on 9 December 2010, the Committee agreed that limited and nil assurance audit reports be circulated to members separately to the main agenda. The relevant papers are attached, and are also available with the main agenda online

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Reports on the open agenda are available on the [Council's website](http://www.lbhf.gov.uk/Directory/Council_and_Democracy):
http://www.lbhf.gov.uk/Directory/Council_and_Democracy

Members of the public are welcome to attend. A loop system for hearing impairment is provided, along with disabled access to the building.

Date Issued: 19 June 2012

Audit, Pensions and Standards Committee

Additional Documentation

28 June 2012

<u>Item</u>	<u>Pages</u>
15. INTERNAL AUDIT QUARTERLY REPORT Three reports are attached.	1 - 41


Final Internal Audit Report 2011/12

London Borough of Hammersmith and Fulham Change Management NKA Contract March 2012

This report has been prepared on the basis of the limitations set out on page 9

This report and the work connected therewith are subject to the Terms and Conditions of the Engagement Letter dated 14 April 2011 between London Borough of Hammersmith & Fulham and Deloitte & Touche Public Sector Internal Audit Limited under an arrangement agreed with Croydon Council. The report is confidential and produced solely for the use of London Borough of Hammersmith & Fulham. 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	<p>As part of the 2011/12 Internal Audit Plan, agreed by the Audit and Pensions Committee on 17 February 2011, and as requested by the Assistant Director of Finance, Housing and Regeneration, we have undertaken an internal audit of the NKA Change Management Contract.</p> <p>This report sets out our findings from the work and, where practical, raises recommendations to address areas of control weakness and / or potential areas of improvement. We acknowledge that the recommendations cannot be implemented as a result of the contract having been completed; however we have included these for consideration and implementation on future contracts and projects.</p> <p>The audit focuses on monitoring of progress against the Repairs and Maintenance Value for Money stream within the 'Contract Monitoring and Reporting' and 'Delivery of Benefits' areas of scope.</p> <p>The agreed objective and scope of our work is set out in the Audit Brief issued on 19 October 2011.</p>
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Audit Opinion & Direction of Travel	None	Limited	Substantial	Full
				

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Project Governance			0	1	0
Commissioning of Work			1	1	0
Contract Monitoring and Reporting			1	1	0
Delivery of Benefits	*	*	0	0	0
Lessons Learnt		**	1	0	0

*Weaknesses identified in this area are included under Contract Monitoring and Reporting.

** No evidence of lessons learnt exercises so effectiveness of controls could not be tested.

Please refer to the attached documents for a definition of the audit opinions, direction of travel, adequacy and effectiveness assessments and recommendation priorities.

Key Findings	Key Statistics
<ul style="list-style-type: none"> • The Contract stipulated that the Value for Money (VFM) Board is the decision making body for the VFM Programme. No formal reporting of the programme's progress to a VFM Board could be identified. It was reported to the HF Homes Board until February 2010 and a financial update on VFM savings was reported in September 2010; • From examination of twelve change request notices for additional commissioned work approved by Hammersmith & Fulham Homes Ltd's Director of Finance, we identified the following: <ul style="list-style-type: none"> ○ Two change requests (total value of £104,958) did not have clear explanations as to why additional charges have been applied. The description in the change request notice appears to be similar to services already stipulated under the contract; and ○ There is no evidence that the additional commissioned work has been benchmarked to market prices for similar work. • From examination of monthly progress reports monitoring performance of the Repairs and Maintenance Value for Money stream, we identified the following: <ul style="list-style-type: none"> ○ Payments to NKA stipulated in the contract was based only on cashable benefits and therefore any poor performance with regards to non cashable benefits was not reflected in the contract payment; ○ Progress reports did not contain detail on non-cashable benefits identified in the business case; and ○ The reports from October 2010 to March 2011 were all signed off in March 2011. • There is no evidence that a lessons learnt exercise was undertaken and reported to senior management. 	<ul style="list-style-type: none"> • The Contract with Northgate Information Services, later renamed to Northgate Kendric Ash (NKA) was presented to the Hammersmith and Fulham Homes (HFH) Board for approval on 29 April 2008; • Only one contractor applied for the Change Management Programme. Proposed costs were benchmarked against those for similar work in the market place prior to approval of the contract; • The overall contract value is £3,386,640 as stipulated in the original contract; • Value for Money Improvements stipulated within the Contract totalled £4,690,750 and the Value for Money potential identified was £10,342,000; • There were originally 12 streams where potential savings could be achieved, including Repairs Ordering Centre, Market Testing and Rehousing and Voids Team; and • Additional commissioned work evidenced through twelve change request notices amounts to more than £200,000.

Summary of Findings

Project Governance

The Hammersmith and Fulham Homes (HFH) Board approved the Change Management contract in June 2008. All business cases under the Value for Money Programme were also approved by the Board in April 2009. The minutes of the HFH meetings provide evidence that the initial change management programme, including all three main streams – Leaseholder Services, Decent Homes Programme and Value for Money Programme, were approved by the Board and committees set up to monitor progress against each of the streams.

The Contract stipulates that the Value for Money (VFM) Board had overarching responsibility for managing the VFM programme and is the decision making body to which VFM projects are proposed, agreed, reported on and led by. No formal reporting of the programme's progress to a Value for Money Board could be identified. The Programme's progress was reported to the HFH Board until February 2010 and a report on savings was presented in September 2010. There is no evidence of any further updates and there was no stipulation within the contract that progress against the Programme should be reported to the HFH Board.

The HFH Director of Finance had main responsibility for managing the change management programme and approving any additional commissions. The HFH Director of Finance and the HFH Chief Executive had unlimited delegated responsibility for virements within the budget as approved by the HFH Board.

The HFH Director of Property Services was responsible for monitoring progress of the Repairs and Maintenance Value for Money stream against agreed objectives on a monthly basis.

One recommendation has been raised as a result of our work in this area.

Commissioning of Work

Over the period of the contract there is evidence of 12 change request notices in addition to the original contracted sum. All change request notices were approved by the HFH Director of Finance in accordance with his delegated authority. From examination of the documentation available for the twelve change request notices and explanations of the work undertaken, we found that the scope of two of these appears to be similar to services already stipulated under the contract:

- Market Testing for £29,958, included in the original contract specification; and
- Voids Project - £75,000, included as a business case under the value for money.

Further discussions established that the Market Testing work was for a review instructed after it was realised that further savings would be required over and above those specified in the original contract. Additional justification or explanations of the scope of the additional work could not be obtained as the staff responsible for approving these no longer work for the Council. Therefore, it is not clear if this work should have incurred any additional cost.

Furthermore, there is no evidence that costs for additional commissioned work were benchmarked to market prices for similar work.

Two recommendations have been raised as a result of our work in this area.

Contract Monitoring and Reporting

This audit focused on the Repairs and Maintenance Value for Money stream and monitoring of progress against cashable and non-cashable benefits agreed in the business case.

Monthly progress reports were produced and signed off for the Repairs and Maintenance Programme between April 2009 and September 2010. All progress reports between October 2010 and March 2011 were signed off in March 2011, therefore regular and timely monitoring may not have been in place during this period.

From examination of 15 of 24 progress reports, we found that slippage was reported on in a separate section within the report in three cases between April and June 2009. The report format was amended and a separate section for slippages was no longer included in all progress reports examined from July 2010 to March 2011.

The progress made against non-cashable benefits identified in the business case was not clearly described within the content of the progress reports.

Two recommendations have been raised as a result of our work in this area.

Delivery of Benefits

Although the work done by Northgate on the decent homes programme (as opposed to a full review of the decent homes programme) and leaseholder charges was deemed to have delivered the expected benefits as per the report to the Finance and Audit Risk Committee (FARC) in May 2011 based on the available evidence, it is not always clear that the value for money programme delivered the planned benefits as there is no overall report comparing the benefits in the original contract specification to the deliverables.

All 15 progress reports examined for Repairs and Maintenance have orange status for the service improvement plan and this had not been reflected in the payment to the Contractor as the performance related payment mechanism stipulated in the contract was based on cashable benefits only.

The final progress report in March 2011 specifies the following overall achievements:

- Savings have been achieved and embedded;
- Processes have been codified;
- Training on new processes has either been completed or is now scheduled in diaries; and
- The Gas Team, Voids Team, and Senior Technical Team are working well.

The following concerns regarding achievement of KPIs are also identified in the report:

- Customer Satisfaction; and
- Completions to Target.

The reasons for underperformance are identified as mainly due to capability concerns around:

- Technical Officer Team;
- Repairs Performance Manager; and
- Complaints Technical Officer.

Issues identified in this area have been raised under Contract Monitoring and Reporting.

Lessons Learnt

There was no formal lessons learnt process undertaken at the end of the work. The Assistant Director of Finance and Resources presented a summary report to FARC that outlined the main areas of delivery and changes made throughout the contract; however, it was intended that identifying lessons learnt to take forward into future similar projects would be one of the outcomes of this audit work.

One recommendation has been raised as a result of our work in this area.

Acknowledgement

We would like to thank the management and staff of the Housing and Regeneration Department for their time and co-operation during the course of the internal audit.

1. Governance Structure

Priority	Issue	Risk	Recommendation
2	<p>The contract stipulates that the Value for Money Board has an overarching responsibility for the Change Management Programme and is the decision making body to which the Value for Money projects are proposed, agreed, reported on and led by. No formal reporting of the programme's progress to a Value for Money Board could be identified. The Programme's progress was reported to the HFH Board until February 2010 and a report on savings was presented in September 2010.</p> <p>There is no evidence of any further updates and there is no stipulation within the contract defining reporting arrangements to the HFH Board.</p>	<p>Where regular reporting to senior management and board members is not undertaken, there is a risk of weakened contract management and impaired management decision making. This may have an impact on the overall success of the contract.</p>	<p>Contracts should stipulate clearly defined governance structures, including reporting arrangements, at each level of the organisation.</p>

2. Commissioning of Work – Change Request Notices

Priority	Issue	Risk	Recommendation
1	<p>Change request notices for additional work were approved by the HFH Director of Finance or the HFH Director of Housing Services. Based on the documentation available for 12 change request notices examined, two appear to have been included in the original scope:</p> <ul style="list-style-type: none"> • Market Testing for £29,958, included in the original contract specification; and • Voids Project - £75,000, included as a business case under Value for Money. <p>Further discussions established that the market Testing work was for a review instructed after it was realised that further savings would be required over and above those specified in the original contract.</p> <p>Additional justification or explanations of the voids project could not be obtained as the staff responsible no longer work for the Council following the return of the management of the housing stock to the Council. Therefore, it is not clear if this work should have incurred any additional cost.</p>	<p>Where the change request notices are not compared to the original scope of the contract, there is a risk that the work is already included within scope and additional payment is not required. Furthermore, where justification for additional work is not clearly documented, the Council or its subsidiaries may not be able to demonstrate that value for money has been achieved.</p>	<p>Change request notices should be compared to the original scope of the Contract before sign off. Any similarities should be investigated to avoid additional unjustified charges.</p> <p>A full explanation should be documented if the scope appears to be similar to original scope of work.</p>

3. Commissioning of Work – Benchmarking of Costs

Priority	Issue	Risk	Recommendation
2	<p>As reported to the HFH Board in June 2008, NKA's proposed contract costs were benchmarked to similar work to confirm the daily rates provided value for money.</p> <p>There is no evidence that the rates for additional work were benchmarked against similar work within the market to confirm they offered value for money.</p>	Where rates for additional work are not compared to market rates for similar work, there is a risk that value for money will not be achieved.	The rates for additional commissioned work should be benchmarked against similar work to ensure value for money is being achieved. This exercise should be documented.

4. Service Improvement Plan

Priority	Issue	Risk	Recommendation
1	<p>The Repairs and Maintenance cashable and non-cashable benefits were specified in the approved business case. The business case includes both a financial improvement plan (FIP) and a service improvement plan (SIP).</p> <p>Monthly progress meetings signed off by the HFH Director of Property Services identify a RAG status against both SIP and FIP. All 24 progress meetings identify a red or orange status against the service improvement plan.</p> <p>Payments to NKA were based only on cashable benefits and therefore any poor performance with regards to non cashable benefits did not affect the contract payment.</p>	Where the payment structure is based on cashable benefits only, there is a risk that the behaviour of the contractor may be skewed towards delivering cashable benefits at the expense of non cashable benefits.	<p>Payment conditions stipulated in future similar contracts should be based on delivery of both cashable and non cashable benefits.</p> <p>These should be consistently adhered to where poor performance is identified and not appropriately addressed.</p>

5. Contract performance monitoring

Priority	Issue	Risk	Recommendation
2	<p>The monthly progress reports for the Repairs and Maintenance Value for Money stream from October 2010 until March 2011 were all signed off in March 2011.</p> <p>In addition, the progress against non-cashable benefits identified in the business case is not described in any detail within the progress reports.</p>	<p>Where monthly contract monitoring is not undertaken in a timely manner, there is a risk that the contractor is underperforming and this is not identified in time for corrective action to be taken.</p> <p>Where contract monitoring does not include all aspects of the contract there is a risk that poor performance will not be identified and addressed.</p>	<p>Monitoring should be undertaken on a monthly basis unless it is decided this is no longer required. Any decision to amend the frequency of monitoring should be formally agreed.</p> <p>Progress against all benefits should be detailed in progress reports.</p> <p>A governance body responsible for decision making, such as the board, should ensure that this occurs.</p>

6. Lessons Learnt Exercise

Priority	Issue	Risk	Recommendation
1	<p>There is no evidence that an end of project report comparing the benefits in the original contract specification to the deliverables had been prepared or that a lessons learnt exercise had been undertaken (other than a report to the Finance and Risk Committee in May 2011).</p> <p>It should be noted that identifying lessons learnt to take forward into future similar projects was one of the intended outcomes of this audit work.</p>	<p>Where end of project reports and lessons learnt exercises are not completed, there is a risk that any issues encountered may occur again in future contracts and projects.</p>	<p>End of project reviews and lessons learnt exercises should be undertaken for each stream and phase of the programme upon completion.</p>

**Statement of
Responsibility**

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

The matters raised in this report are only those which came to our attention during the course of our internal audit 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 internal audit 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 internal audit 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. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit 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 audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited
London
March 2012

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Final Internal Audit Report 2011/12

London Borough of Hammersmith and Fulham


Debtors

May 2012

This report has been prepared on the basis of the limitations set out on page 14

This report and the work connected therewith are subject to the Terms and Conditions of the Engagement Letter dated 14 April 2011 between London Borough of Hammersmith & Fulham and Deloitte & Touche Public Sector Internal Audit Limited under an arrangement agreed with Croydon Council. The report is confidential and produced solely for the use of London Borough of Hammersmith & Fulham. 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	<p>As part of the 2011/12 Internal Audit Plan, agreed by the Audit Committee on 17 February 2011, we have undertaken an internal audit of Accounts Receivable (Debtors).</p> <p>This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or potential areas of improvement.</p> <p>The agreed objective and scope of our work is set out in the Audit Brief issued on 19 October 2011.</p>
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Audit Opinion & Direction of Travel	None	Limited	Substantial	Full
				

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Legislation Policies and Procedures			0	0	1
Debtor Transactions and Records			0	1	0
Standing Data Amendments			0	1	0
Raising Invoices			0	3	0
Collection			0	0	0
Refunds			1	1	0
Debt Recovery & Enforcement			1	1	0
Management Reporting			0	0	0

Please refer to the attached documents for a definition of the audit opinions, direction of travel, adequacy and effectiveness assessments and recommendation priorities.

Key Findings	Key Statistics
<ul style="list-style-type: none"> • Access rights to amend/add new debtors on OLAS is restricted and has been subject to recent review prior to roll out of the new version of OLAS in January 2012; • From a sample of 20 invoices raised: <ul style="list-style-type: none"> ○ We received no response to our request for evidence of certification and authorisation in three cases; ○ In eight cases the invoices had not been certified as correct; and ○ Eleven had no formal authorisation prior to the invoices being raised. • Income received is identified and matched against BACS reports on a daily basis; • Although reconciliations were undertaken between CEDAR and any feeder / dependent systems these were not certified by the officer undertaking the reconciliation or a second officer as evidence of review; • Monthly debt management reports are generated and presented to the Financial Strategy Board; and • From a sample of ten refunds selected: <ul style="list-style-type: none"> ○ Seven refunds had been processed correctly; ○ Two refunds appeared as 'PAID' on OLAS but payment had not yet been processed; and ○ One of the above refunds had also been authorised by an individual without the appropriate level of authority according to the Scheme of Delegation. • A number of write offs were not formally authorised by an officer with sufficient delegated authority. 	<ul style="list-style-type: none"> • The Sundry Debt Profile of the Council as at August 2011, broken down by the length of time they have been outstanding, is listed below: <ul style="list-style-type: none"> ○ < 1 month - £3,605,515; ○ 1-6 months - £6,844,4442; ○ 6-12 months - £1,448,823; and ○ >12 months - £2,512,395. • The total debt balance of the Council, as at August 2011, (Sundry Debt/Trade Refuse/License ledgers only) was £14,411,175; and • As at September 2011, the value of outstanding debt which was made up of individual debts larger than £10,000 and older than six months was £2.102m. There were 55 outstanding payments making up this amount.

Acknowledgement

We would like to thank the management and staff of the Accounts Receivable Team for their time and co-operation during the course of the internal audit.

1. Review of Income Management Policy

Priority	Issue	Risk	Recommendation	
3	<p>The current version of the Income Management Policy was last updated in April 2010. There is no evidence that it has been reviewed since this date.</p> <p>In addition, there is no document in place outlining the process for setting up or amending the details of a debtor account on OLAS.</p>	Where the Income Management Policy is not reviewed on an annual basis there is a risk that staff may be following incorrect or inappropriate working practices.	<p>The Income Management Policy should be subject to review on an annual basis and updated where applicable.</p> <p>The procedure for setting up or amending the details of a debtor account on OLAS should be documented either in the Income Management Policy or as a separate procedure document.</p> <p>The date of last review should be recorded on the document.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed & Implemented. Income Management Policy Reviewed –April 2012 by Recovery Manager. The Income Management Policy now includes the procedure for amending debtor account details.</p>			Deputy Director of Finance	31/03/2012

2. Reconciliations Between CEDAR & Feeder/Dependent Systems

Priority	Issue	Risk	Recommendation	
2	<p>CEDAR interfaces with the following systems:</p> <ul style="list-style-type: none"> • Fleetmaster; • Abacus (Homecare and Residential Care); • iWorld; and • Powersuite. <p>Examples of reconciliations between the each of the systems and CEDAR was provided however these reconciliations were not certified by the officer undertaking the reconciliation or a second officer as evidence of review.</p>	Where reconciliations between feeder systems and CEDAR are not certified by the officer undertaking the reconciliation and a second officer, accountability is reduced.	<p>Staff undertaking reconciliations between feeder systems and CEDAR should be instructed that all reconciliations should be certified by the officer undertaking the reconciliation and a second officer as evidence of independent review. This may be in hard copy or electronic format.</p> <p>Assurance should be gained that this certification is occurring.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed and Implemented – All reconciliations between feeder systems and Cedar are reconciled on a monthly basis and signed off by the officer producing the reconciliation and the Head of the Financial Systems and Controls team</p>			Systems Accountant	31/03/2012

3. Amendments to Standing Data Subject to Authorisation

Priority	Issue	Risk	Recommendation	
2	It was identified that no authorisation is currently required prior to an officer (with the required access rights) adding a new debtor or making amendments to standing data on the OLAS system.	Where authorisation is not obtained for adding a new debtor or amending details of debtor accounts, there is a risk that inappropriate, inaccurate and/or incomplete information is input into the system, which may impair future recovery action.	Authorisation should be obtained prior to making any amendments to the debtor account standing data on OLAS. This authorisation should be documented.	
Management Response			Responsible Officer	Deadline
Agreed & Implemented: .The Income Management Policy has been updated to reflect the need for authorisation of debtor account changes. The revised policy has been distributed to Heads of Finance.			Deputy Director of Finance	31/03/2012

4. Timeframe for Raising Invoices Processing Refunds

Priority	Issue	Risk	Recommendation	
2	<p>There is currently no target timescale by which an invoice should be raised following the delivery of a service.</p> <p>Furthermore, there is currently no established timescale within which a refund must be processed following its identification.</p>	<p>Where there is no timeline in place, there is a risk that invoices may not be raised promptly, reducing the likelihood that invoices will be collected in full.</p> <p>Where a timeframe is not established for processing a refund, there is a risk that the Council will suffer reputational damage amongst its debtors.</p>	<p>A target timescale should be defined for raising an invoice following the delivery of a service and also for processing refunds owed to debtors.</p> <p>Where existing systems allow, or it is practical to update existing systems, these target timescales should be monitored against.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed & Implemented: The Income Management Policy has been updated with target timescales for raising invoices. Targets for the processing of refunds are included in the Refunds Principles document..</p>			Deputy Director of Finance	31/03/2012

5. Certification and Authorisation of Invoice Request Forms

Priority	Issue	Risk	Recommendation	
2	<p>From a sample of twenty invoices selected for testing:</p> <ul style="list-style-type: none"> • A copy of the invoice request form was not provided in three cases; and • Five did not show evidence of being certified as correct prior to being processed; • Eight did not show evidence of authorisation prior to being processed. <p>It is acknowledged that invoices are certified when being input into the OLAS system; however this is not always undertaken by the officer requesting the invoice.</p>	Where standard invoice request forms are not completed, certified as correct and authorised for each invoice raised there is a risk that incorrect or inappropriate invoices are raised. This may result in deterioration of the relationship between the Council and its debtors and a risk that a distorted view of the Council's debt position is presented.	Staff should be instructed that invoice request forms should be completed for each invoice raised. These forms should be certified as correct by the individual completing them and authorised prior to being raised on OLAS.	
Management Response			Responsible Officer	Deadline
<p>Agreed and Implemented – LBHF already has a AR Invoice request form which has been distributed to officers and is available on the Finance intranet page. Further communications have been sent to Heads of Finance and agreed at FDB to re-emphasise the need to use the template.</p>			Deputy Director of Finance	31/03/2012

6. Retention of Sales Ledger Reports

Priority	Issue	Risk	Recommendation	
2	From a sample of 20 invoices selected for testing, corresponding sales ledger reports where these invoices should have been listed could not be located in nine cases. Evidence of the invoices being checked prior to being issued could therefore not be demonstrated.	Where all sales ledger reports are not retained as evidence that invoices have been checked prior to being issued, there is a risk that errors or anomalies may not be identified and resolved.	Copies of all the sales ledger reports generated listing the invoices due to be issued should be retained by the Recovery Team.	
Management Response			Responsible Officer	Deadline
Agreed & Implemented - . Reports of invoices raised are now received electronically on a daily basis and are checked before invoices are issued by the Civil Debt Recovery Manager.			Civil Debt Recovery Manager	31/01/2012

7. Refund Request Forms

Priority	Issue	Risk	Recommendation	
1	<p>From a sample of ten refunds tested, authorised Refund Request Forms could not be obtained in two cases. We were informed that these two appeared as 'Paid' on OLAS but payment had not been made to the debtor. These refunds were for £559.61 and £2,745.58.</p> <p>OLAS is currently updated as "Paid" when the refund request form is sent to the Payments team and there is no mechanism to notify the Recovery Team once a refund has been paid.</p>	<p>Where Refund Request Forms are not completed and retained for each refund processed, there is a risk that accountability cannot be assigned. This may also make it more difficult to investigate any refunds made in error.</p> <p>Where refunds are recorded as 'Paid' on OLAS prior to payment being made, there is a risk that unpaid refunds may not be identified. This may result in both poor relations with customers and the Council's financial records being distorted.</p>	<p>A Refund Request Form should be completed and retained for all refunds to be processed.</p> <p>Notification should be sent to the Recovery Team once the refund payment has been processed. All refunds should remain outstanding on the AR system as per OLAS until payment has been made.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed and Implemented – Refund Request Forms are retained by the Recovery team, and e-mail notification is now sent by the Payments team to the requestor once a refund is processed. Other teams which regularly make refunds have also been reminded of the need to complete and retain the Refund Request Form.</p>			Systems Accountant & Civil Debt Recovery Manager	29/02/2012

8. Authorisation of Refunds & Write-Offs in line with Scheme of Delegation

Priority	Issue	Risk	Recommendation	
1	<p>From a sample of ten refunds tested, one case was identified where a refund was authorised by an officer that was above his financial limit according to the Council's Scheme of Delegation (£6521.69 against a limit of £5,000).</p> <p>From a sample of 20 write-offs selected for testing, six had been approved by an officer in excess of their level authority of £5,000. Namely:</p> <ul style="list-style-type: none"> • £5,740.71 - Inv. 642602; • £8,324.21 - Inv. 649066; • £14,076.00 - Inv. 649068; • £36,480.00 - Inv. 649065; • £6,932.82 - Inv. 642592; and • £6932.82 - Inv. 642594. <p>Discussions established that agreement to write these sums off was given by the Deputy Director of Finance; however this was not documented.</p>	Where refunds and write offs are not approved in line with the Council's Scheme of Delegation, there is a risk that staff are making decisions that are outside their delegated authority.	All write offs and refunds should be approved by an officer with the appropriate level of financial authorisation as per the Council's Scheme of Delegation.	
Management Response			Responsible Officer	Deadline
<p>Agreed and Implemented – No write offs and refunds are processed unless authorisation is in line with the Scheme of Delegation. A summary note of Scheme of Delegation levels has been sent to those who are regularly involved in the authorisation and processing of refunds and write-offs, to remind them of limits.</p>			Civil Debt Recovery Manager	31/01/2012

9. Follow-Up Action Taken on All Invoices with 'Stopped Recovery Action'

Priority	Issue	Risk	Recommendation	
2	From a sample of ten invoices with 'stopped recovery action' assigned to them, evidence of the follow-up action taken could not be identified in three cases.	Where action taken against stopped invoices is not recorded there is a risk that no action has been taken, action may be duplicated, or that other officers may not be able to resolve queries in the event of staff absence.	Staff should be reminded to record any follow up action taken for all invoices with 'stopped recovery action' assigned to them.	
Management Response			Responsible Officer	Deadline
<u>Agreed & Implemented</u> . – All staff in Recovery Team have been reminded of the need to record all actions on an account and what action has taken place.			Civil Debt Recovery Manager	31/01/2012

10. Scheme of Delegation

Priority	Issue	Risk	Recommendation	
2	The Scheme of Delegation provided during the course of the audit did not define responsible officers for processing refunds above £5,000 other than in relation to Housing Benefit refunds.	Where the Scheme of Delegation does not define delegated authority for approval of all refunds, there is a risk that unauthorised individuals continue to approve refunds and write-offs which may be above their financial limit.	The Scheme of Delegation should be updated to identify the authorised individual permitted to approve refunds above £5,000 (not related to Housing Benefits).	
Management Response			Responsible Officer	Deadline
Agreed & Implemented: The Scheme of Delegation has been updated to identify those permitted to approve refunds over £5,000.			Deputy Director of Finance	31/03/2012

Statement of Responsibility

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Deloitte & Touche Public Sector Internal Audit Limited

London

May 2012

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Final Internal Audit Report 2011/12

London Borough of Hammersmith and Fulham HFBP Inventory Management March 2012

This report has been prepared on the basis of the limitations set out on page 12

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Introduction


As part of the 2011/12 Internal Audit Plan, agreed by the Audit and Pensions Committee on 17 February 2011 and as requested by the Assistant Director Procurement (Corporate Services) we have undertaken an internal audit of HFBP Inventory Management.

This report sets out our findings from the work and, where practical, raises recommendations to address areas of control weakness and / or potential areas of improvement.

The additional sample testing for 2010/11 was selected for the purposes of confirming whether items were classified as growth or replacement items in the 2010/11 annual calculations. We acknowledge that some of the current procedures were not in place in 2010/11 and have recognised the changes in procedures within the body of the report. It should also be noted that the growth calculation process could not be determined during the audit as the individual responsible for 2010/11 calculations had moved to a different team within Agilysis.

The agreed objective and scope of our work is set out in the Audit Brief issued on 07 November 2011.

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Audit Opinion & Direction of Travel	None	Limited	Substantial	Full
				

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Policies and Procedures			1	1	0
Requests			0	0	0
Inventory Records			0	1	0
Acquisitions and Disposals			0	2	0
Redeployment	*		0	0	0
Key Programmes Targets			1	0	0
Monitoring			0	2	0

*Weaknesses in this area are included under the Acquisitions and Disposals area.

Please refer to the attached documents for a definition of the audit opinions, direction of travel, adequacy and effectiveness assessments and recommendation priorities.

Key Findings	Key Statistics
<ul style="list-style-type: none"> • Although separate procedure documents such as a fit for purpose definition and asset lifecycle diagrams are in place, the set of procedures is not extended to describe the inventory management process for growth and replacement items as well as the level of detail required to be documented within the Magic system; • The procedure for calculating the growth of desktop inventory at Hammersmith and Fulham Bridge Partnership (HFBP) could not be established as the individual who was responsible for the 2010/11 calculation has moved to another division; • From the annual growth calculation provided to the Council, we identified one order that may have been misclassified as a replacement item; however, we were unable to establish formal criteria for determining whether an item should be classed as a growth or replacement item; • From examination of twenty acquisitions and twenty disposals (ten in 2010/11 and ten in 2011/12 each) we identified a number of exceptions that are detailed in the summary of findings and recommendations; • The rationale for purchasing an item instead of using an existing fit for purpose item are not clearly documented within the Magic system; • There is no formal mechanism established to link the inventory records to key Council programmes. However, we were informed that this information is available through the Project Managers; • A Work Package Request (WPR) was raised in January 2011 requesting improved reporting on inventory management. This had not been actioned as at February 2012; and • The Contract Monitoring Office receives inventory reports monthly and growth figures annually. They scrutinise the growth figures only on an annual basis leading to delays in resolution of discrepancies. 	<ul style="list-style-type: none"> • The Magic system is used to record all inventory items and produce management reports; • HFBP provide monthly information on the desktop inventory estate movements to the Contract Monitoring Office (CMO); • The desktop inventory consists of 'thin client' Standard PCs, Power PCs, laptops or notebooks, Blackberry PDA's, digital cameras, printers, scanners, and other miscellaneous items. The data submitted in June 2011 shows that the total asset portfolio is 6000 items; and • The growth target is calculated by HFBP Business Office on an annual basis. The 2010/11 movement reported by HFBP indicates that there was a net growth of over £100k in the estate.

Summary Findings**of Policies and Procedures**

Separate procedure documents including Fit for Purpose Definitions and Inventory Life Cycle Requirements have been developed; however, this set of procedures is not extended to describe the inventory management process for growth and replacement items as well as the level of required detail to be documented within the Magic system. Furthermore, we were unable to establish formal criteria for determining whether an item should be classed as a growth or replacement item as the individual undertaking the calculation within HFBP Business Office in 2010/11 had moved division.

We have raised two recommendations as a result of our work in this area.

Requests

Work package requests (WPRs) are required for all additions to the inventory and provide evidence of client approval. WPRs are raised through the Magic system which records the officers raising and approving WPRs. HFBP also maintain a list of valid requesters and approvers which was introduced in 2011/12. We were informed that prior to this HFBP were informed that any officer could request equipment such as laptops or Blackberries as part of the Smartworking Programme.

We have not raised any recommendations as a result of our work in this area.

Inventory Records

Inventory records are maintained on the Magic system. Items are set to 'active' and 'inactive' when they are purchased and disposed off respectively. From a sample of ten 2010/11 acquisitions and ten disposals tested, all nine relevant acquisitions and all eight relevant disposals were updated promptly within the monthly inventory records provided to the Council.

A stock of fit for purpose equipment is maintained. The monthly reports sent to the Council include stock figures and the number of items in stock can be checked at any point in time. However, it is not possible to establish retrospectively whether a fit for purpose item was available in stores at any point in time.

We have raised one recommendation as a result of our work in this area.

Acquisitions and Disposals

Technical Officers are responsible for making the decision whether new acquisition or replacement equipment is required to satisfy the client needs specified in the Work Package Request (WPR). We were informed that Technical Officers or Project Managers will check if suitable fit for purpose equipment is available prior to purchasing new equipment. Evidence of this check is not available on the Magic system.

Decommissions (or disposals) usually arise from a fault being reported or identified after an office move. An incident is raised through the Magic system and can be raised by anyone within the Council. The technical officers are responsible for assessing whether the item should be repaired or replaced with a new item. There are formal definitions of the specification for standard PCs, Power PCs and Laptops/Tablets that can be classified as fit for purpose. Items below these specifications should be replaced with a higher specification. Evidence of the fault with the device should be recorded on the Magic system.

From testing of twenty items decommissioned over two years, we identified the following:

- Five 2011/12 decommissions did not have reasons for decommission recorded on the Magic system (4001102, 1010402, 4001975, 4001196 and 4002090); We were informed that the incident record includes information on how the incident was resolved but this is not linked to the inventory record;
- One 2010/11 item tested (4007962-DUP) was added in error and then decommissioned on the same day. We could not determine whether this resulted in a charge to the Council;
- Two 2010/11 decommissions tested (4003339 and 3001436) did not have reasons for replacement on the Magic System. These are in the same period as the laptop encryption programme and could have formed part of this programme; and
- One item (4007557) was purchased for 'stores' but then later sold to Agilysis. We were unable to determine whether the Council was charged for this.

We have raised two recommendations as a result of our work in this area.

Redeployment

As described above, HFBP maintain a fit for purpose (FFP) stock of assets that are available for deployment across the Council.

Although the monthly reports sent to the Council includes stock figures and the number of items in stock can be checked at any point in time, it is not possible to check retrospectively what items were available at the time the purchase decisions were made.

The decision making process for whether to use items from FFP stock or purchase new items was not documented in the twenty acquisition cases tested (ten in 2010/11 and ten in 2011/12), We were informed that the Technical Officers are responsible for taking the decisions to acquire, replace or dispose of an item.

Weaknesses identified in this area are raised under the recommendations within the Acquisitions and Disposals Area.

Key Programmes Targets

There is currently no mechanism to link the Council's key programmes and projects to changes in inventory. From our testing of acquisitions, we identified that the comments within the Magic system include details of the programmes and we were informed that the Project Managers have access to the information and this can be provided upon request.

We have raised one recommendation as a result of our work in this area.

Monitoring

Monthly reports including items by type and by Department and number of items within stores are produced and sent to the Contract Monitoring Office. Annual growth figures are calculated and sent to the Contract Monitoring Office for approval. Variances are investigated and followed up through requests from departments for verification of figures. The growth figures were still being agreed at the time of the audit.

The Council had requested the reporting format to be improved via WPR 44270 in January 2011. At the time of the audit this had not yet been actioned.
We have raised two recommendations as a result of our work in this area.

Acknowledgement

We would like to thank the management and staff of the Hammersmith and Fulham Bridge Partnership (HFBP) and the Contract Monitoring Office (CMO) for their time and co-operation during the course of the internal audit.

1. Policies and Procedures

Priority	Issue	Risk	Recommendation	
2	Although guidance notes and protocols including fit for purpose definitions and asset lifecycle diagrams have been developed, the procedures do not include the process for the calculation of growth and replacement items or the level of detail required to be documented in the Magic system.	Where policies and procedures are not in place for all key tasks, there is an increased risk that inconsistent working practices may develop leading to discrepancies in the inventory management records.	Inventory Management procedures should be extended to include processes for calculating growth and replacement items and the level of expected documentation within the system. Procedures should be agreed by both HFBP and the Council and communicated to relevant staff.	
Management Response			Responsible Officer	Deadline
Agreed.			Senior Finance & Contract Monitoring Officer (LBHF) and Business Office Manager (HFBP)	31/03/2012

2. Policies and Procedures - Classifying Growth Items and Replacement Items

Priority	Issue	Risk	Recommendation	
1	<p>We were unable to identify formal criteria for determining whether items should be classed as a growth or replacement as the individual undertaking the calculation within HFBP Business Office in 2010/11 had moved division.</p> <p>For example, where items are replaced with equipment of a higher specification it is not clear if these should be classified as growth or replacement.</p>	<p>Where criteria for classifying growth and replacement items are not formally defined and agreed, there is an increased risk that the calculations of growth may be inaccurate leading to inaccurate charges to the Council.</p>	<p>A set of criteria to classify growth items and replacement items should be formally agreed, documented and made available to relevant staff and any new staff.</p> <p>The criteria should apply to the treatment of items at the overall level of inventory and at each category level in determining any changes to the charging model.</p>	
Management Response			Responsible Officer	Deadline
Agreed.			Senior Finance & Contract Monitoring Officer (LBHF) and Business Office Manager (HFBP)	31/03/2012

3. Inventory Records - Stock

Priority	Issue	Risk	Recommendation
2	<p>HFBP maintain a fit for purpose (FFP) stock of assets that are available for deployment across the Council.</p> <p>Although the monthly reports sent to the Council includes stock figures and the number of items in stock can be checked at any point in time, it is not possible to check retrospectively what items were available at the time the purchase decisions were made.</p> <p>The decision making process for whether to use items from FFP stock or purchase new items was not documented in the twenty acquisition cases tested (ten in 2010/11 and ten in 2011/12), We were informed that the Technical Officers are responsible for taking the decisions to acquire, replace or dispose of an item.</p>	<p>Where movements into and out of stock are not documented and the decision on whether to use existing stock or purchase new items is not documented, there is an increased risk that HFBP may not be able to justify the purchase of new equipment.</p>	<p>A transparent process should be in place for determining the decision making points when a recommendation is made to purchase new equipment. The process should include a link to the fit for purpose stock available at the time of the decision being made.</p> <p>A note indicating that fit for purpose equipment was not in stores at the time of purchase should be recorded within the Magic system for every item purchased.</p>
Management Response			Responsible Officer
Agreed.			<p>Senior Finance & Contract Monitoring Officer (LBHF), Business Office Manager (HFBP) and Field Engineering Manager (HFBP).</p>
			Deadline
			31/03/2012

4. Acquisitions and Disposals - Justification of Decommissions

Priority	Issue	Risk	Recommendation	
2	<p>From examination of twenty disposals (ten in 2010/11 and ten in 2011/12), we identified the following:</p> <ul style="list-style-type: none"> Five 2011/12 decommissions tested did not have a reason for decommission recorded on the Magic system (4001102, 1010402, 4001975, 4001196, and 4002090); and Two 2010/11 decommissions tested (4003339 and 3001436) did not have reasons for decommissioning on the Magic System. These occurred in the same period as the laptop encryption programme and therefore may have formed part of this programme. <p>We were informed that the information on volume and reasons for decommissions is not provided as part of the monthly report.</p>	Where the reason for decommissioning items is not documented on the system, there is an increased risk that the decision to dispose of items instead of retaining them as FFP stock cannot be justified.	<p>The process for decommissioning decisions should be formalised.</p> <p>Reasons for decommissioning items should be recorded on the Magic system in all cases.</p> <p>Decommissions should be subject to periodic spot checks to gain assurance that valid reasons are being recorded.</p> <p>The information on volume for decommissions and reasons for decommissioning items should be provided to the Council within the monthly reports.</p>	
Management Response			Responsible Officer	Deadline
Agreed.			Senior Finance & Contract Monitoring Officer (LBHF), Business Office Manager (HFBP) and Field Engineering Manager (HFBP).	31/03/2012 for formalising the process 01/05/2012 for providing the information within the monthly report

5. Acquisitions and Disposals - Treatment of Decommissions

Priority	Issue	Risk	Recommendation	
2	<p>From examination of twenty disposals (ten in 2010/11 and ten in 2011/12), we identified the following:</p> <ul style="list-style-type: none"> One of ten items tested in 2010/11 (4007962-DUP) was added in error and then decommissioned on the same day; and One item (4007557) was purchased for 'stores' but then later sold to Agyisis. <p>We could not determine whether these cases resulted in a charge to the Council.</p>	Where the reasons for decommissioning items are not documented and it is not clear if these should result in a charge to the Council, there is an increased risk that the Council may be incorrectly charged.	<p>The Council should investigate the transactions noted and confirm if they have been correctly treated.</p> <p>Where these items were treated incorrectly, the financial impact of this should be determined and corrected.</p>	
Management Response			Responsible Officer	Deadline
Agreed. HFBP have stated that this would not result in a growth to the Council because it does not affect the overall desktop inventory figures. Evidence is to be provided to the Contract Monitoring Office.			Senior Finance & Contract Monitoring Officer (LBHF)	31/03/2012

6. Key Programme Targets - Tracking

Priority	Issue	Risk	Recommendation	
1	<p>The inventory records do not include a reference to enable reporting on key programmes.</p> <p>We were informed that the information on change requests can be provided by the HFBP Project Managers separately if required; however there is no clear evidence that the inventory records are linked to key programmes as part of the standard monthly report provided to the Council.</p>	Where the inventory records do not enable reporting on IT aspects related to key programmes, there is an increased risk that the required benefits from the programmes are not achieved and this is not identified.	<p>A mechanism should be implemented to allow tracking of changes to inventory arising from Council projects and programmes. If requested by the Council, HFBP should be able to record and report on the impact that specified projects or programmes may have on the number of desktop items deployed, returned to stores or decommissioned. The Council should agree with HFBP on the project documentation required to demonstrate this. This may form part of project closure reports or end of phase reports.</p> <p>An example of this would be the review and validation needed when checking the independently collated figures of desktop equipment returned and decommissioned in 2010/11 as a result of the Smartworking programme.</p>	
Management Response			Responsible Officer	Deadline
Agreed.			Senior Finance & Contract Monitoring Officer (LBHF) and Business Office Manager (HFBP)	31/05/2012

7. Monitoring - Reporting of Growth Figures

Priority	Issue	Risk	Recommendation	
2	The growth figures report is provided to the CMO on an annual basis. This results in delays in resolving discrepancies, determining an accurate growth figure and settling the final bill.	Where regular monitoring of growth figures is not undertaken, there is an increased risk that the discrepancies are not identified and addressed promptly. This may lead to increased resources being required to correct errors at a later date and delays in agreeing the final bill.	Monitoring and validation of growth figures should be undertaken on a monthly basis.	
Management Response			Responsible Officer	Deadline
Agreed.			Senior Finance & Contract Monitoring Officer (LBHF), Business Office Manager (HFBP) and Field Engineering Manager (HFBP).	01/05/2012

8. Monitoring - Reporting

Priority	Issue	Risk	Recommendation	
2	A WPR 44270 was raised in January 2011 after the Council identified the need for improved inventory reporting. As at February 2012, this WPR had not been actioned.	Where the content of the inventory management reports is not aligned with Council requirements, there is an increased risk that relevant, reliable and accurate information is not available for effective decision making.	The content of the monthly reports provided to the Council should be agreed based on WPR 44270.	
Management Response			Responsible Officer	Deadline
Agreed. HFBP are waiting for the outcomes of the audit before agreeing on the content of the required reporting going forward. The first report including the recommendation will be provided to the Council on 01/05/2012.			Senior Finance & Contract Monitoring Officer (LBHF) and Business Office Manager (HFBP)	01/05/2012

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