

Audit, Pensions and Standards Committee

Agenda

Wednesday 17 June 2015

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration:	Opposition	Co-optees
Councillor Iain Cassidy (Chair) Councillor Ben Coleman Councillor Adam Connell Councillor PJ Murphy Councillor Guy Vincent	Councillor Michael Adam Councillor Nicholas Botterill Councillor Mark Loveday Councillor Donald Johnson	

CONTACT OFFICER:

David Abbott
Committee Co-ordinator
Governance and Scrutiny
☎: 020 8753 2063
E-mail: david.abbott@lbhf.gov.uk

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: 09 June 2015

Audit, Pensions and Standards Committee Agenda

17 June 2015

<u>Item</u>	<u>Pages</u>
1. MINUTES OF THE PREVIOUS MEETING	1 - 7
<p>(a) To approve as an accurate record, and the Chair to sign, the minutes of the meeting held on 11 February 2015.</p> <p>(b) To note the outstanding actions.</p>	
2. APOLOGIES FOR ABSENCE	
3. DECLARATIONS OF INTEREST	
<p>If a Committee member has any prejudicial or personal interest in a particular item they should declare the existence and nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.</p> <p>At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a prejudicial interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken unless a dispensation has been obtained from the Standards Committee.</p> <p>Where Members of the public are not allowed to be in attendance, then the Councillor with a prejudicial interest should withdraw from the meeting whilst the matter is under consideration unless the disability has been removed by the Standards Committee.</p>	
4. APPOINTMENT OF VICE CHAIR	
<p>The Committee is asked to elect a Vice Chair from its membership for the 2015/16 Municipal year.</p>	
5. EXTERNAL AUDIT PLAN	8 - 40
<p>This report presents the plan of the Council's external auditor, KPMG, for the audit of the 2014-15 Statement of Accounts.</p>	
6. TREASURY REPORT 2014/15 OUTTURN	41 - 45
<p>This report presents the Council's Outturn Treasury Report for 2014/15 in accordance with the Council's treasury management practices.</p>	
7. INTERNAL AUDIT CHARTER AND STRATEGY	46 - 54
<p>This report provides an updated version of the Internal Audit Charter and Strategy.</p>	

- 8. INTERNAL AUDIT QUARTERLY REPORT** 55 - 81
- This report summarises internal audit activity during the period 1 January 2015 - 31 March 2015 and reports on the performance of the Internal Audit service.
- 9. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2014/15** 82 - 108
- This report is a summary of all audit work undertaken during the 2014/15 financial year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management.
- 10. CHILDREN'S SERVICES INTERNAL AUDIT UPDATE**
- 11. CHILDREN'S SERVICES RISK REGISTER**
- 12. RISK MANAGEMENT** 109 - 123
- This report details amendments to the Accounts and Audit Regulations 2015 that concern risk management.
- 13. DATES OF FUTURE MEETINGS**
- Future meetings of this Committee for the 2015/16 Municipal Year are scheduled for:
- 15 September 2015
 - 14 December 2015
 - 22 March 2016
- 14. EXCLUSION OF THE PUBLIC AND PRESS**
- The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraphs 3 and 7 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.
- 15. EXEMPT - CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT**
- This report provides an account of anti-fraud related activity undertaken during the financial year 1 April 2014 to 31 March 2015.
- 16. EXEMPT - LIMITED ASSURANCE INTERNAL AUDIT REPORTS**
- This report lists all limited and nil assurance audit reports issued during the period 1 January to 31 March 2015.
- 17. EXEMPT - INTERNAL AUDIT BRIEFING NOTE - MANAGED SERVICES PROGRAMME**
- This report identifies the Internal Audit coverage of the Managed Services Programme.

Agenda Item 1

London Borough of Hammersmith & Fulham



Audit, Pensions and Standards Committee Minutes

Wednesday 11 February 2015

PRESENT

Committee members: Councillors Michael Adam, PJ Murphy, Iain Cassidy (Chair), Guy Vincent, Adam Connell, Ben Coleman, Nicholas Botterill, Mark Loveday and Donald Johnson

Officers: Toni Camp (Adult Social Care, Planning & Service Improvement & Project Manager); Geoff Drake (Senior Audit Manager); Jonathan Hunt (Tri-Borough Director of Pensions & Treasury); Hitesh Jolapara (Bi-Borough Director of Finance); Ullash Karia (Head of Leisure); Moyra McGarvey (Tri-Borough Director of Audit, Fraud, Risk and Insurance); Poonam Patel (Committee Coordinator); Mike Potter (Interim Tri-Borough Director for Adult Social Care Procurement & Business Intelligence); Mahmood Siddiqi (Bi-Borough Director for Transportation & Highways); Ian Ross (Leisure Services Manager); Sherifah Scott (Tri-Borough Head of Procurement and Contracting Adult Social Care); Michael Sloniowski (Bi-Borough Risk manager); Jane West (Executive Director of Finance & Corporate Governance).

90. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 2nd December 2014 were agreed as a correct record and signed by the chair.

91. APOLOGIES FOR ABSENCE

There were no apologies for absence.

92. DECLARATIONS OF INTEREST

Councillor Vincent, declared that he was a School Governor for Woodlane High School.

93. RISK MANAGEMENT HIGHLIGHT REPORT

Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

Michael Sloniowski (Bi-Borough Risk Manager), introduced the report. The first phase in the Risk Management Framework was evidence based and the Tri-borough Corporate Services Risk Register was featured in Appendix 2 of the report. In response to the Committee's query around the applied methodologies for each of the boroughs, Michael Sloniowski confirmed that the H&F framework and approach was more strategically divergent than RBK&C and WCC. The Committee noted that H&F increased the amount of training and awareness to maintain business continuity and Health & Safety.

Michael Sloniowski also confirmed that the Risk Register was based on quarterly reports from departments which enabled all the data to be realistic. All departments and more specifically, the Adult Social Care division took their risk management very seriously. Jane West (Executive Director of Finance and Corporate Governance) assured the Committee that the Risk Management Framework played a serious role in the organisation and that there were a number of Risk Registers actively managed within the organisation. It was noted that the Hammersmith and Fulham Business Board received the high risk registers to review and question, whereas the Cabinet would receive comments on the risks.

The Committee drew the officer's attention to page 27 of the report, as it was felt that reference 11 had not been thought through, as the text had not presented any context. In response Michael Sloniowski, accepted the observation and highlighted that this was a constant challenge in preparing the registers. The Committee noted that they could gain more context if Service Departments attended the Committee meetings and presented their Risk Management arrangements. Additionally, they could also provide the Policy Accountability Committee Chairs their respective risk registers for review.

The Committee discussed at length the purpose and value in receiving the register and that the comparative differences in the commercial and non-commercial industries. The Committee noted that all future H&F registers would include the relevant context to justify the recommendations. The Committee also noted that although the register was prepared under the CIPFA (The Chartered Institute of Public and Accounting) best practice, it could be prepared and presented in a different format. There was also scope for highlighting, explicitly the mitigating factors within the audit remit in the register. In response, Jane West agreed to feedback the Committee's request to the Hammersmith and Fulham Business Board for further discussion.

ACTION: (Executive Director of Finance and Corporate Governance)

RESOLVED –

THAT the quarterly review of risks faced by the Council be noted subjected to the actions listed in the discussion be met.

94. ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT

Geoff Drake (Senior Audit Manager) introduced the report. The Committee drew the Geoff's attention to pages 71 and 72 in Appendix B of the report and requested a similar presentation be used to report the 'Progress To Date'.

ACTION: (Senior Audit Manager)

RESOLVED –

THAT the report be noted.

95. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 OCTOBER TO 31 DECEMBER 2014

Geoff Drake (Senior Audit Manager) introduced the report and referred to paragraph 5.1 of the report. It was noted from paragraph 5.1.3.2, that the Home Meal and Frozen Food Delivery Service contract management made 1 high recommendation, not 2, as cited in the report. Appendix C of the report presented a summary of each of the limited assurance reports. Geoff Drake and service managers then took questions from the Committee on the audit reports.

Cemeteries and Bereavement Service

The Committee referred to the background report and recalled an unfortunate case in RBK&C. The Committee then sought assurances that the Cemeteries and Bereavement Services delivered in H&F followed stringent procedures to avoid bad practice and service. By combining any ad-hoc lessons learnt from the Bi-Borough arrangement and was integrating them with the specifications of the contracted service. In response, Karia Ullash (Head of Leisure) assured the Committee that all procedures were regularly reviewed to meet the severity and sensitivity of their customers.

The Committee asked if the audit looked at the service departments procedures to prevent such a case occurring for H&F. In response, Geoff Drake referred members to the detailed recommendations in the audit report and advised that the audit could not guarantee that such an event could not occur.

The Committee further questioned the current finance management systems in place to prevent fraud and error, as the report identified that one officer was receiving, recording and banking income. In response, Geoff Drake assured the Committee that this was seen as a weakness which was why the recommendation was raised. The recommendation required introducing segregation of duties and further to introduce reconciliations.

The Committee also raised concerns about the recommendation relating to Health and Safety action plans not being timely acted upon. In particular, electrical checks could have significant implications. Karia Ullash confirmed that the electrical check undertaken on 6th February 2014 was in a separate office from the crematorium. The Committee acknowledged from the background report that the KPIs targets were met.

Melcombe Primary School

The Committee requested confirmation of the audit assurance provided for the last audit previously undertaken on the School.

ACTION: (Senior Audit Manager)

The Committee noted that a copy of the H&F Final Internal Audit Report for the school would be sent to the School, the Governors and Children Services. The respective management teams would challenge the outcomes accordingly. Geoff explained that the Audit process involved reviewing the systems in place, hold discussions with the accountable managers and a series of recommendations would be identified. For limited assurance reports such as this a follow-up audit would be undertaken.

Home Meals and Frozen Food Delivery Service

The Committee referred to the background report and raised serious concerns about the results of the KPIs. In response, Mike Potter (Interim Director for Adult Social Care Procurement & Business Intelligence) and Sherifah Scott (Head of Procurement and Contracting) assured the Committee that remedial action had been undertaken to rectify the failings in contract management. For instance, checking that drivers had a clean licence to being DBS certified.

The Committee asked that in future audits of contracts/contract management, where action was required to address failures or poor performance of contractors, Internal Audit should, in all cases consider including a recommendation that allows compensation to be sought from the contractor(s). Geoff Drake agreed that this would be considered in going forward.

The Committee noted that the risk impacts identified against the report recommendations, invariably reflected on the reputation of the authority. Therefore the Committee asked for all future audit recommendations to include the risk management impact on service users where they exist. Geoff Drake agreed that this would also be included in going forward.

ACTION: (Senior Audit Manager)

The Committee recommended that all future contracts should include clauses that allow compensation to be claimed as a standard requirement. As it was essential to deliver effective contract management to support the process in achieving a high level of service delivery. Geoff Drake advised that this could be included in the scope of the planned audit of procurement that the committee had already asked to have input into.

The Committee identified two areas of immediate attention in going forward, firstly, address the contract management standards and secondly, apply strict penalties where service delivery is underperforming. The Committee then recommended that Legal Contract Officers should be involved in establishing contract terms and conditions and in applying penalties to best protect the authority and the service user. It was noted that the Committee understood that there was an audit planned for procurement, which presented them with an opportunity to consider these specific areas of improvement. The committee noted that the amendments to the procedures would be made to integrate a legal role to the current check-list for

Service Managers. Jane West (Executive Director of Finance and Corporate Governance) agreed that this would be rolled out from April 2015.

ACTION: (Jane West, Executive Director of Finance)

ICPs Parking System Application

The Committee requested to receive a paper detailing the responsibilities of the contractors delivering the information system.

ACTION: (Bi-Borough Director for Transport & Highways)

The Committee noted from page 81, Appendix B, of the report that the audit of Corporate Procurement Including E-Procurement was deferred. This was due to a delay around the decision-making process in establishing a Tri-Borough service. It was noted that the Committee would like the opportunity to have an input into the audit scope before the audit commences.

In response to the outstanding recommendations listed on page 88 of the report (references 1 – 3), the Committee requested to receive a confirmation email from the department within seven working days confirming why the recommendations were still outstanding. What action was being taken to implement the recommendations and when they would be implemented. It was noted that if the Committee did not receive this, the accountable officers' should be invited to the next meeting to discuss the matter further.

ACTION: (Senior Audit Manager)

RESOLVED –

THAT the report be noted subjected to the actions listed in the discussion be met.

96. TREASURY MANAGEMENT STRATEGY REPORT 2015/16

Jonathan Hunt (Tri-Borough Director for Pensions & Treasury) introduced the report by confirming that the report had been to the Finance & Delivery Policy Accountability Committee and went to the H&F Officer Briefing Board on 2nd February 2015 and would be going to Council on 25th February 2015.

The Committee discussed at length the annual investment strategy for 2015/16 and the proposed changes from the 2014/15 Treasury Management Strategy as set out on page 100, paragraph 6.8 of the report. The Committee agreed that the Maximum Individual Counterparty Investment limit against Network Rail be change from 'Unlimited' to £200m.

ACTION: (Tri-Borough Director for Pensions & Treasury)

RESOLVED –

- (i) THAT the Council approve:
- (ii) THAT the future borrowing and investment strategies as outlined in the report be amended to ensure that Network Rail Maximum Individual Counterparty Investment limit be changed from 'Unlimited' to £200m and the Executive Director of Finance and Corporate Governance be authorised to arrange the Council's cash flow, borrowing and investments in 2015/16.
- (iii) THAT in relation to the Council's overall borrowing for the financial year, the comments and Prudential Indicators as set out in the report and the four year capital programme 2015/16 to 2018/19 be noted.
- (iv) THAT the approval was given to pay the Housing Revenue Account (HRA) investment income on unapplied HRA receipts and other HRA cash balances calculated at the average rate of interest (approximately 0.8% p.a.) earned on temporary investments with effect from 1 April 2014.

97. GRANTS REPORT 2013/14

Hitesh Jolapara (Bi-Borough Director of Finance) introduced the report. The Committee noted from page 117, Appendix 1 of the report that the one error identified by KPMG was valued at £4,383. The Housing benefit subsidy claim was reduced by this amount due to the tax credit entitlement was incorrectly applied.

RESOLVED –

THAT the report be noted.

98. INTERNAL AUDIT ANNUAL PLANS 2015/16 YEAR

Geoff Drake (Senior Audit Manager) introduced the report and referred to the draft plan for 2015/16 in Appendix B. The Committee asked if it was possible for the committee to have an input into the procurement audit scope. In response, Geoff Drake confirmed that as the procurement audit was timetabled for quarter 1 (April to June 2015) it could not be brought to the next committee meeting, however the draft audit scope could be circulated to Committee members for comment.

ACTION: (Senior Audit Manager)

The Committee acknowledged that although the London Waste Authority was a separate organisation and an existing business partner for H&F, it was considered essential to identify their 'fit for purpose' capability.


RESOLVED –

THAT the report be noted.

Meeting started: 7.00 pm
Meeting ended: 9.17 pm

Chairman

Contact officer: Poonam Patel
Committee Co-ordinator
Governance and Scrutiny
☎: 020 8753 2088
E-mail: poonam.patel@lbhf.gov.uk

	London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 17 June 2015
EXTERNAL AUDIT PLAN 2014/15	
Report of the Director for Finance	
Open Report	
Classification - For Information	
Key Decision: - No	
Wards Affected: All	
Accountable Director: Hitesh Jolapara, Director for Finance	
Report Author: Christopher Harris, Head of Corporate Accountancy and Capital	Contact Details: Tel: 020 8753 6440 christopher.harris@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. The Council's external auditor, KPMG, have provided their plan for the audit of the 2014-15 Statement of Accounts. The plan (attached at Appendix 1) describes how the auditor will deliver the financial statements audit work and also sets out their approach to value for money work for 2014/15. The audit will substantially take place during July and August 2015 and the final accounts will be presented to the Committee in September.

2. RECOMMENDATIONS

- 2.1. To note the 2014/15 Audit Plan as put forward by KPMG.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None.	N/A	N/A

LIST OF APPENDICES:

Appendix 1 – KPMG External Audit Plan 2014/15



cutting through complexity

Page 10

External Audit Plan 2014/15

London Borough of
Hammersmith and Fulham
and Hammersmith and
Fulham Pension Fund

March 2015

The contacts at KPMG in connection with this report are:

Andrew Sayers

Partner

KPMG LLP (UK)

Tel: +44 207 694 8981

andrew.sayers@kpmg.co.uk

Sally-Anne Eldridge

Senior Manager

KPMG LLP (UK)

Tel: +44 20 7311 2146

sally-anne.eldridge@kpmg.co.uk

Grant Slessor

Pension Fund Manager

KPMG LLP (UK)

Tel: + 44 207 311 3849

grant.slessor@kpmg.co.uk

Report Sections	Page	Appendices	Page
■ Introduction	2	1. Independence and objectivity requirements	25
■ Headlines	3	2. Quality assurance and technical capacity	26
■ Our audit approach	5	3. Assessment of Fraud Risk	28
■ Key financial statements audit risks	11	4. Transfer of Audit Commissions functions	29
■ VFM audit approach	16		
■ Audit team, deliverables, timeline and fees	22		

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with our response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1st Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This document describes how we will deliver our audit work for the London Borough of Hammersmith and Fulham.

Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for London Borough of Hammersmith and Fulham ('the Authority') and London Borough of Hammersmith and Fulham Pension Fund ('the Fund'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

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.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two 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 Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks to the Authority and the pension fund.
- Section 5 explains our approach to VFM arrangements work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

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

Audit approach	<p>Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Jane West, Executive Director of Finance and Corporate Governance, and her team.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
Key financial statements audit risks	<p>We have completed our initial risk assessment for the financial statements audit and have identified two significant audit risks this year.</p> <ul style="list-style-type: none"> ■ Property, Plant and Equipment – The scale of the asset base and the potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty. We also identified some valuation issues and associated audit adjustments in this area in our <i>ISA 260 Report</i> on the 2013/14 financial statements; and ■ Accounting for Local Authority Maintained Schools – LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties and this is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet. <p>These are described in more detail on pages 11 to 12. We will assess these areas of significant audit risk as part of our interim work and conclude this work at year end.</p> <p>We have also identified two areas of audit focus: pensions related accounting and payroll. These are described in more detail on pages 13.</p>
Key financial statements audit risks for the Pension Fund	<p>Our initial risk assessment for the Pension Fund’s financial statements audit has identified the following area of significant audit risk:</p> <ul style="list-style-type: none"> ■ LGPS Reform – From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility for members and requires significant changes to pension administration systems. <p>We have described this in more detail on page 14. We will consider this area of significant audit risk as part of our final accounts visit</p> <p>We have also identified one area of audit focus: investments. This is described in more detail on page 15.</p>

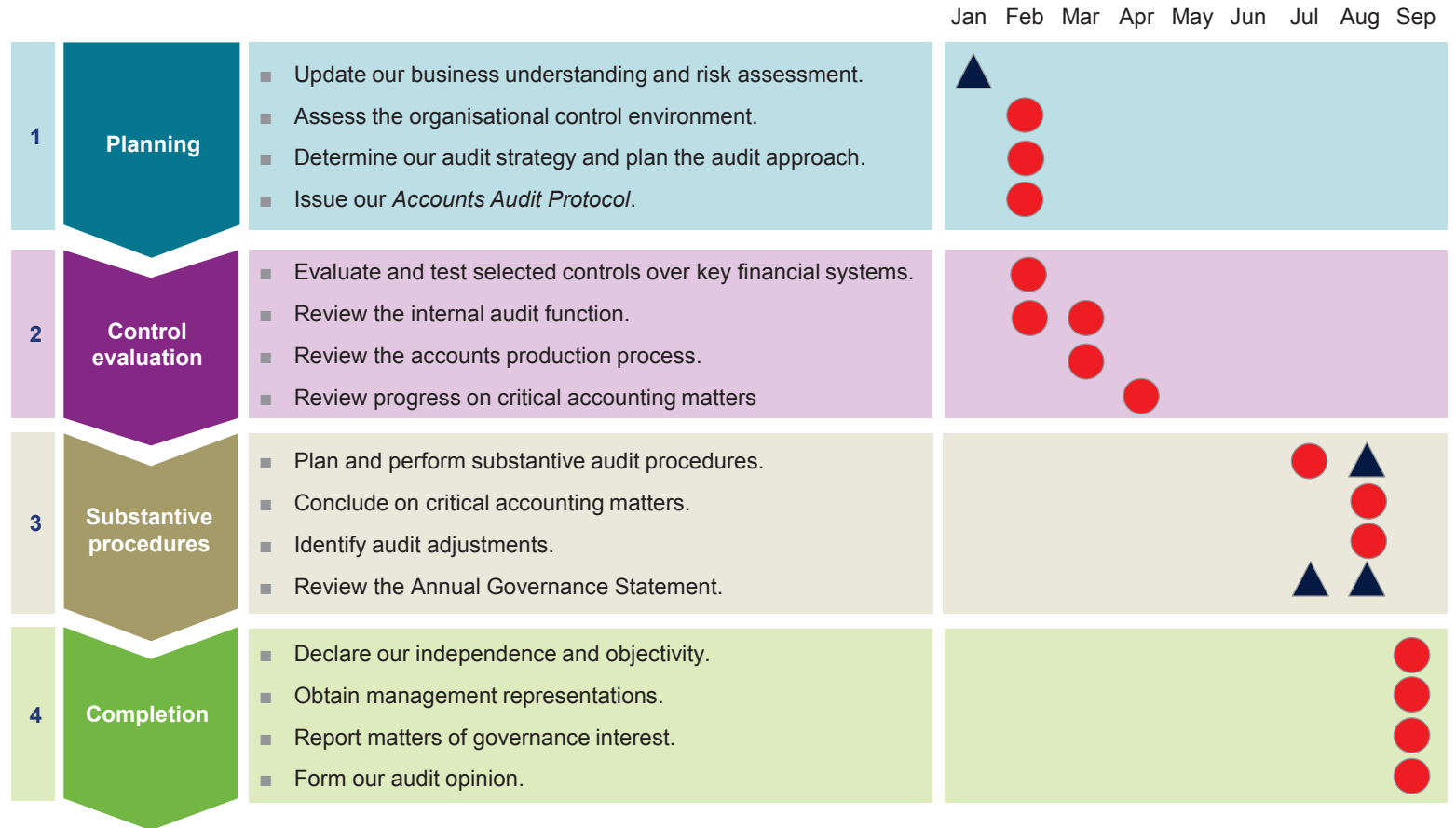
<p>VFM audit approach</p>	<p>We have completed our initial risk assessment for the VFM conclusion and have identified one area of focus at this stage, although the risk assessment process is on going. If we identify any new VFM risks during this on going process we will communicate that to you. The area of focus is:</p> <ul style="list-style-type: none"> ■ Medium Term Financial Standing – The Authority estimates that it will need to deliver £46m in savings during the three years 2016/19 to address further reductions to local authority funding and continued cost pressures. The Authority will need to continue to manage its savings plans to secure longer term financial and operational sustainability. <p>Further detail of this and our approach is set out on page 20. We will assess this area of focus as part of our interim work and conclude this work at year end.</p>
<p>Audit team, deliverables, timeline and fees</p>	<p>We have refreshed our audit team this year with Sally-Anne Eldridge replacing Samantha Maloney as the Engagement Manager.</p> <p>Our main year end audit is currently planned to commence in July 2015. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2014/15 audit is £271,320. This has increased by £2,600 from the position set out in our <i>Audit Fee Letter 2014-15</i>. This comprises £218,600 for the Authority’s audit and £21,000 for Pension Fund and an indicative fee of £31,720 for certification of grant claims and returns.</p>

We undertake our work on your financial statements in four key stages during 2014:

- **Planning** (January to March).
- **Control Evaluation** (February to April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

Page 15

We have summarised the four key stages of our financial statements audit process for you below.



Key: ● Authority and Pension Fund ■ Pension Fund only ▲ Authority only

During January to March 2015 we complete our planning work.

We assess the key risks affecting the Authority’s financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Page 16

Our planning work takes place in January to March 2015. This involves the following aspects:

Planning	<ul style="list-style-type: none"> ■ Update our business understanding and risk assessment including fraud risk. ■ Assess the organisational control environment. ■ Determine our audit strategy and plan the audit approach. ■ Issue our <i>Accounts Audit Protocol</i>.
-----------------	---

Business understanding and risk assessment

We update our understanding of the Authority’s operations and identify any areas that will require particular attention during our audit of the Authority’s financial statements.

We identify the key risks including risk of fraud affecting the Authority’s financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority’s responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) ‘*Audit materiality*’, we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 7 of this document.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

When we determine our audit strategy we set a monetary materiality level for planning purposes.

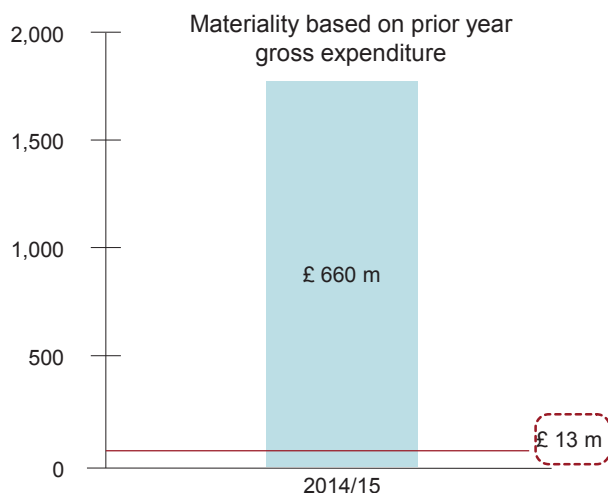
For 2014/15 we have set this at £ 13 million for the Authority and £15 million for the Fund.

We will report all audit differences over £ 0.65 million to the Audit, Pensions and Standards Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.



Materiality for planning purposes has been set at £ 13 million for the Authority's accounts, which equates to 2 percent of gross expenditure. For the Pension Fund, the corresponding figure is £15 million.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit, Pensions and Standards Committee

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, Pensions and Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) '*Communication with those charged with governance*', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 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.

ISA 450 (UK&I), '*Evaluation of misstatements identified during the audit*', requires us to request that uncorrected misstatements are corrected.

In the context of the Authority and the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.65 million.

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, Pensions and Standards Committee to assist it in fulfilling its governance responsibilities.

During March 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15.

We work with your finance team and the pensions team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit, Pensions and Standards Committee.

Our on site interim visit will be completed during March 2015. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority’s key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process.

Accounts production process

We re-raised one recommendation in our *ISA 260 Report 2013/14* relating to the accounts production process. This concerned the implementation of a non-current asset management system to improve efficiency throughout the year and increase accuracy in the financial reporting process.

We will assess the Authority’s progress in addressing our recommendation and in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit, Pensions and Standards Committee within our ISA 260 in September 2015.

During July and August 2015 we will be on site for our substantive work. We will conduct our work on the Pension Fund at the same time.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our ISA 260 Report for the Authority's and Pension Fund audits to the Audit, Pension and Standards Committee in September 2015.

Our final accounts visit on site has been provisionally scheduled for July for the Authority and the Pension Fund. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with Hitesh Jolapara, Bi Borough Director of Finance, and his team in August 2015, prior to reporting to the Audit, Pension and Standards Committee in September 2015.

Audit adjustments

During our on site work, we will meet with Chris Harris, the Head of Corporate Accountancy and Capital on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit, Pension and Standards Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our ISA 260 Report, which we will issue in September 2015.

Pension Fund Annual Report

We also issue an opinion on the consistency of the Pension Fund's accounts included in the Pension Fund Annual Report with those included in the Statement of Accounts. We intend to issue this opinion at the same time as our opinion on the accounts.

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Page 20

Whole of government accounts (WGA)

We are required to review your WGA consolidation pack 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 audit approach for 2014/15 have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 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 Audit Commission's fee scales.

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 Head of Corporate Accountancy and Capital and the Audit, Pensions and Standards Committee. Our deliverables are included on page 23.

Independence and objectivity confirmation

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, Pensions and Standards 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.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of 4th of March 2015, 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.

Key financial statements audit risks and other areas of audit focus – the Authority

In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.

We have identified two significant risks at this stage together with two other areas of audit focus.

For each risk and other area of focus we have outlined the impact on our audit plan.

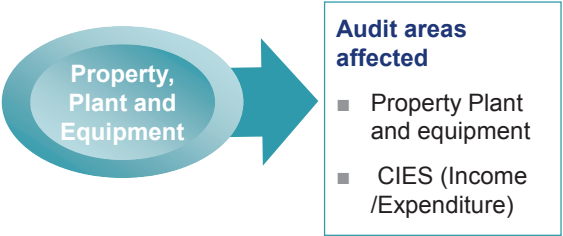
Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- 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 authorities 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.

Appendix 3 covers more details on our assessment of fraud risk.

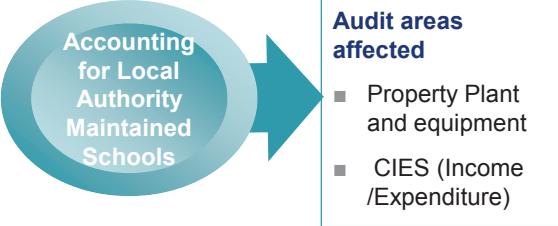
Our initial assessment has identified two significant risks that are specific to the Authority. These are set out in the table below together with the other areas of audit focus that we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2014/15.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Significant risk	Impact on audit
	<p>Risk The Council has a significant asset base primarily relating to Council dwellings; operational buildings and investment property. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty. We also identified some valuation issues and associated audit adjustments in this area in our <i>ISA 260 Report</i> on the 2013/14 financial statements.</p> <p>Our proposed audit work</p> <ul style="list-style-type: none"> ▪ Reviewing management's assessment of property valuations and impairment calculations. ▪ Confirming the information provided to the valuer from the Authority. ▪ Comparing the assumptions made by your valuer to benchmarks and to the assumptions used for 2013/14 for consistency. ▪ Considering the accounting treatment and valuation of the PFI scheme and disposals/decommissioning of assets.

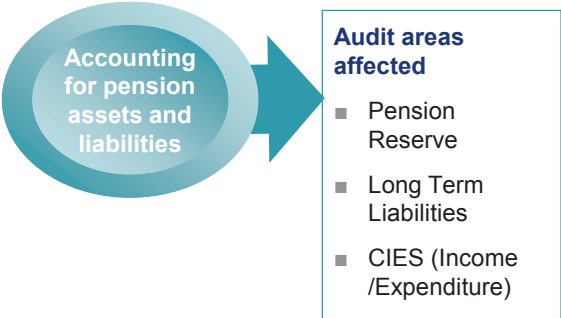
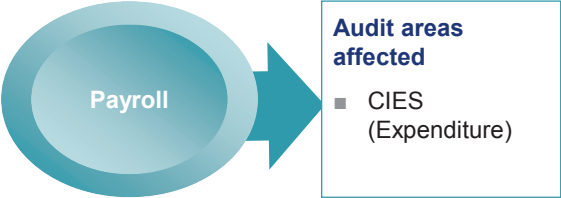
Key financial statements audit risks and other areas of audit focus - the Authority (continued)

This section sets out the key risk to the audit of the Authority.

Key audit risk	Impact on audit
 <p>Accounting for Local Authority Maintained Schools</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Property Plant and equipment ■ CIES (Income /Expenditure) 	<p>Risk</p> <p>LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.</p> <p>Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet.</p> <p>Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.</p> <p>Our proposed audit work</p> <p>As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. This will include:</p> <ul style="list-style-type: none"> - Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools; and - Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary.

Key financial statements audit risks and other areas of audit focus - Authority (continued)

For each area we have outlined the impact on our audit plan.

Other areas of audit focus	Impact on audit
 <p>Accounting for pension assets and liabilities</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Pension Reserve ■ Long Term Liabilities ■ CIES (Income /Expenditure) 	<p>Risk</p> <p>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.</p> <p>Our proposed audit work</p> <p>Our audit will include:</p> <ul style="list-style-type: none"> ■ Confirming the information provided to the actuary from the Authority. ■ Reviewing the actuarial valuation and considering the disclosure implications. ■ Considering the assumptions made by your actuaries to benchmarks, which are collated by our KPMG actuaries, and to the assumptions used for 2014/15 for consistency.
 <p>Payroll</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ CIES (Expenditure) 	<p>Risk</p> <p>Payroll represents a significant proportion of the Authority's annual expenditure (approaching 27% of gross spend at £660m in 2013/14). Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area.</p> <p>Our proposed audit work</p> <p>Our audit will include:</p> <ul style="list-style-type: none"> ■ Reviewing and testing reconciliations for gross pay and deductions (eg pensions, tax and national insurance). ■ Completing substantive analytical review of payroll costs and testing supporting system information used to compile the review.

In this section we set out our assessment of the risks or other key areas of audit focus of the Pension Fund’s financial statements for 2014/15.

We have identified one significant risk and one other area of audit focus.

Page 24

As for the Authority’s financial statements, professional standards require us to consider two standard risks for all Pension Funds. To recap, these are:

- 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 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 table below sets out the one significant risk and the one area of audit focus that we have identified through our planning work that is specific to the audit of the Pension Fund’s financial statements for 2014/15.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Significant risk	Impact on audit
<p>The diagram consists of a light blue oval on the left containing the text "LGPS reform". A large, dark blue arrow points from this oval to a white rectangular box on the right. Inside this box, the text "Audit areas affected" is written in bold, followed by a bulleted list: "■ Contributions" and "■ Benefits".</p>	<p>Risk</p> <p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p> <p>Our audit work</p> <p>We will review the controls and processes that the Pension Fund have put in place to accurately capture the data required by LGPS 2014. Our work will also focus on testing that the system has been set up to accurately calculate future benefit entitlement.</p>

Key financial statements audit risks and other areas of audit focus – the Pension Fund (continued)

For each area we have outlined the impact on our audit plan.

Other areas of audit focus	Impact on audit
<p>Pension Fund investments →</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Investments ■ Investment Income ■ Changes in investment values 	<p>Risk The value of pooled investment vehicle assets (“<i>Unit Trusts & Managed Funds</i>” totalled £400m at 31 March 2012) is a material item in your financial statements. The current economic climate may put pressure on the health of the Pension Fund, creating a risk that inappropriate valuation methods may be used.</p> <p>Our proposed audit work We will review the valuation of the Pension Fund investments, including the unlisted investments, and consider the independent assurance that is available in respect of the valuation processes and valuations of fund. We shall also review the disclosure notes in the light of relevant requirements.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<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 Authority. 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"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool; evidence gained from previous audit work, including the response to that work; and the work of other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

Page 28

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<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 Authority's organisational control environment, including the Authority'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>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have not identified any risks to our VfM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VfM audit through our ISA 260 Report.

VfM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VfM guidance and other sources of information.</p>
Concluding on VfM arrangements	<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 Authority'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>
Reporting	<p>We have completed our initial VfM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VfM audit through our <i>ISA 260 Report</i>. 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 Authority's arrangements for securing VfM), which forms part of our audit report.</p>

We have identified one area of focus in relation to VFM.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

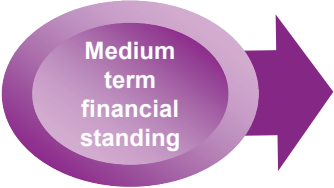
In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We will report our final conclusions in our *ISA 260 Report 2014/15*.

VFM risk focus area	Risk description and link to VFM conclusion	Preliminary assessment
	<p>At the end of February 2015, the Authority is projecting an underspend of £7m for 2014/15. There is a balanced budget for 2015/16 which includes a contribution to reserves of £1.8m and service savings of £24m.</p> <p>The Authority currently estimates that a further £46m in savings will need to be achieved during 2016/17 to 2018/19. We are aware the Authority is in the process of developing and agreeing proposals with Members for these future estimated savings.</p> <p>The need for further savings could have a significant impact on the Authority's financial resilience. Consequently, the Authority will need to continue to manage its savings plans to secure longer term financial and operational sustainability.</p>	<p>Our VFM work will focus on how the Authority is planning and managing its savings plans, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. For example, that the Plan has duly taken into consideration:</p> <ul style="list-style-type: none"> • salary inflation; • general inflation; • demand pressures; • restructuring costs; and • sensitivity analysis given the degree of variability in the above factors.

Your audit team has been drawn from our specialist public sector assurance department. We have refreshed our audit team this year with Sally-Anne Eldridge replacing Samantha Maloney as the Engagement Manager.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Andrew Sayers
Partner

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit, Pensions and Standards Committee and Executive Directors.”



Sally-Anne Eldridge
Senior Manager

“I provide quality assurance for the audit work and specifically any technical accounting and risk areas.

I will work closely with Andrew to ensure we add value.

I will liaise with the Head of Corporate Accountancy and Capital and Head of Internal Audit.”



Grant Slessor
Manager

“I am responsible for the management, review and delivery of the Pension Fund Audit and will work alongside Andrew and Sally-Anne to deliver a co-ordinated audit approach for the Authority.”

At the end of each stage of our audit we issue certain deliverables, including reports, statements and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

Page 32

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	March 2015
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	September 2015
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on the Authority's and Pension Fund accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2015
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Provide our assurance statement on the Authority's WGA pack submission. 	September 2015
Pension Fund Annual Report	<ul style="list-style-type: none"> ■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts, 	September 2015
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	January 2016

We will be in continuous dialogue with you throughout the audit.

Key formal interactions with the Audit, Pensions and Standards Committee are:

March – External Audit Plan;

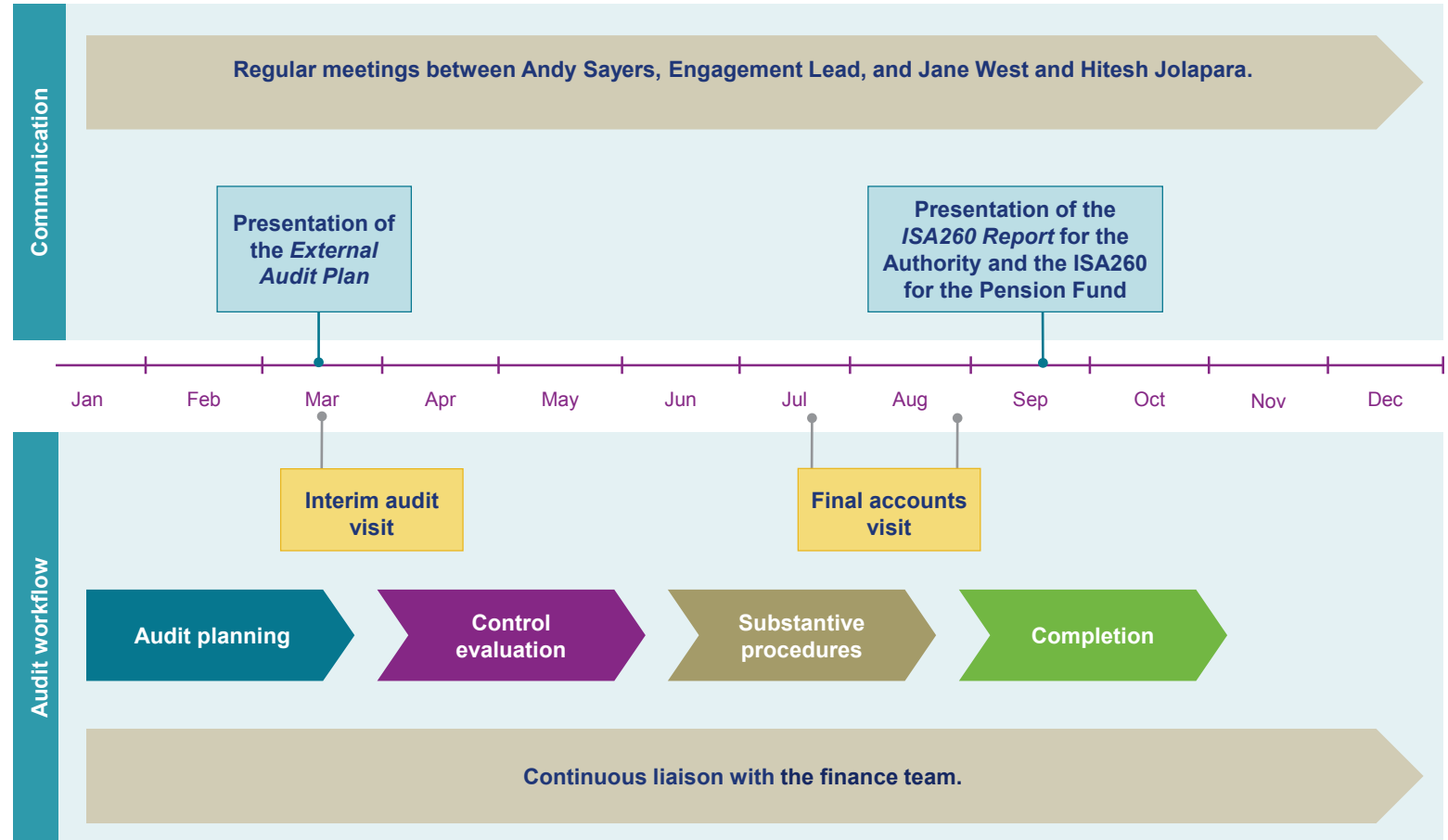
September – ISA 260 Report;

January – Annual Audit Letter.

We work with the finance team throughout the year. Our main work on site will be our:

Interim audit visit during March.

Final accounts audit during July.



Key: ● the Audit, Pensions and Standards Committee meetings.

The main fee for 2013/14 audit of the Authority is £218,600. The fee for our audit of the Pension Fund is £21,000.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit. Due to the National Non Domestic Grant Return not requiring an audit certificate, the Audit Commission increased the fee scale by £2,600 to reflect the additional work required on the financial statements in relation to National Non Domestic Rates. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2014/15 (planned)	2013/14 (actual)
Main audit fee	£218,600	£216,000
Pension Fund audit fee	£21,000	£21,000
Certification of grants and returns	£31,720	£28,000

Our main audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:

- the financial statements are made available for audit in line with the agreed timescales;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee. The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with Hitesh Jolapara, the Bi Borough Director of Finance.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors 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 Commission-related work, and senior members of their audit teams 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.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission'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 standing guidance.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

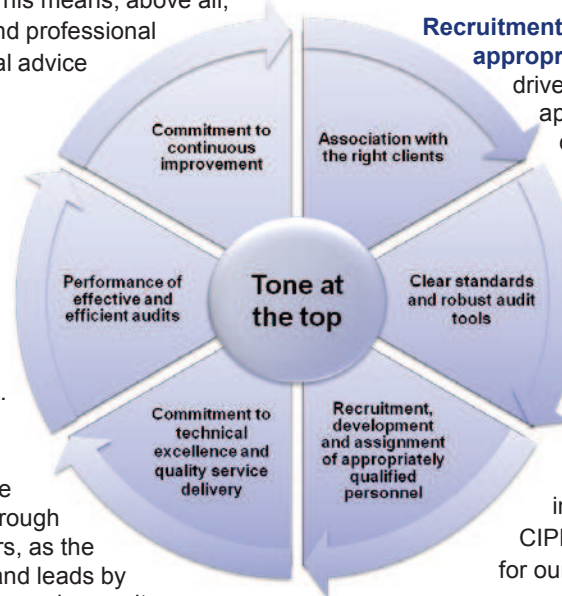
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Andrew Sayers, as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Page 38

Management responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit, Pensions and Standards Committee and auditors:
 - any significant deficiencies in internal controls.
 - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, the Audit, Pensions and Standards Committee and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit, Pensions and Standards Committee and management.

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
 - Revenue recognition.
 - Management override of controls.

The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commissions' regulatory and other functions.

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.




cutting through complexity™

© 2015 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.

Agenda Item 6

	London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 17 June 2015
Treasury Report 2014/15 Outturn	
Report of the Director for Finance	
Open Report	
Classification: For Information	
Wards Affected: All	
Accountable Executive Director: Hitesh Jolapara, Director of Finance	
Report Author: Halfield Jackman, Treasury Manager	Contact Details: Tel: 0207 651 4354 hjackman@westminster.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. This report presents the Council's Outturn Treasury Report for 2014/15 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to the Committee by 30 September each year.
- 1.2. There are two aspects of Treasury performance – debt management and cash investments. Debt management relates to the Council's borrowing and cash investments to the investment of surplus cash balances. This report covers:
 - (a) the treasury position as at 31 March 2015 which includes the investment and the borrowing strategy and outturn for 2014/15;
 - (b) the UK economy and interest rates; and
 - (c) Compliance with treasury limits and prudential indicators.
- 1.3. The borrowing and cash investment for the relevant periods are set out in the table below.

£ million	31/3/2012	31/3/2013	31/3/2014	31/3/2015
Total borrowing	262.17	262.07	250.51	247.60
Total cash balances	109.30	206.17	320.20	359.78

2. RECOMMENDATION

The Committee is asked to note this report.

3. TREASURY POSITION AS AT 31 MARCH 2014

Investments

3.1. The table below provides a breakdown of the cash deposits, together with comparisons from the previous year.

(£m)	2012/13	2013/14	2014/15
Liquid Deposits	44.52	-	-
Money Market Funds	40.00	39.20	34.15
Notice Accounts	-	25.00	14.00
Custodian Held Assets	-	189.50	212.13
Term Deposits	121.65	66.50	99.50
Total	206.17	320.20	359.78

A breakdown of the Investment type is detailed below.

- The Council had £34.15 million invested in three money market funds run by Goldman Sachs, Blackrock and Prime Rate. The funds returned an average of 0.44 per cent (all rated AAA by at least two rating agencies) and allow for access on same or next day basis.
- £14 million in Handelsbanken 35 Day Notice account paid 0.60% throughout the year.
- The custodian based assets comprised of UK Government Treasury bills which offered better yields than the DMO. Commercial Paper issued by Network Rail Infrastructure (UK Government Guaranteed), Transport for London and European Investment Bank to introduce greater diversification.
- Eleven fixed term deals with three banks, with durations of five months. The investments were deposited with Lloyds Bank, Barclays Bank and The Royal Bank of Scotland.

3.2. The weighted average interest rate of return on the investments over the year was 0.50 per cent, with a total interest received of £1.85 million (compared with a weighted average of 0.48 per cent and a total interest £1.31 million for 2013/14).

3.3. The investment strategy for 2014/15 was to place cash investments with institutions as set out in the Treasury Management Strategy. The first objective was to place investments based on security and liquidity of the investments rather than to seek yield. Once security and liquidity criteria were satisfied, investments would then be placed taking yield into account.

Borrowing

3.4. Total borrowings decreased by £2.91 million to £247.60 million due to maturing debt. The repayments were in line with the cash flow projection and paid by cash balances. No new borrowing was undertaken during the year.

3.5. As at 31 March 2014, the Council is had an under-borrowed position¹. This means that the capital borrowing need was not fully funded by existing external loan debt and the balance

¹ The Capital Financing Requirement (CFR) represents the underlying cumulative need to borrow for the past, present and future (up to 2 years in advance) amounts of debt needed to fund capital expenditure (net of receipts). Debt can be met not only from external loans but also by the temporary use of internally generated cash from revenue balances i.e. internal borrowing.

is funded by cash reserves (Internal borrowing). As the accounts are being prepared for the auditors, the CFR figures for 2014/15 are not available at the time of writing.

4. THE ECONOMY AND INTEREST RATES

- 4.1 UK growth was robust in the first quarter of the year largely as a result of strong household spending, and confidence reached the highest levels seen since 2005 according to the Gesellschaft für Konsumforschung (GfK) consumer confidence survey.
- 4.2 GDP posted a 3% annual increase over 2014, and forward looking indicators such as the Purchasing Managers Index were all in positive territory for the year for both Manufacturing and Services. Unemployment continued its fall over the year, dropping from 6.6% in April to 5.5% in February 2015. A large contributor of this growth was consumer spending, which was supported by very strong Consumer Confidence Surveys; the GfK figure for March showed the strongest seen for 13 years.
- 4.3 Oil had an interesting year, initially increasing on Q1 2014/15 as geopolitical risks in the Middle East caused worries over supply. However this was reversed over the following quarter as concerns over growth in China as well as a strengthening dollar exerted downward pressure. Over the rest of 2014 the decline steepened as North American attempts at fracking and extracting from Oil Sands reduced their overall demand from global markets. The decision taken by Saudi Arabia to maintain market share and allow the price to drop was a major contributor. Despite a small recovery in Q1 2015, Oil ended up at approximately half the value it started the year at.
- 4.4 This had a direct bearing on inflation, with CPI reaching a 12 year low in November 2014 of 1%. The decline continued, reaching zero in February and remaining at that level in March.
- 4.5 The market began the year with the expectation that interest rates would be unlikely to be raised until 2015 and, despite strongly positive messages from Governor Carney suggesting rises sooner than the market expects, and that the point at which interest rates begin to normalise was getting closer, the dipping of CPI proved more of a driving force behind the markets, and the consensus at the year-end was for the expectation of the first rate rise to occur in Q3 2016. Longer term rates fell over the course of 2014, and had a small bounce back in Q1 2015.

5. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

- 5.1. During the financial year to March 2015, the Council operated within the treasury limits as set out in the Treasury Management Strategy (TMS). The outturn for the Treasury Management Prudential Indicators is shown in Appendix A.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

<u>No.</u>	<u>Description of Background Papers</u>	<u>Name/Ext of holder of file/copy</u>	<u>Department/ Location</u>
	None.	N/A	N/A

LIST OF APPENDICES:

Appendix A – Treasury Management Prudential indicators

**LBHF – TREASURY MANAGEMENT PRUDENTIAL INDICATORS
2014-15**

Authorised Limit and Operational Boundary 31st March 2015

Indicator	Approved Limit	Actual Debt	No. of days Limit Exceeded
Authorised Limit ²	£345m	£247.6m	None
Operational Boundary ³	£290m	£247.6m	None

Limits on Interest Rate Exposure

Interest Rate Exposure	Upper Limit	Lower Limit	Actual at 31 Mar 2015
Fixed Rate Debt	£345m	£0m	£247.6m
Variable Rate Debt	£69m	£0m	£0m


Maturity Structure of Borrowing

Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actual at 31 Mar 2015
Under 1 year	15%	0%	6%
1 year to 2 years	15%	0%	3%
2 years to 5 years	60%	0%	9%
5 years to 10 years	75%	0%	13%
Over 10 years	100%	0%	69%

² The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

³ The Operational Boundary is the expected normal upper requirement for borrowing in the year.

Agenda Item 7

	London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 17 June 2015
Internal Audit Charter and Strategy	
Report of the Director for Finance	
Open Report	
For Information	
Key Decision: No	
Wards Affected: None	
Responsible Director: Hitesh Jolapara, Director for Finance	
Report Author: Geoff Drake – Senior Audit Manager	Contact Details: Tel: 0208 753 2529 geoff.drake@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This provides an update version of the Internal Audit Charter and Strategy following a 2015 year review. While there are a few minor word changes this is essentially unchanged from the version reported to the Committee a year ago.

2. RECOMMENDATIONS

- 2.1 To note the contents of this report

H&F Internal Audit Charter

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the H&F Business Board and to Audit, Pensions and Standard Committee to note.

Definition

Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The Director of Audit, Fraud, Risk and Insurance is designated as the 'Head of Internal Audit' for the purposes of the PSIAS and this charter.

The Director of Finance is designated as the 'Chief Finance Officer' for the purposes of this charter.

The Audit, Pensions and Standards Committee are designated as the 'Board' for the purposes of this charter.

The Hammersmith and Fulham Business Board are designated as 'Senior Management' for the purposes of this charter.

Purpose

Internal audit provides independent and objective assurance to the London Borough of Hammersmith and Fulham through its Members, the Hammersmith & Fulham Business Board, and in particular to the Chief Financial Officer to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations 2015 specifically require a relevant authority (ie LBHF) to undertake an effective internal audit to evaluate the effectiveness of its risk management and control and governance processes.

Authority and Access to Records

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

Responsibility

The Audit, Pensions and Standards Committee

The highest level of governing body is the Audit, Pensions and Standards Committee and is charged with the responsibility to direct and/or oversee the activities and management of the Council.

The Audit, Pensions and Standards Committee will advise the Executive on:

- the strategic processes for risk, control and governance and the Statement of Internal Control;
- the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter
- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.

Director of Internal Audit

The Council's Head of Internal Audit (The Director of Internal Audit) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit, Pensions and Standards Committee, on the adequacy and the effectiveness of the internal control system for the whole Council.

Objectives

In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

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 identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit may undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Joint Venture Companies. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

Reporting

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Hammersmith and Fulham Business Board (HFBB) who act as the Corporate Management Team and the Audit, Pensions and Standards Committee (APSC).
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of HFBB. It is then presented to HFBB and APSC at least annually for noting and comment.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the APSC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to HFBB and APSC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the APSC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both HFBB and the APSC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to HFBB and the APSC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

Independence

The Head of Internal Audit (the Director of Audit) has free and unfettered access to the following:

- Chief Financial Officer
- Chief Executive
- Chair of the Audit, Pensions and Standards Committee (APSC)
- Monitoring Officer
- Any other member of the Hammersmith & Fulham Business Board

The independence of the Head of Internal Audit is further safeguarded by ensuring that the annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the APSC have the opportunity to contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the shared Internal Audit service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the APSC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities towards the systems and functions audited.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Director of Internal Audit has the freedom to report without fear or favour to all officers and members, and particularly to those charged with governance.

Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

Counter Fraud, Corruption and Irregularity

Managing the risk of fraud and corruption is the responsibility of management. Internal audit procedures alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however, be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity.

The Council has a Corporate Anti-Fraud Service as part of the shared Internal Audit Service and a protocol for close working relations with Internal Audit. The policies and procedures of the Corporate Fraud Service are detailed in the Council's Anti-Fraud and Corruption Strategy and risks identified in the Counter Fraud and Bribery Risk Assessments.

The role of the Contracted-Out Service

The Contractor shall provide the Services in accordance with the provisions of the Contract.

In relation to the performance of the Services, the Contractor or its Operatives carrying out such Services:

- in a good, safe, skilful and efficient manner
- in accordance with all relevant provisions of the Contract Documents and Specification.
- in accordance with all applicable statutes, statutory instruments, rules, regulations and byelaws.
- in a manner which meets all applicable financial standards specified by the Council.
- in a manner which shall promote and enhance the image and reputation of the Council.
- in accordance with all applicable standards set by the British Standards Institute and equivalent EC Standards and all applicable professional and financial authorities
- in accordance with Good Industry Practice.

The Relationship of Head of Internal Audit (the Director of Audit) and the Contractor

The Authorised Council Officer responsible for the management of the contract shall be the Director of Audit who may delegate day to day management to a nominated Responsible Officer.

Relationship between the Council and the Contractor

The Contract governs the relationship between the Council and the Contractor in respect of the provision of the Services by the Contractor to the Council and to any other Councils.

The Contractor is responsible and accountable to the Director of Audit and their nominees for the provision of the audit service that they are contracted to provide. The Director of Audit is responsible and accountable to the Section 151 Officer, the Business Board as the Council's Executive and to the Audit, Pensions and Standards Committee for the Audit Service including the service provided by the Contractor.

Due Professional Care

The Internal Audit function is bound by the following standards:

- The Chartered Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Director of Audit and the Senior Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

Audit Strategy

Scope

Strategic planning, audit planning, documenting, evaluating, testing and reporting are phases within audit process.

Process

1. The internal audit process can be seen on the following diagram:



Strategy

This Strategy sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter.

The Strategy will be reviewed annually and presented to the Audit, Pensions and Standards Committee and to Hammersmith & Fulham Business Board for approval.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, Hammersmith & Fulham Business Board and in particular to the Chief Financial Officer in support of discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service.

Internal Audit's Remit

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Director for Audit, Fraud, Risk and Insurance), Internal Audit will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.

- Assist the Audit, Pensions and Standards Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service and;
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit will ensure that it does not deliver the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

Service Delivery

The Service will be delivered by a mixture of in-house staff and the Council's internal audit partner (currently Mazars) under the direction of the Council's Head of Internal Audit.

The Internal Audit Service is a shared Service hosted by the Royal Borough of Kensington and Chelsea. The audit service is currently working with the Royal Borough of Kensington and Chelsea and Westminster City Council, to deliver audit reviews across the services that are shared services. Sovereign audits will continue on services that remain solely H&F.

Internal Audit Planning

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with Hammersmith and Fulham Business Board and management.
- Discussions with shared services Executive Directors.
- The shared services and Sovereign risk registers
- Outputs from other assurance providers
- Requirements as agreed in the joint working protocol with External Audit

Management views and suggestions are taken into account when producing the audit plan and the Head of Internal Audit will ensure feedback from or attendance at Departmental Management Team meetings will take place as part of the annual planning process

The Internal Audit Plan 2015-16 was based on the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.

Internal Audit planning is already significantly based on the shared service and Sovereign risk registers. The move to a shared risk resource will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process to form a 'virtuous circle'.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud and Ad Hoc Work:** The Corporate Anti Fraud Service, within the Internal Audit function, will continue to investigate any fraud and irregularity arising during the year. Internal Audit may undertake additional work due to changes or issues arising in-year.

Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to the Audit, Pensions and Standards Committee on a regular basis.

Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management and the Audit Pensions and Standards Committee.


Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the Audit, Pensions and Standards Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

Reviewed and Agreed

Date	Reviewed by	Position	Authorised by	Position
April 2015	Geoff Drake	Senior Audit Manager	Moyra McGarvey	Director of Audit
May 2014	Geoff Drake	Senior Audit Manager	Moyra McGarvey	Director of Audit
May 2013	Michael Sloniowski	Shared service Risk Manager	Geoff Drake	Chief Internal Auditor
March 2012	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor
March 2011	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor
March 2010	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor

Agenda Item 8

	London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 17 June 2015
TITLE OF REPORT	
Internal Audit Quarterly report for the period 1 January to 31 March 2015	
Open Report	
For Information	
Key Decision: No	
Wards Affected: None	
Accountable Director: Hitesh Jolapara –Director of Finance	
Report Author: Geoff Drake – Senior Audit Manager	Contact Details: Tel: 0208 753 2529 E-mail: geoff.drake@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2015 as well as reporting on the performance of the Internal Audit service.

2. RECOMMENDATIONS

- 2.1. To note the contents of this report

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. INTRODUCTION AND BACKGROUND

- 4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2015 as well as reporting on the performance of the Internal Audit service for the 2014/15 financial year.
- 4.2. In order to minimise the volume of paperwork being sent to Committee members the full text of limited or nil assurance reports have not been appended to this report. However, this information has been made available to all members separately. A précis of all limited assurance reports is also provided at Appendix D for the information of members.

5. PROPOSAL AND ISSUES

5.1. Internal Audit Coverage

5.1.1. The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner

5.1.2. A total of 16 audit reports were finalised in the last quarter of 2014/2015 from 1 January 2015 to 31 March 2015. This includes four shared services audits. In addition, 6 management letters and one follow up report were also issued.

5.1.3. A summary of each of the limited assurance reports is provided at Appendix D. 5 limited assurance audit reports were issued in this period: Langford Primary School; Good Shepherd Primary School; Highways Licensing; MSP Change Configuration and Release Management and MSP Interfaces and Acceptance Testing.

5.1.3.1. Langford Primary School made 2 high, 7 medium and 4 low priority recommendations. Langford School has now converted to an Academy.

5.1.3.2. Good Shepherd Primary School made 3 high, 10 medium and four low priority recommendations. One medium priority recommendation has yet to be implemented.

5.1.3.3. Highways Licensing made 1 high and 6 medium priority recommendations. Four medium priority recommendations have been reported as implemented. The remainder are outstanding.

5.1.3.4. MSP Change Configuration and Release Management

made 1 high, 4 medium and 1 low priority recommendations. One high and two medium priority recommendations have been reported as implemented. The remainder are outstanding.

5.1.3.5. MSP Interfaces and Acceptance Testing made 1 high, 6 medium and no low priority recommendations. no recommendations have yet been reported as implemented.

- 5.1.4. 1 Follow-up was undertaken in the period on High Priority Recommendations. 6 of the 9 recommendations were found to be implemented with 2 recommendations found to be partly implemented and 1 no longer applicable. The results of our follow up can be found in Appendix A.
- 5.1.5. The Internal Audit department works with key departmental contacts to monitor the number of outstanding draft reports and the implementation of agreed recommendations.
- 5.1.6. Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. There is one report currently outstanding, HRD Health and Safety of Service Users. Details of this can be seen in Appendix B.
- 5.1.7. There are now 22 audit recommendations made since October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to 16 outstanding as reported at the end of the previous quarter and represents a deterioration in position. We continue to work with departments and HFBP to reduce the number of outstanding issues.
- 5.1.8. The breakdown of the 22 outstanding recommendations between departments are as follows:
- Adult Social Care - 3
 - Children's Services (Non Schools) - 3
 - Children's Services (Schools) - 6
 - Corporate Services – 7
 - Transport and Technical Services - 3
- 5.1.9. 9 of the recommendations listed are over 6 months past the target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the relevant departmental managers responsible for

all recommendations overdue by more than 3 months as and when this occurs.

5.1.10. The table below shows the number of audit recommendations raised each year that have been reported as implemented. This helps to demonstrate the role of Internal Audit as an agent of change for the council.

Year	Number of recommendations implemented
2012/13	245
2013/14	240
2014/15	129

5.2. Internal Audit Service

5.2.1. Part of the CIA's function is to monitor the quality of Mazars' work. Formal monthly meetings are held with the Mazars Contract Manager and one of the agenda items is an update on progress and a review of performance against key performance indicators. The performance figures are provided for the 2014/15 financial year.

Performance Indicators 2014/15

Ref	Performance Indicator	Target	Pro rata target	At 31 March 2015	Variance	Comments
1	% of deliverables completed	95%	95%	95%	0%	87 deliverables issued out of a total plan of 92
2	% of planned audit days delivered	95%	95%	97%	+2%	935 days delivered out of a total plan of 959 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	100%	+5%	37 out of 37 briefs issued more than ten working days before the start of the audit.
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	90%	-5%	56 out of 62 draft reports issued within 10 working days of exit meeting. Average time to issue draft report was 6.2 days.
5	% of Final reports issued within 5 working days of the management responses	95%	95%	100%	+5%	43 out of 43 final reports issued within 5 working days.

5.3. Audit Planning

5.3.1. Amendments to the 2014/15 year Internal Audit plan agreed by the Committee are shown at Appendix C.

**LOCAL GOVERNMENT ACT 2000-
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Full audit reports from October 2004 to date	Geoff Drake Ext. 2529	Corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

LIST OF APPENDICES:

Appendix A	Audit reports issued 1 January to 31 March 2015
Appendix B	Summary of Outstanding Audit Reports
Appendix C	Amendments to 2014/15 Internal Audit Plan
Appendix D	Summary of Limited Assurance Reports
Appendix E	Outstanding Recommendations

APPENDIX A

Audit reports Issued 1 January to 31 March 2015

We have finalised a total of 17 audit reports for the period to 1 January to 31 March 2015. This includes four Shared Services audits. In addition, we have issued a further 6 management letters and 1 follow up was completed in the period.

Audit Reports

We categorise our opinions according to our assessment of the controls in place and the level of compliance with these controls.

Audit Reports finalised in the period:

No.	Audit Plan	Audit Title	Executive Director	Audit Assurance
1	2014/15	Langford Primary School	Andrew Christie	Limited
2	2014/15	Highways Licensing	Nigel Pallace	Limited
3	2014/15	Good Shepherd Primary School	Andrew Christie	Limited
4	2014/15	Corporate Risk Management	Jane West	Satisfactory
5	2014/15	MITIE Repairs and Maintenance	Mel Barrett	Satisfactory
6	2014/15	Organisation Health and Safety	Nick Austin	Satisfactory
7	2014/15	Addison Primary School	Andrew Christie	Satisfactory
8	2014/15	HFBP Print Service	Jackie Hudson	Satisfactory
9	2014/15	Imperial Wharf Resources Centre	Liz Bruce	Satisfactory
10	2014/15	Options Day Centre	Liz Bruce	Satisfactory
11	2014/15	Cash In Transit Procurement	Jane West	Substantial
12	2014/15	Youth Offending Service (Shared Services)	Andrew Christie	Satisfactory
13	2014/15	MSP Change Configuration and Release Management (Shared Services)	Charlie Parker	Limited
14	2014/15	Libraries Management System (Shared Services)	Mike Clarke	Satisfactory
15	2014/15	Client Affairs (Shared Services)	Rachel Wgley	Satisfactory
16	2014/15	AMEY CAFM: Concept IT Application	Hitesh Jolapara	Satisfactory
17	2014/15	MSP Interfaces and Acceptance Testing	Charlie Parker	Limited

Substantial Assurance

There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.

Satisfactory Assurance

While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Limited Assurance

Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

No Assurance

Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
18	2014/15	HRD Development Appraisal Model	Mel Barrett
19	2014/15	Accounts Receivable Key Controls Testing	Hitesh Jolapara
20	2014/15	Accounts Payable Key Controls Testing	Hitesh Jolapara
21	2014/15	General Ledger Key Controls Testing	Hitesh Jolapara
22	2014/15	Adult Social Care Day Centres Summary Report	Liz Bruce
23	2014/15	H&F Report It App	Lyn Carpenter

Follow ups

No.	Audit Plan	Audit Title	Implemented	Partly Implemented	Not Implemented	Not Applicable
24	2014/15	High Priority Recommendations	6	2	0	1

APPENDIX B

Internal Audit reports in issue more than two weeks as at 28 August 2014

No.	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer	Target date for responses	Awaiting Response From
1	2014/15	Housing and Regeneration	Mel Barrett	HRD Health and Safety of Service Users	Satisfactory	22/01/2015	Project Manager	05/02/2015	Project Manager*

*Partial response received

Amendments to 2014/15 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Housing and Regeneration	HRD Development Appraisal Model	Added	Added at request of department
2	Corporate Services	Election Expenses	Added	Added from reserve list
3	Corporate Services	Software Licensing	Removed	Deferred to 2015/16
4	Transport and Technical Services	King Street Regeneration	Removed	Deferred to 2015/16
5	Housing and Regeneration	Housing Special Purpose Vehicle	Removed	Deferred to 2015/16
6	Housing and Regeneration	Housing Strategy – Housing Demand	Removed	Deferred to 2015/16
7	Housing and Regeneration	Regeneration – Earls Court	Removed	Deferred to 2015/16
8	Housing and Regeneration	Regeneration Governance	Removed	Deferred to 2015/16
8	Corporate	IT Contract Documentation	Removed	Deferred to 2015/16

Summary of Limited Assurance Reports

Ref	Audit and Scope	Details	Assurance Risk /
1	<p>Langford Primary School</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Governance and Leadership; • Financial Management; • Procurement; • Staff Expenses and Petty Cash; • Income; • Payroll; • Head Teacher's Pay; • Assets and Inventory; • Leasing; and • Unofficial Funds. 	<p>Hammersmith & Fulham standard schools audits are carried out using an established probity audit programme. Audits are currently undertaken on a three year cycle unless issues dictate a more frequent review. The programme is designed to audit the main areas of governance and financial control. The programme's standards are based on legislation, the Scheme for Financing Schools and accepted best practice. The purpose of the audit is to help schools establish and maintain robust financial systems.</p> <p>Two High, seven medium and four low priority recommendations were raised. The Principal recommendations were as follows:</p> <ul style="list-style-type: none"> • The following policies and documents should be subject to review and approval by the IEB on an annual basis: <ul style="list-style-type: none"> ➢ Charging policy and: ➢ Pay Policy <p>Approval should be documented within meeting minutes.</p> • The Register of Business and Pecuniary interest should be updated to include all members of the IEB. • The School Financial Value Standard should be approved by the IEB and submitted to the Local Authority in a timely manner. • A purchase order should be raised and authorised by a senior officer prior to placing the order with the supplier. Invoices should be paid within 30 days of receipt of the invoice unless there are valid reasons for non-payment. These reasons should be noted on the invoice. • Clear Financial Authorisation should be established and documented in the Schools Scheme of Delegation and / or Financial Policy. This should then be subject to review by the IEB on an annual basis. Details of the approval for high value expenditure should be clearly detailed within IEB meeting minutes, or alternative relevant documentation. Quotes should be obtained or a tender process should be completed in line with the updated Financial Policy. • The school should issue receipts or maintain a cash collection sheet for all sources of income showing the amount paid, who paid it and what it was for. These records should provide a complete audit trail so that each 	Limited

Ref	Audit and Scope	Details	Assurance Risk /
		<p>item of income can be traced through to banking. Income collection records should be reconciled to cash in hand prior to banking by a senior officer independent of the cash collection process and signed to evidence this review.</p> <ul style="list-style-type: none"> • All documentation for new starters should be obtained prior to the starting date. This includes valid DBS certificates and two references. • The asset register should be updated as new assets are acquired and subject to an annual check, reported to the IEB. There should be a segregation of duties between the Officer maintaining the asset register and conducting the asset check. Serial numbers for high value assets should be recorded on the asset register. A column should also be included for the cost or estimated value of IT equipment in the asset register. • Unofficial fund reconciliations should be undertaken on a termly basis and documented. The School should liaise with the Council and determine the requirements of the audit of the school fund account. An audit of the school fund account should be undertaken and the results presented to the IEB. <p>All recommendations were accepted by management for implementation by April 2015.</p>	

Ref	Audit and Scope	Details	Assurance Risk /
2	<p>The Good Shepherd RC Primary School</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Governance and Leadership; • Financial Management; • Procurement; • Staff Expenses and Petty Cash; • Income; • Payroll; • Head Teacher's Pay; • Assets and Inventory; • Leasing; and • Unofficial Funds. 	<p>Hammersmith & Fulham standard schools audits are carried out using an established probity audit programme. Audits are currently undertaken on a three year cycle unless issues dictate a more frequent review. The programme is designed to audit the main areas of governance and financial control. The programme's standards are based on legislation, the Scheme for Financing Schools and accepted best practice. The purpose of the audit is to help schools establish and maintain robust financial systems.</p> <p>Three high, 10 medium and four low priority recommendations were raised as a result of the audit. The principal recommendations were as follows:</p> <ul style="list-style-type: none"> • The Instrument of Government should be updated to ensure that it is in line with current school requirements. • The Register of Business and Pecuniary interests should be updated to include all Governors and staff who hold financial decision making responsibility. • Key Policies including but not limited to those listed below, should be presented to the Governing Body or Finance Committee for review and approval on an annual basis: <ul style="list-style-type: none"> ➢ School Budget 2014/15; ➢ School Financial Policy; ➢ School Improvement Plan; and ➢ Charging Policy. • Purchase orders should be raised for all goods and services where the cost is known in advance. All expenditure should be authorised appropriately and in line with the Scheme of Delegation. Payments should be made to suppliers within 30 days of invoice receipt. Where invoices are delayed for legitimate reasons, this should be recorded on the invoice to demonstrate why payment of the invoice may be delayed. • Quotations should be obtained and retained in accordance with the requirements of the School's Financial Policy. The award of any contract, and reasons for supplier selection, should be documented in the minutes of the Governing Body or other delegated committee. • The HMRC Employment Status Indicator should be completed for each self-employed individual that payments are made to, and documentation of this should be retained by the school. • The School should update the expense policy in the School's Financial Policy to detail the maximum period in which an expense claim can be submitted after an expense has been incurred; and in 	Limited

Ref	Audit and Scope	Details	Assurance Risk /
		<p>addition:</p> <ul style="list-style-type: none"> ➤ Expense claims should be submitted in a timely manner; ➤ Expense claims forms should be completed for all expenses; and ➤ Expense forms should be signed by the claimant. <ul style="list-style-type: none"> • A petty cash form should be completed for each petty cash reimbursement, and this should be authorised by a senior staff member and signed by the claimant. Petty cash claims should be authorised by someone more senior than the claimant where possible. In the case of the Head Teacher the claim should be authorised by the Deputy Head Teacher or a member of the Governing Body. Petty cash reconciliations should be signed by the officer conducting the reconciliation as well as a second officer to evidence review. • A second officer should review and certify as correct the reconciliation of cash collected and banked as against the Income Registers. A clear audit trail should be maintained between cash collected and income banked to allow items of income to be traced through the process. The discrepancies identified should be investigated. • The overtime claim form should be revised to allow for the claimant to sign the form as a true and correct record. Overtime claims should be thoroughly checked to ensure that the overtime rate and hours claimed are accurate. Spot checks should be undertaken to confirm claims are processed accurately. • Approval of ISRs for the leadership team and individual salaries should be documented in meeting minutes. The school should liaise with the LA to confirm that the leadership pay arrangements at the School are appropriate and in line with the School Teachers Pay and Conditions Document. • The School should ensure that there is a segregation of duties between the officer who maintains the asset register and completes inventory checks. The results of inventory checks should be presented to the Governing Body. • The School should arrange for the Fund Account to be independently audited on an annual basis, and the results presented to the Governing Body in a timely manner. <p>All recommendations were accepted by management for implementation by March 2015.</p>	

Ref	Audit and Scope	Details	Assurance / Risk
3	<p>LBHF Highways Licensing</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Fee setting; • Application; • Issuing of Licenses; • Enforcement; • Income Collection; • Debt Recovery; • Budgetary Control; and • Performance Management 	<p>Within the London Borough of Hammersmith and Fulham, the administration of Highways Licences is undertaken by the Network Management Team. Following the transfer of a Licensing Enforcement Officer post to ELRS in 2008 Street Scene Enforcement took on some of the enforcement duties previously undertaken in Network Management. As described below there appeared to be a lack of agreement and clarity over the responsibilities that had transferred and those that had remained within Network Management.</p> <p>One high and six medium priority recommendations were raised. The Principal recommendations were as follows:</p> <ul style="list-style-type: none"> • License applications should be processed within the target timescales following license application, assuming the licence does not require planning permission or input from Transport regarding CLP. • The amount of fees charged to licensees should be in accordance with approved rates. Where there is over/under payment, the Licensing Administrator should contact the applicant to rectify the error. Where possible, additional time should be allowed for loading new fee rates onto the system. • Outstanding enquiry reports for all staff should be monitored on a regular basis by a Manager. Monitoring should be evidenced electronically or by signing the document. • Discussions should be undertaken between TTS and ELRS to formally agree which Licence / Highways Act enforcement responsibilities should be undertaken by Highways and which should be undertaken by the ELRS Street Scene Enforcement team, also taking account of where enforcement powers lie. The agreed split of responsibility should be documented and communicated to staff in each team. Inspections should then be undertaken pre, during and post licence issue to help identify any non-compliance with licence conditions. Results of inspections should be recorded on Confirm and/or a monitoring spreadsheet. Where inspections are not undertaken, the reasons should be documented. • All income due to the Council should be recorded accurately and completely. The finance department should send the Compliance Manager their report to reconcile with licence records. The department should continue in its efforts to identify the reason for misstatement, and introduce controls to ensure income received is accurately matched to income expected/due. • A reconciliation of failed inspections against FPNs issued should be undertaken on a monthly basis to identify FPNs not issued for failed inspections. • Formal performance indicators should be set for the Highways Licencing Staff and monitored on a regular basis. This may include, but not be limited to: <ul style="list-style-type: none"> ➤ % of licences processed in 5 working days upon receipt of application; ➤ % of FPNs issued within 1 working day; ➤ % of FPNs issued as a result of inspections; ➤ % of FPN income received vs FPNs issued; and 	Limited

		➤ % of inspections conducted All recommendations were accepted by management for implementation in the new information system by February 2015.	
--	--	--	--

Ref	Audit and Scope	Details	Assurance / Risk
4	<p>MSP Change Configuration and Release Management (Tri-Borough)</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Change configuration and release risk and effectiveness; • Roles and responsibilities; • System specification and process documents updates; • Remedial issue resolution and change management and; • Change administration access and backup / restore procedures. 	<p>The internal audit assessment was started and completed in January 2015 in preparation for the second User Acceptance Test (UAT) delivery stage to cover the controls established and applied by BT to the Managed Services Change, Configuration and Release Management activities. The audit focused on the management structures, plans, procedures and controls in place to help ensure the successful implementation and operation of Managed Services Programme by examination of the arrangements applied in the following areas:</p> <ul style="list-style-type: none"> • Change and release activity monitoring reporting on risk management and effectiveness impact assessments. • Change, configuration and release management roles and responsibilities; • Documented change, configuration and release management procedures which ensure system specification and process documents are accurately updated; • Remedial unplanned issue resolution and change management arrangements; • Change administration access and data base back-up / restore processes and controls. <p>One High, four medium and one low priority recommendations were raised. The Principal recommendations were as follows:</p> <ul style="list-style-type: none"> • Management should formally assess the need to update the ABW Gold Build version to Milestone 4 update 4 and ensure that the Gold Build version continues to be maintained and updated to the current version of Agresso. • Management should establish and distribute appropriate weekly and monthly client change activity reports, quantified by priority and risk, to assist the rolling review of the standing CAB agenda items. • Management should ensure that the existing MSP risks and issues records are consolidated to help inform and assist the risk classification and prioritisation of change, configuration and release activities. • Management should agree: <ul style="list-style-type: none"> ➢ A specific MSP configuration item (CI) definition policy. (Hardware/software/ version / patch hotfix/ Interface code/ MSP training material versions/ system configuration opting settings etc.) ➢ An appropriate shared services change management process compliance monitoring report to assist the rolling review of the standing CAB agenda items release and configuration management E.g. By identifying when MSP RFC records result in (CMDB) updates or not. • To demonstrate clear and transparent relationships for the change management MSP issue resolution activities management should ensure that the: <ul style="list-style-type: none"> ➢ “Related reference Number (if applicable)” field in the Shared Services Request for Change (RFC) 	Limited

		<p>form captures the IST, UAT1 and UAT2 references; and</p> <ul style="list-style-type: none">➤ MSP RFC change log is amended to record and report on the "Related Reference Number" <p>All recommendations were accepted by management for implementation by August 2015.</p>	
--	--	--	--

Ref	Audit and Scope	Details	Assurance / Risk
5	<p>MSP Interfaces and Acceptance Testing (Tri-Borough)</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Acceptance Test Strategy • Test Scripts • Test Result Reporting • Critical Path Reporting 	<p>This audit was undertaken as part of the 2014/15 audit plan to assess the adequacy of the control framework applied to the Managed Services Programme System Interface and Acceptance Test activities being conducted as part of implementing the Agresso Business World (ABW) Enterprise Resource Planning (ERP) system across the three Boroughs. This involved examination of the following areas:</p> <ul style="list-style-type: none"> • A systematic and methodical approach to the identification and prioritisation of acceptance testing of system procedures and interfaces exists outlining resource requirements for systems interface tests, user acceptance tests and operational acceptance tests; • Acceptance test scripts have been developed and mapped to help evaluate system interface and functionality requirements; • Individual system interface and system functionality acceptance test results are accurately recorded and reported on, so any issues are escalated for resolutions on a timely basis; and • Appropriate and accurate monitoring reports exist that update stakeholders on the overall system interface and system functionality acceptance test result trends and resolutions to help inform the critical path status and go-live decision. <p>One High and six medium priority recommendations were raised. The Principal recommendations were as follows:</p> <ul style="list-style-type: none"> • Management should ensure that all of the 49 interfaces that are considered as “must have” for the go live have appropriate interface test scripts established, and monitored for sign off achievement prior to go live. • Documented MSP system audit trail requirements should be established for appropriate acceptance test scripts to be developed and signed off by the Internal Audit team to confirm that the currently undocumented BT ‘standard settings’ adequately meet the needs of the three Councils. • Management should confirm that the procedures for the treatment of rejected BACS file records and potential exception reports are adequately assessed and signed off as appropriate in acceptance testing. • Interface file processing acceptance tests and exception processing report tests should be established to confirm the adequacy and effectiveness of the documented interface file processing reconciliation controls • Management should establish a unified transparent update report to confirm the percentage of "Critical Path" acceptance criteria delivery achievements and issues in future phases of the implementation. <p>All recommendations were accepted by management.</p>	Limited

APPENDIX E

Summary of Outstanding Recommendations

This is a schedule of all recommendations where the target date for implementation has passed and either the recommendation has not been fully implemented, or the auditee has failed to provide information on whether it has been implemented.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
1	2012/13	Adult Social Care	Housing Related Support Framework	Satisfactory	The Council's Supporting People Strategy should be updated.	2	31/03/2015	Commissioning Manager (Supported Housing)	Deadline extended to 31 March 2015 as the delay has at least in part been due to the new administration wanting to take stock of services requiring resources to be re-allocated to other work This work is ongoing. Recommendations regarding the future strategy for supported housing will be presented to members and it is now more realistic to report that the future strategy will be available within 6 Months.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
2	2013/14	Adult Social Care	West London Housing Related Support Framework Agreement	Satisfactory	<p>A plan should be developed which defines how statutory obligations will be fulfilled in the event that suppliers are unable to deliver the contracted service.</p> <p>This should include but not be limited to defining both how services will be delivered and the transition process.</p>	2	31/03/2015	Tri-borough Procurement & Contract Interim Manager - ASC	Date extended as Care Act has to be fully taken into account which is new legislation and applies across the whole of ASC, so this forms part of that wider review. A Provider Failure and Service Interruption protocol is being developed for each service area in line with duties under the care act. This will be completed by the end of June 2015.
3	2014/15	Adult Social Care	Direct Payments	Limited	<p>Staff should be reminded that there should be a clear link between the support plan and the DP made. Where the DP changes, the Support Plan should be updated accordingly or a clear audit trail maintained on Frameworki.</p> <p>Spot checks should be undertaken on an ongoing basis to confirm that this requirement is being followed.</p>	1	31/01/2015	Director of Operations	Points one and two completed. Regular spot checks to be introduced from July 2015

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
4	2012/13	Children's Services	Thematic Report - Leasing in Schools	N/A	All schools should be reminded of the requirement to seek approval from the Governing Body and the Council prior to entering into or renewing leasing agreements. As a result of this approval process, a record should be maintained of any providers that do not appear to provide value for money. Where practical, schools expenditure records should be examined to identify if these providers are being used.	1	30/10/2013	Tri Borough Director of Finance and Resources (Children's Services)	Advised on 2/6/2014 that completions of update to Scheme for Financing Schools has slipped and will be completed by September 2014.
5	2012/13	Children's Services	Thematic Report - Leasing in Schools	N/A	Schools should be reminded to retain copies of lease agreements in a readily accessible location.	2	30/10/2013	Tri Borough Director of Finance and Resources (Children's Services)	Advised on 2/6/2014 that completions of update to Scheme for Financing Schools has slipped and will be completed by September 2014.
6	2012/13	Children's Services	Thematic Report - Leasing in Schools	N/A	Consideration should be given to updating the School Finance Procedures Manual to require that an options appraisal is undertaken prior to entering into leasing arrangements to demonstrate that leasing offers better value for money when compared to outright purchase of goods and services.	2	30/10/2013	Tri Borough Director of Finance and Resources (Children's Services)	Advised on 2/6/2014 that completions of update to Scheme for Financing Schools has slipped and will be completed by September 2014.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
7	2013/14	Children's Services	Phoenix High School	Satisfactory	The Unofficial Fund should be audited by an independent auditor and the results of the audit presented to the Governing Body.	2	01/10/2014	Head Teacher	There has been a delay with this due to the long term absence of the person who managed the fund. School are in the process of looking to appoint. In terms of the audit, School plan to have this done before the end of the of the academic year. There has been no activity through the fund over the past 6 months whilst the member of staff has been off sick.
8	2014/15	Children's Services	Flora Gardens Primary School	Satisfactory	The following key documents and policies should be presented to the Governing Body or Finance Committee for review and approval on an annual basis: <ul style="list-style-type: none"> • Finance Policy; • Whistle Blowing Policy; • Pay Policy; • Lettings and Charging Policy; and • School Development Plan (SDP). Approval should be recorded in the minutes of the relevant meeting.	2	31/12/2014	Headteacher / Governing Body	08/01/15 - All policies except Finance Policy have been approved by GB. The FP will go to GB in Feb 2015.


Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
9	2014/15	Children's Services	Melcombe Primary School	Limited	The Governing Body should approve the ISR of the Head Teacher. This information may be incorporated in the School's pay policy.	2	31/10/2014	Head Teacher & Chair of the Governing Body	05/1/15 - The Governing Body are currently reviewing the pay policy and the ISR for the Head Teacher will be incorporated
10	2014/15	Children's Services	St John's CE Primary School	Satisfactory	A three year School Development Plan should be developed. The plan should be formally approved by the Governing Body.	2	01/01/2015	Headteacher and Chair of governors	
11	2014/15	Children's Services	St John's CE Primary School	Satisfactory	The School should periodically test the market for long standing contracts to gain assurance that they are still achieving value for money.	2	01/01/2015	SAO, Site Manager, Headteacher, Chair of Governors	
12	2014/15	Children's Services	St John's CE Primary School	Satisfactory	The unofficial fund should be subject to an independent audit. The audit report should be presented to the Governing Body or Finance Committee and documented as such in the minutes. The discrepancy in the Fund Account should be investigated.	2	01/01/2015	SAO, Chair of Finance Committee, Chair of Governors	
13	2014/15	Corporate Services	Managed Services - Change Configuration and Release Management	Limited	Management should agree:- a) A specific MSP configuration item (CI) definition policy. (Hardware/software/ version / patch hotfix/ Interface code/ MSP training material versions/ system configuration opting settings etc) b) An appropriate shared services change management process compliance monitoring report to assist the rolling review of the standing CAB agenda items release and configuration management. E.g. By identifying when MSP RFC records result in (CMDB) updates or not	2	28/02/2015	MSP Programme Manager	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
14	2014/15	Corporate Services	Managed Services - System Testing	Limited	It is recommended that timescales to address IST, Service Now and any future issues are appropriately assessed ensuring that they are realistic and achievable. Consideration should also be given to producing a Critical Path Analysis where some critical activities are not delivered and the subsequent impact on Go-Live.	1	30/09/2014	Tri B UAT TM & BT IST TM	
15	2014/15	Corporate Services	Managed Services - System Testing	Limited	It is recommended that timescales for completion of IST sign off are provided so that UAT and other activities can be planned to achievable timelines. Additionally, where delivery of key functionality is delayed, additional regression testing, IST and UAT will need to be planned and performed.	2	30/09/2014	BT IST TM	
16	2014/15	Corporate Services	Managed Services Programme High Level Controls	Limited	Cabinet should be updated for their approval of the new total MSP cost position. Accountability and transparency for reporting on the status and clarity of all issues that impact on the MSP financial management position should be improved by separating the responsibility for risk/issue ownership from the responsibility for risk/issue mitigation. The responsible risk or issue owner should assess the mitigation action activity reports to reassess the risk to either accept, reduce, transfer or avoid/close the record to assist in trend analysis reports.	2	31/10/2014	MSP Programme Manager	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
17	2014/15	Corporate Services	Mobile Device Security	Satisfactory	Management should implement an appropriate Mobile Device Asset Management process. This should include regularly reviewing the asset register to confirm the continued presence of relevant devices.	2	31/01/2015	Information and Systems Strategist	
18	2014/15	Corporate Services	Tri borough Cloud Computing	Satisfactory	Regular reporting on performance and security incidents (or any agreed schedule) should be requested from the cloud service providers for the Frameworki, Library Management System and Bravo Solutions application. Furthermore, such reporting requirements should be extended to all Tri-Borough based cloud agreements.	2	31/03/2015	Chief Procurement Officer WCC	
19	2014/15	Corporate Services	Tri borough Cloud Computing	Satisfactory	The Tri-Borough should ensure continuous compliance of their vendors and Cloud Service Providers with applicable regulations such as: PCI DSS, ISO 27001, EU Data Protection Regulations, Cloud Security Alliance Control Matrix, ISAE 3402, SSAE 16, and SAS 70 Type II.	2	31/03/2015	Chief Procurement Officer WCC	

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
20	2014/15	Transport & Technical Services	Highways Licenses (LBHF)	Limited	<p>Discussions should be undertaken between TTS and ELRS to formally agree which Licence / Highways Act enforcement responsibilities should be undertaken by Highways and which should be undertaken by the ELRS Street Scene Enforcement team, also taking account of where enforcement powers lie.</p> <p>The agreed split of responsibility should be documented and communicated to staff in each team.</p> <p>Inspections should then be undertaken pre, during and post licence issue to help identify any non-compliance with licence conditions. Results of inspections should be recorded on Confirm and/or a monitoring spreadsheet. Where inspections are not undertaken, the reasons should be documented.</p>	1	01/02/2015	Bi-Borough Director of Transport & Highways	Presently no discussions have been held with ELRS because it is hoped that the business case (to address resource issues) will allow the enforcement duties to be transferred to Network Management
21	2014/15	Transport & Technical Services	Highways Licenses (LBHF)	Limited	<p>A reconciliation of failed inspections against FPNs issued should be undertaken on a monthly basis to identify FPNs not issued for failed inspections.</p>	2	01/02/2015	Network Compliance Team Manager	There is still a resource issue within the team which is hoping to be addressed through the recently drafted business case. No changes to the software are planned to allow easy reporting of FPNs within Confirm which means this task is resource intensive. A member of staff is responsible for this task but due to the numbers involved and her unreliable work attendance she is not able to stay on top of the workload.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Officer	Status
22	2014/15	Transport & Technical Services	Highways Licenses (LBHF)	Limited	<p>Formal performance indicators should be set for the Highways Licencing Staff and monitored on a regular basis. This may include, but not be limited to:</p> <ul style="list-style-type: none"> • % of licences processed in 5 working days upon receipt of application; • % of FPNs issued within 1 working day; • % of FPNs issued as a result of inspections; • % of FPN income received vs FPNs issued; <p>and</p> <ul style="list-style-type: none"> • % of inspections conducted for licences issued. 	2	01/02/2015	Network Compliance Team Manager	Due to the limited resource available and the restrictions with the software this is not being done. This will be addressed through the business case.

	<p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p align="center">17 June 2015</p>
<p>Head of Internal Audit Annual Report - 2014/15</p>	
<p>Report of the Director for Finance</p>	
<p>Open Report</p>	
<p>For Information</p>	
<p>Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Hitesh Jolapara –Director of Finance</p>	
<p>Report Author: Geoff Drake, Chief Internal Auditor</p>	<p>Contact Details: Tel: 020 753 2529 geoff.drake@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2014/15 financial year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. In all cases a satisfactory or substantial assurance has been provided with the exception of the significant control weaknesses recorded in the report. The report is a key element of the evidence supporting the Annual Governance Statement (AGS).

2. RECOMMENDATIONS

- 2.1. To note the contents of this report

**LOCAL GOVERNMENT ACT 2000-
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	None	N/A	N/A

LIST OF APPENDICES:

Appendix A	Assurance Levels 01/04/2014 – 31/03/2015
Appendix B	Internal Audit Performance – 2014/15
Appendix C	Internal Audit work for which an assurance opinion was not provided
Appendix D	Follow up Audits



THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA



City of Westminster

London Borough of Hammersmith and Fulham | The Royal Borough of Kensington and Chelsea | Westminster City Council

London Borough of Hammersmith and Fulham

2014/15 Head of Internal Audit Annual Assurance Report

April 2015



Contents

1.	Executive Summary	1
1.1.	Introduction	1
	Head of Internal Audit Opinion on the Effectiveness of Internal Control 2014/15	2
1.2.	Scope of Responsibility	2
1.3.	The Purpose of the System of Internal Control	2
1.4.	The Internal Control Environment	2
1.5.	Review of Effectiveness	2
1.6.	Head of Internal Audit Annual Opinion Statement	3
1.7.	Basis of Assurance	3
1.8.	2014/2015 Year Opinion	5
1.9.	The System of Internal Financial Control	5
1.10.	Corporate Governance	6
1.11.	Risk Management	6
2.	Detailed Report	8
2.1.	Introduction	8
2.2.	Significant Control Weaknesses	8
2.3.	Key Issues	9
2.4.	Qualifications to the opinion	10
2.5.	Other Assurance Bodies	10
2.6.	Risk Management Process	10
2.7.	Audit Plan	10
2.8.	Internal Audit Assurance Levels	11
2.9.	Internal Audit Performance	11
2.10.	Compliance with CIPFA Public Sector Internal Audit Standards	12
2.11.	Working with External Audit	12
2.12.	Internal Audit Provision Going Forward	12
	APPENDIX A - Assurance Levels 01/04/2014 – 31/03/2015	14
	APPENDIX B - Internal Audit Performance – 2014/15	21
	APPENDIX C: Internal Audit work for which an assurance opinion was not provided	22
	APPENDIX D - Follow up Audits	23

1. Executive Summary

1.1. Introduction

- 1.1.1. The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Public Sector Internal Audit Standards.
- 1.1.2. The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
- 1.1.3. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.1.4. The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
- 1.1.5. When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.
- 1.1.6. The standards require the report to identify:
 - The scope including the time period to which the opinion pertains;
 - Scope limitations;
 - Consideration of all related projects including the reliance on other assurance providers;
 - The risk or control framework or other criteria used as a basis for the overall opinion; and
 - The overall opinion, judgment or conclusion reached.
 - The reasons for an unfavourable overall opinion if provided..

Head of Internal Audit Opinion on the Effectiveness of Internal Control 2014/15

1.1.7. This opinion statement is provided for the use of the London Borough of Hammersmith & Fulham and is used to support of its Annual Governance Statement.

1.2. Scope of Responsibility

1.2.1. The London Borough of Hammersmith & Fulham is responsible for ensuring its 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.

1.2.2. In discharging this overall responsibility, the London Borough Hammersmith & Fulham is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

1.3. The Purpose of the System of Internal Control

1.3.1. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Hammersmith & Fulham's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

1.4. The Internal Control Environment

1.4.1. The CIPFA Public Sector Internal Audit Standards defines the control environment as providing the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

1.5. Review of Effectiveness

1.5.1. The London Borough of Hammersmith & Fulham has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual letter and other reports.

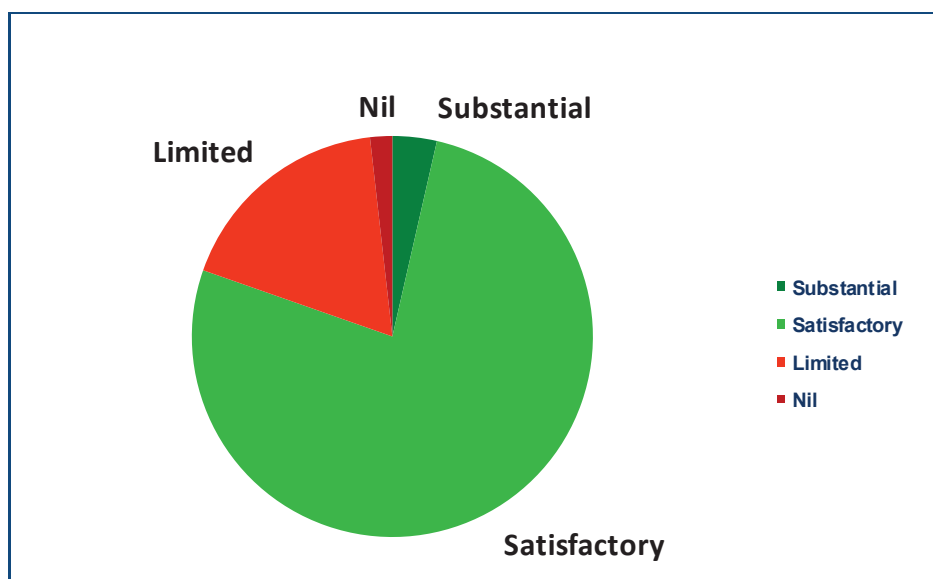
1.6. Head of Internal Audit Annual Opinion Statement

- 1.6.1. Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2014/15, including our assessment of the London Borough of Hammersmith & Fulham's corporate governance and risk management arrangements.
- 1.6.2. The internal audit plan for 2014/15 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

1.7. Basis of Assurance

- 1.7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Public Sector Internal Audit Standards and additionally from our own internal quality assurance systems.
- 1.7.2. Our opinion is limited to the work carried out by Internal Audit based upon the internal audit plan. Where possible we have considered the work of other assurance providers, including such as External Audit and the Internal Audit services of Royal Borough of Kensington and Chelsea and Westminster City Council as part of the tri borough arrangement.
- 1.7.3. The audit work that was completed for the 2014/15 financial year is listed in Appendices A, C and D. Appendix A lists all the audits where assurance opinions are provided.
- 1.7.4. The pie chart below shows the levels of audit assurance achieved for the 2014/15 year. 80% of the systems audited achieved an assurance level of Satisfactory or higher, of which two audits received Substantial Assurance. 17% received a Limited Assurance and one Nil Assurance report was issued in 2014/15. Three of the ten Limited Assurance reports were for schools and three related to the Managed Services Project.

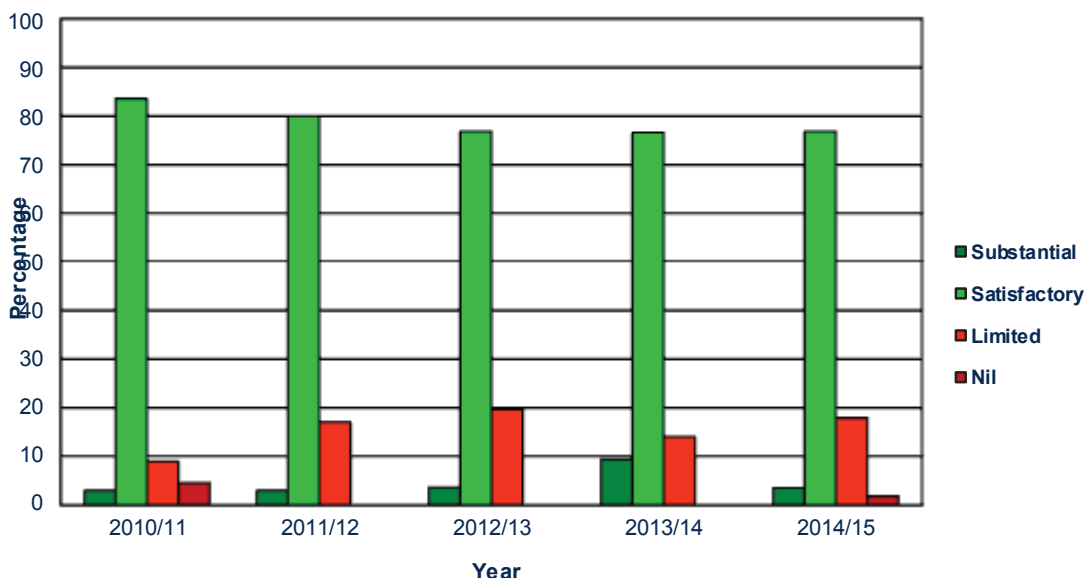
Assurance Levels for the year to 31 March 2015



- 1.7.5. The bar chart below shows the levels of assurance provided for all systems audited since the 2010/11 financial year. The distribution of assurance opinions shows a relatively stable

position in the number of Limited assurance and substantial assurance reports. Given the significant changes than continue to occur across the Council, which would usually be expected to increase levels of control weakness, this is considered a positive outcome. As stated above, three of the ten Limited Assurance reports were for schools and three related to the Managed Services Project leaving only 4 arising from mainstream council departments.

Assurance Levels of Reports from 2010/11 to 2014/15

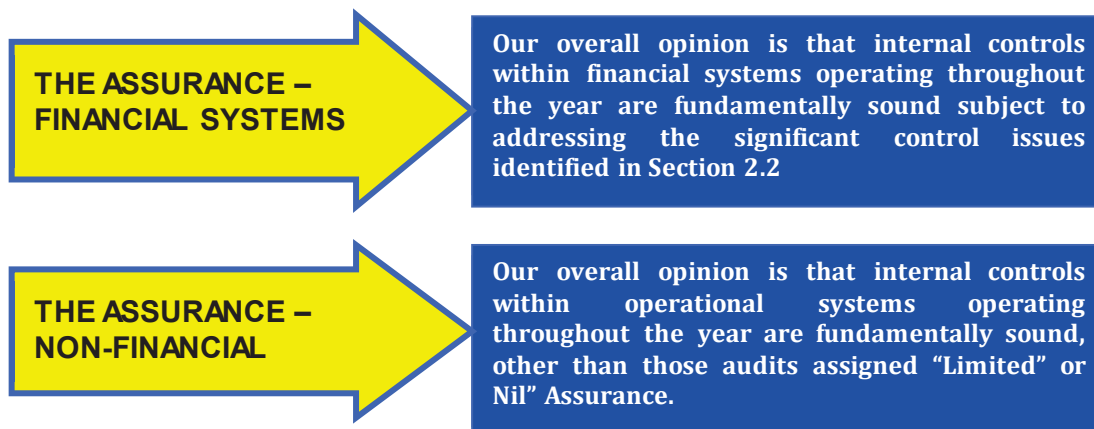


1.7.6. Recommendations to take corrective action were agreed with management and we will continue to undertake follow up work in 2015/16 to confirm that they have been implemented. The table below shows the number of recommendations past their implementation date reported as implemented. The volume of recommendations that have been implemented over the period help demonstrate the value of Internal Audit as an agent for change and improvement. The 2014/15 year naturally has fewer implemented recommendations because many have only recently been raised and are not yet timetabled for implementation. Recommendations that have not been implemented that have passed their implementation deadline will continue to be reported to Departmental Management Teams and the Audit, Pensions and Standards Committee.

Financial year	Recommendations Implemented as at 11 February 2015
2014/15	63
2013/14	227
2012/13	244

1.8. 2014/2015 Year Opinion

1.8.1. From the Internal Audit work undertaken in 2014/15, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2015 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 2.2. The assurance can be further broken down between financial and non-financial systems, as follows:



1.8.2. In reaching this opinion, the following factors were taken into particular consideration:

- a) The whole programme of internal audit work undertaken by Mazars between 1 April 2014 and 31 March 2015. This included a review of the Council’s Corporate Governance and Risk Management arrangements;
- b) Internal Audit work undertaken by the Royal Borough of Kensington and Chelsea and Westminster City Council on shared services.
- c) Year-end review of Internal Audit against CIPFA’s Public Sector Internal Audit Standards as part of the Annual Governance Statement (AGS) process in May 2015 provided a positive result;
- d) The outcome of audit work for which no assurance level was provided. A summary of work undertaken and key findings can be found in Appendix C; and
- e) Follow up of audits undertaken in the previous years. A summary of the outcome of these follow up visits can be found in Appendix D.

1.9. The System of Internal Financial Control

1.9.1. The system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council, in particular the system includes:

- Codes of practice and Financial Regulations;
- Standing Orders, Standing Financial Instructions and Schemes of Delegation;
- Comprehensive budgeting systems;
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecast;

- Setting targets to measure financial and other performance;
 - Clearly defined capital expenditure guidelines; and
 - A formal programme and Project management discipline.
- 1.9.2. Our review of the effectiveness of systems of internal financial control is informed by:
- The work of internal audit as described in Appendices A, C and D; and
 - The external auditors in their management letter and other reports.
- 1.9.3. From the above, we are satisfied that the Council has in place a sound system of internal financial controls, with the exception of those significant control weaknesses identified within this report. Based on the management responses provided to our recommendations, we are also satisfied that mechanisms have been put in place which would identify and address any material areas of weakness.

1.10. Corporate Governance

1.10.1. In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE and updated in 2013. This opinion is based on the work of Internal Audit as described in Appendix A, which provided a 'satisfactory' level of assurance as to the Corporate Governance systems in place.

1.11. Risk Management

1.11.1. Three risk management audits were completed as part of the 2014/15 audit plan. Namely, Corporate Risk Management (including Information Risk Management) and audit of risk management within both the Transport and Technical Services and Children's Services Departments.

1.11.2. A Satisfactory assurance opinion was provided for Corporate Risk Management. Recommendations were raised that related to:

- Defining individuals rather than groups as risk owners
- Reviewing the format of the Strategic Tri Borough Risk Register to make a clearer distinction between existing controls, future controls and sources of assurance.
- Including any additional mitigating actions and their deadline for implementation in the Strategic IT Risk Register

1.11.3. A Satisfactory assurance opinion was provided for the audits of Transport and Technical Services and Children's Services. Recommendations raised related to:

- Defining individuals rather than groups as risk owners
- Considering whether specific change projects within each division are significant enough to be included in the risk registers.
- Putting in place a bottom-up risk identification process in Children's Services and separate risk registers put in place for each Division. These should be discussed regularly at the Divisional level, and risks escalated to the Departmental Risk Register where required.
- Including columns in the register for proposed action to remedy gaps in control and date of implementation and also including details of sources of assurance and evidence for the effectiveness of the existing controls.

1.11.4. In drawing together our opinion we have relied upon:

- Our assessment of risk management through individual audits;
- The role of the Risk Manager who has Council wide responsibilities for co-ordinating and implementing the risk management policies across the London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea; and
- The work of Internal Audit as described in Appendices A, C and D.

1.12. We would like to take this opportunity to formally record our thanks for the co-operation and support we have received from the management and staff during the year, and we look forward to this continuing over the coming years.

CHIEF INTERNAL AUDITOR

May 2015

2. Detailed Report

2.1. Introduction

2.1.1. This section outlines the following:

- Any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- Any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- The identification of work undertaken by other assurance bodies upon which Internal Audit has placed an assurance to help formulate its opinion;
- The management processes adopted to deliver risk management and governance requirements; and
- A brief summary of the audit service performance against agreed performance measures.

2.2. Significant Control Weaknesses

2.2.1. Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2014/15, the following significant issues were identified:

- Weaknesses were found in the application controls of the Council's Parking System, ICPS. A new system is in the process of being implemented and we have been advised that these weaknesses will be addressed.
- Four schools received Limited Assurance opinions (Langford Primary, Melcombe Primary, The Good Shepherd RC Primary and Jack Tizard School), which is a deterioration on the previous year where two schools received a Limited Assurance opinion;
- Weaknesses were found in administration of the Council's Cemeteries and Bereavement Service. These mainly related to Health and Safety Risk Management and income collection controls.
- Weaknesses were found in the service management arrangements for the Council's relationship with 3BM - an employee led mutual providing services to schools.
- All Three audit reports issued in relation to the Managed Services Programme were given limited assurance. These covered, System Testing, High Level IT Controls and Change Configuration and Release Management.
- In quarter 4 of 2014/15 we undertook key controls testing on Payroll and Recruitment. A number of controls tested were not operating effectively based on the information provided.

2.2.2. Significant control weaknesses stated in the Council's Annual Governance statement include:

2014-15

2.2.3. While generally satisfied with the effectiveness of corporate governance arrangements and the internal control environment, as part of continuing efforts to improve governance arrangements the following issue was highlighted in the Annual Governance Statement.

2.2.4. Managed Services - The Managed Services Programme is intended to standardise operations and reduce costs across Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Councils. It provides a standard system irrespective of the Council or the Service. The system that was chosen provides a common transactional Human Resources, Payroll and Finance service. It is expected to provide a saving of over £6 million by 2015/16 across the three boroughs.

2.2.5. There were four audits of the programme undertaken during the year of which a limited assurance was determined of the control environment associated with systems readiness, change management and testing. This reflected the normal condition of a complex business cycle.

2.2.6. The majority of the system went live on 1 April 2015 and there are inevitable initial problems that had not been foreseen and which are currently being worked through. It is anticipated that the new system will be fully operational by the end of June 2015.

2.3. Key Issues

2.3.1. There are a range of key issues that are likely to be of significance for the 2015/16 year and beyond that Internal Audit need to be aware of. These include:

- The continued impact of the current economic climate on the Council's finances through reduced levels of income with councils facing further reductions in the amount of money they receive from Government. This is coupled with other factors such as likely increases in demand for services and the performance levels and financial stability of organisations the Council works with;
- The result of the May 2015 General Election;
- Transformation programme and projects continue to be undertaken to deliver savings, particularly within the Adult Social Care Department. This degree of change brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. We would expect continued Internal Audit involvement in transformation projects and new initiatives, both to provide assurance and provide early support for new systems being 'right first time';
- Continued cross borough working with Westminster Council and the Royal Borough of Kensington and Chelsea during this period of change may give rise to additional risks related to governance, delegation of powers, performance management and financial management of shared services;
- Hammersmith & Fulham have entered into a managed services contract with BT that has effected a radical redesign of the Council's human resources and finance services. This went live in April 2015 and has led to significant changes to systems, process and ways of working across the Council. The full service

continues to be implemented, working towards its long term steady state. We will continue to undertake a series of audits in this area in 2015/16

2.4. Qualifications to the opinion

2.4.1. Internal Audit has had unrestricted access to all areas and systems across the Authority and has received appropriate co-operation from officers and members.

2.5. Other Assurance Bodies

2.5.1. In formulating the overall opinion on internal control, we took into account the work undertaken by the following organisation, and their resulting findings and conclusion:

- a) The annual letter from the Authority's external auditors; and
- b) Internal audit work undertaken by Royal Borough of Kensington and Chelsea and Westminster City Council as part of the internal audit shared service.

2.6. Risk Management Process

2.6.1. The principle features of the risk management process are described below:

2.6.2. Risk Management Policy

The Authority has established a Risk Management Policy that sets out the Authority's attitude to risk and to the achievement of business objectives. The Policy:

- a) explains the Authority's underlying approach to risk management;
- b) documents the roles and responsibilities of the Authority and directorates;
- c) outlines key aspects of the risk management process; and
- d) identifies the main reporting procedures.

This Policy has been communicated to key employees and can be accessed on the Authority's intranet.

2.6.3. Risk Registers

The Authority has departmental and divisional risk registers in place, as well as registers for specialist areas including IT, finance and fraud. Procedures are in place for risk registers to be reviewed at least on a bi-annual basis. We adopt a risk based auditing approach.

2.7. Audit Plan

2.7.1. The Operational Plan for the 2015/16 year drew on corporate and departmental risk registers and other issues brought to the attention of Internal Audit, as well as the use of an audit universe that identifies all organisational activities that can be considered for audit coverage. We agreed and discussed the audit plan with Executive Directors, Directors and Heads of Service. We also consulted various other sources and coordinated the plan with those of the Royal Borough of Kensington and Chelsea and Westminster City Council.

2.7.2. Our operational planning is designed to provide an even flow of work throughout the year, and to allow us to monitor progress. As a result, this information can be used as a key benchmark against which progress on individual assignments can be measured.

2.7.3. The level of Internal Audit resources was considered adequate for the 2014/15 year. Also the Internal Audit service continued to maintain its independence from the day to day operations of the organisation, the chief mechanisms for this were the use of a contractor, Mazars, to deliver the core audit service plus the use of the audit services from RBKC and WCC to deliver parts of the audit programme.

2.8. Internal Audit Assurance Levels

- 2.8.1. Appendix A sets out the level of assurance achieved on each systems audit and the change in assurance opinion where the audit has been undertaken previously. Five areas audited this year have shown deterioration in control since the last time they were audited: Langford Primary, Melcombe Primary, The Good Shepherd RC Primary, Jack Tizard School and the ICPS Application. The remaining areas have either remained the same or improved.
- 2.8.2. Of the 10 audits that received a Limited or Nil Assurance opinion (nine final and one draft) four were schools, one related to Environment Leisure and Residents Services, one within Transport and Technical Services, one within Housing and Regeneration and the remaining three to the Managed Services Programme. In all cases, audit recommendations were agreed with management at the time of the audit along with an action plan to address the identified weaknesses. Follow up audits will be undertaken in each case to review the adequacy and effectiveness of the corrective action taken.
- 2.8.3. Ten follow up visits were undertaken in 2014/15 to determine if recommendations raised within previous audit visits have been implemented. A summary of our findings can be found in Appendix D.
- 2.8.4. In total, 91 recommendations have been followed up, of which 62 were either fully implemented or no longer relevant, representing 68% of all those tested. If partially implemented recommendations are added this totals 93% of all those tested. This is an improvement since 2014/15. The follow up regime will continue so that it can continue to provide assurance going forward and the result of all follow ups will continue to be reported to the Audit Pensions and Standards Committee.
- 2.8.5. We also undertook follow-ups on high priority recommendations raised in reports given 'Substantial' assurance and Management Letters where no assurance level was provided. Of the 9 high priority recommendations followed up, 6 were assessed as fully implemented and 2 as partly implemented with one no longer being applicable. The recommendations and results of our follow up work can be seen in appendix D.

2.9. Internal Audit Performance

- 2.9.1. Appendix B sets out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against targets. Overall performance of Internal Audit is broadly in line with 2013/14, with all targets being achieved or narrowly missed. Considering the impact of the ongoing transfer to a shared internal audit service, this is a good achievement. Focus will be given to maintaining or improving these performance standards in 2015/16.
- 2.9.2. The target of delivering 95% of the audit plan by the end of the 2014/15 financial year was achieved and this is the sixth year in a row in which this target has been achieved. It should be noted that 167 audit days were deferred into the 2015/16 audit plan due to project delays or reasonable management requests to defer. This compares to 155 in the previous year. The large proportion of the days carried forward relate to audits of

the Managed Services Programme that has been subject to delays.

2.10. Compliance with CIPFA Public Sector Internal Audit Standards

2.10.1. Internal Audit has comprehensive quality control and assurance processes in place and we can confirm that we comply with the CIPFA Public Sector Internal Audit Standards. Our assurance is drawn from:

- a) Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Deloitte / Mazars;
- b) A review in May 2015 against the new enhanced PSIA Standards.

2.11. Working with External Audit

2.11.1. The Council's external auditors do not intend to rely on the work of internal audit at this stage other than our work on the Managed Services Programme however they have asked for copies of a number of audit reports issued in 2014/15. We have been in liaison with External Audit and will continue to offer information and support where requested.

2.12. Internal Audit Provision Going Forward

2.12.1. The following aspects will impact on the future delivery of the Internal Audit service:

- Shared working with Westminster and RBKC has led to increased coordination of the 2015/16 planning process across the three boroughs. This approach aims to increase the level of assurance received by each Council as well as better coordinating audit work across the three boroughs. Mazars has also been appointed as the sole outsourced internal audit provider for the three boroughs. Previously two outsourced providers were used.
- As transformation projects and changes to service delivery continue to be undertaken, there is likely to be increased requirement for Internal Audit involvement in transformation projects and new initiatives at an early stage to provide both assurance and support but with the minimum of disruption.

APPENDIX A - Assurance Levels 01/04/2014 – 31/03/2015

The table below provides a summary of the assurances assigned to each of our audits. Where the direction of travel column is blank, no similar audit has previously been conducted.

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
FINALISED						
Corporate / Finance	Procurement audit - Cash in Transit					31/03/2015
Corporate / Finance	Risk Management (including Information management)			↔		16/02/2015
Corporate / Finance	MFD Estate					06/03/2015
Corporate / Finance	Organisational Health and Safety			↔		06/03/2015
Corporate / Finance	Gas safety: corporate policy, governance and corporate estate			↔		01/10/2014
Corporate / Finance	HFBP Contract Management			↔		11/12/2014
Corporate / Finance (IT)	CapitalESourcing Application					30/06/2014
Corporate / Finance (IT)	MSP - System Testing					08/10/2014
Corporate / Finance (IT)	MSP - High Level review					18/07/2014
Corporate / Finance (IT)	MSP - Change, Release and Configuration Management					23/03/2015
Corporate / Finance (IT)	IT Asset Inventory / Disposals			→		21/10/2014
Corporate / Finance (IT)	Mobile devices Security Review					02/12/2014
Corporate / Finance (IT)	Cloud Management					15/10/2014
Adult Social Care	Reablement			↔		18/11/2014
Adult Social Care	Ellerslie Day Centre			↔		18/11/2014
Adult Social Care	Options Day Centre			↔		17/03/2015
Adult Social Care	Imperial Wharf Day Centre			↔		17/03/2015
Children's Services (School)	Randolph Beresford			↔		30/07/2014
Children's Services (School)	Addison			↔		06/03/2015

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
Children's Services (School)	Flora Gardens			↔		11/11/2014
Children's Services (School)	Langford		←			07/01/2015
Children's Services (School)	Melcombe		←			03/10/2014
Children's Services (School)	Normand Croft			↔		19/09/2014
Children's Services (School)	Queens Manor			↔		10/07/2014
Children's Services (School)	Wormholt Park			↔		09/12/2014
Children's Services (School)	The Good Shepherd RC		←			09/02/2015
Children's Services (School)	St. John's CE Walham Green			↔		21/11/2014
Children's Services (School)	St. Peter's CE			↔		30/07/2014
Children's Services (School)	Jack Tizard		←			17/07/2014
Children's Services	The Haven					26/11/2014
Transport and Technical Services	Departmental Risk Management					31/10/2014
Transport and Technical Services	Rechargeable Street Works			↔		26/11/2014
Transport and Technical Services	Highways Licensing			↔		14/01/2015
Transport and Technical Services (IT)	ICPS Application		←			29/10/2014
Environment Leisure and Residents Services	Cemeteries and Bereavement Service					16/12/2014
Environment Leisure and Residents Service	SERCO Contract Management			↔		22/08/2014
Housing and Regeneration	MITIE Repairs and Maintenance					20/02/2015
Housing and Regeneration	Pinnacle Housing Contract Management					01/10/2014
Housing and Regeneration	Adult Education					09/09/2014
Housing and Regeneration (IT)	MITIE (CRM system)					08/12/2014
Draft						

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
Corporate / Finance	Organisational Resilience / Business Continuity			↔		31/03/2015
Corporate / Finance	Corporate Governance			↔		17/04/2015
Corporate / Finance (IT)	Academy Application			↔		17/03/2015
Corporate / Finance	Election Expenses			↔		18/02/2015
Adult Social Care	Personalisation			↔		17/04/2015
Children's Services (School)	Holy Cross RC			↔		28/01/2015
Children's Services	3BM service management					07/04/2015
Children's Services	ELM Project Management					30/03/2015
Children's Services	Departmental Risk Management					24/02/2015
Children's Services (IT)	Frameworki Application					30/03/2015
Children's Services	Schools Admissions					08/04/2015
Housing and Regeneration	Health and safety of housing service users					22/01/2015
Housing and Regeneration	OnePlace Project Management					10/03/2015
Transport and Technical Services	New Roads and Street Works Act					23/03/2015
Transport and Technical Services	Procurement Audit - Vehicle Removal and Car Pound					30/03/2015
Transport and Technical Services	Procurement Audit – Parking Management Information System					20/04/2015
In Progress						
Corporate / Finance	MSP - Data Migration					-
Corporate / Finance	MSP – Interfaces					-
Corporate / Finance	MSP - Benefits Management					-
Corporate / Finance	MSP - High Level Review of Controls					-
Corporate / Finance	MSP - Implementation Planning					-
Adult Social Care	CIS S75 agreement					-
Adult Social Care	NHS Pooled Budgets					-
Housing and Regeneration	Temporary Accommodation					-
Housing and Regeneration	Tenancy Management					-

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
Housing and Regeneration	Temporary Accommodation Procurement					-
Total		1	10	43	2	

Total Reports (including those not yet issued)	66
---	----

In addition to the work detailed above, the table below provides a summary of the assurances assigned to each audit undertaken by the RBKC or WCC internal audit teams that relate to LBHF functions.

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
FINALISED						
Transport and Technical Services	Residents Parking Permits					11/09/2014
Corporate / Finance	CAFAM Amey FM System (IT)					11/02/2015
Children's Services	Youth Offending team					28/01/2015
Adult Social Care	Meals on Wheels					19/11/2014
Public Health	Procurement					14/11/2014
Transport and Technical Services	Abandoned Vehicles: Car Recovery and Pound					15/10/2014
Transport and Technical Services	Environmental Health – Noise and Nuisance					08/12/2014
Environment, Leisure and Residents Services	Markets					21/11/2014
Environment, Leisure and Residents Services	Commercial Vehicle Fleet, Lease Vehicles and Fuel Cards					28/10/2014
Children's Services	CHS Commissioning and Procurement					18/05/2015
Children's Services	CHS Budgetary Control and Financial Management					21/04/2015
Children's Services	Passenger Transport: Post Procurement contract management					24/04/2015
Adult Social Care	Carers Support					21/04/2015
Adult Social Care	Day Care					15/04/2015
DRAFT						
Adult Social Care	Information Governance					21/04/2015
Children's Services	2 Year Old Offer					18/03/2015
Corporate Services	Data Transparency 2014 Code Compliance					30/04/2015
NOT YET ISSUED						
Corporate Services	Multiple User Access Profiles					-

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
Children's Services	School Meals Contract					-
Children's Services	Early Help					-
Total		0	3	12	1	

Assurance Levels

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

Substantial Assurance	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.
Satisfactory Assurance	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Direction of travel

→	Improved since the last audit visit. Position of the arrow indicates previous status.
←	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
↔	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

APPENDIX B - Internal Audit Performance – 2014/15

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to the Authority. The table below shows the actual and targets for each indicator for the period.

Performance Indicators		Annual Target	Performance	Variance
1	% of deliverables completed (2014/15)	95%	95%	0
2	% of planned audit days delivered (2014/15)	95%	97%	+2%
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	100%	+5%
4	% of Draft reports issued within 10 working days of exit meeting	95%	90%	-5% *
5	% of Final reports issued within 5 working days of the management responses	100%	100%	0%

* Average time to issue draft report following exit meeting was 6.2 days against the target of 10 days

APPENDIX C: Internal Audit work for which an assurance opinion was not provided

The table below provides a summary of the scope and key findings of audit work for which no overall assurance opinion was provided.

Department	Audit	Issued
Final		
Adult Social Care	Direct Payments	19/12/2014
Finance / Corporate	Payroll testing	20/04/2015
Finance / Corporate	HR Testing	20/04/2015
Finance / Corporate	Accounts Payable testing	03/02/2015
Finance / Corporate	Accounts Receivable Testing	03/02/2015
Finance / Corporate	General Ledger Testing	03/02/2015
Finance / Corporate	Invoice Processing	22/08/2014
Children's Services	Adoption Reform Grant	18/06/2014
Environment, Leisure and Resident Services	Report it App	09/12/2014
Finance / Corporate	ALSS MIS Contract	19/11/2015
Housing and Regeneration	HRD Development Appraisal Model	09/02/2015

APPENDIX D - Follow up Audits

Follow up visits were undertaken on the following audits that received a 'Limited' or 'Nil' assurance opinion in their 2013/14 or 2014/15 audit visit. The number of recommendations found to be implemented was as follows:

Department	Audit	Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
Corporate / Finance	Health and Safety Risk Management	9	7	2	0	0
Housing and Regeneration	Housing Capital Programme	7	7	0	0	0
Children's Services (Schools)	St Pauls CE School	6	6	0	0	0
Housing and Regeneration	Regeneration Governance	5	1	3	0	1
Housing and Regeneration	HRD Performance Management	6	2	3	1	0
Children's Services (Schools)	Kenmont School	10	2	3	5	0
Transport and Technical Services	Parking Pay and Display	11	10	1	0	0
Corporate / Finance	Total Facilities Management *	11	10	1	0	0
Adult Social Care	Home Meals and Frozen Food Delivery Service *	11	9	2	0	0
Public Health	Public Health Governance **	13	8	5	0	0
	Total	91	61	23	6	1
	%		67	25	7	1


* Undertaken by Royal Borough of Kensington and Chelsea Internal Audit Team

** Undertaken by Westminster City Council Internal Audit Team

In addition to the follow up visits undertaken, nine high priority recommendations raised in substantial assurance reports and management letters where no assurance opinion was provided were followed up to confirm implementation. The results were as follows:

Priority 1 Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
9	6	2	0	1
%	67	22	0%	11

Agenda Item 12

 hammersmith & fulham	London Borough of Hammersmith & Fulham AUDIT PENSIONS AND STANDARDS COMMITTEE 17 June 2015
RISK MANAGEMENT	
Report of the Director of Finance	
Open Report	
For Review & Comment	
Key Decision: No	
Wards Affected: None	
Accountable Director: Hitesh Jolapara, Director of Finance	
Report Author: Michael Sloniowski, Shared Services Risk Manager	Contact Details: Tel: 020 8753 2587 michael.sloniowski@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. The Committee are asked to note the Accounts and Audit Regulations 2015 amendments that specifically concern risk management.
- 1.2. The Audit Pensions and Standards Committee in February 2015 monitored the key strategic risks at corporate level for the Borough and the key operational risks identified by individual departments. This paper provides an update of the current status in respect of strategic risks currently identified for 2015 - 2016. The paper also presents, for Members discussion, a forward plan recommending departments attend the Committee in future to report on:
 - (a) Whether or not the risk profile is changing;
 - (b) To gain assurance that risk management is effectively implemented by departments, and to identify when further action is necessary.

2. RECOMMENDATIONS

- 2.1. The Committee are asked to note the amendments to the Accounts and Audit Regulations 2015, a statutory instrument, that concern risk management which was laid before Parliament on 17 February 2015 and came into effect on the 1st April 2015.

- 2.2. In order that the Council meets the requirement of the regulations the Committee are asked to note that quarterly review of strategic risks faced by the Council has been undertaken by Hammersmith and Fulham Business Board. The Committee are also invited to consider these risks and corresponding mitigations in the register for appropriateness, attached as **Appendix 1**.
- 2.3. The Committee are asked to approve the forward plan for risk management review of departments attached as **Appendix 2**.

3. REASONS FOR DECISION

- 3.1. On April 1, 2015, the Accounts and Audit Regulations 2015 replaced the former Accounts and Audit Regulations 2011. The Audit Pensions and Standards Committee's role is to provide an oversight of the authority's processes to comply with the regulations and facilitate the identification and management of key risks. By ensuring that effective management of risk is undertaken services can benefit by reducing their significance; either by reducing the level of impact or likelihood.

4. INTRODUCTION AND BACKGROUND

- 4.1. Sections three and four of the Accounts and Audit Regulations 2015 set out the Council's responsibility for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk.
- 4.2. The purpose of the Audit Pension and Standards Committee is to provide the Leader of the Council and Chief Executive additional assurance on the adequacy of the risk management framework by overseeing and ensuring that effective risk management arrangements are in place. The Strategic Shared Services risk register is provided to the Committee to inform them of the risks associated with major areas of activity.

5. PROPOSAL AND ISSUES

Accounts and Audit Regulations 2015

- 5.1. The Committee are reminded of the amendments to the Accounts and Audit Regulations 2015, a statutory instrument, concerning risk management that was laid before Parliament on 17 February 2015 and came into effect on the 1st April 2015.
- 5.2. Part two, section three of the instrument relates to the Internal Control of the Council and states;

'3. A relevant authority must ensure that it has a sound system of internal control which;

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.'

5.3. Part four, section four of the instrument relate to financial control and states;

'4 The financial control systems determined in accordance with paragraph (1)(b) must include;

measures;

- (i) to ensure that the financial transactions of the authority are recorded as soon as, and as accurately as, reasonably practicable;
- (ii) to enable the prevention and the detection of inaccuracies and fraud, and the reconstitution of any lost records; and
- (iii) to ensure that risk is appropriately managed;'

5.4. The Council and the Audit Pension and Standards Committee is committed to ensuring an integrated risk management process exists within all working practices and management processes, including corporate governance, the budget setting process and medium term financial plan, business planning, performance management, programme and project management and partnerships to meet the requirements of these regulations.

Risk Register

5.5. The strategic risk register attached as Appendix 1, holds a variety of business risks focussing on the strategic objectives set for the council. These have recently been reviewed by the Interim Chief Executive and Executive Directors at Hammersmith and Fulham's Business Board.

5.6. Risks are prioritised for reporting in accordance to the scoring methodology highlighted within the risk management strategy. The range or spectrum of risks comprising significant risk is commonly defined as being made up of three major categories of risk - strategic, change and service delivery (operational business as usual) risks. Hammersmith and Fulham Council categorise risk in this way and that is consistent with good practice as defined by the Institute of Risk Management, Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Internal Auditors.

- 5.7. The unifying factor of all of the Council's key, potentially large-scale and significant risks, are that they are inter-related and form part of a wider collective or portfolio effect of risk exposure to the Council.
- 5.8. Management of this exposure is most effective and efficient when undertaken in common, collective and portfolio terms, rather than on an individual risk by risk basis or appetite by appetite basis varying across different directorates.

Forward plan.

- 5.9. Risks identified by departments are recorded in Departmental risk registers. Departmental risk registers also include operational risks affecting teams but excludes low level operational or specialist activities where other risk assessments exist, for example health and safety at work. A forward plan of departments invited to attend the Committee has been prepared and is attached as **Appendix 2**.
- 5.10. Departments remain responsible for the self-regulation of their departmental risk management arrangements, including identification, measurement and reporting. Where appropriate, risks identified in these risk registers have been incorporated into the annual audit planning process to enable audit resources to be directed to the most appropriate areas that may affect business assurance.

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1. *Not applicable as the report is a representation of the business risks and opportunities to H&F Council.*

7. CONSULTATION

- 7.1. *Not applicable as the report addresses the business risks to H&F Council.*

8. EQUALITY IMPLICATIONS

- 8.1. *The responsibility to complete Equality Impact Assessment in relation to policy decisions is the responsibility of the appropriate departmental officer. The report highlights some of the risks and consequences of risk taking over a broad landscape and as such specific Equality and Diversity issues are referred to in the council's Risk Register.*

9. LEGAL IMPLICATIONS

- 9.1. *Failure to manage risk effectively may give rise to increased exposure to litigation, claims and complaints. As such the report contributes to the effective Corporate Governance of the council.*

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1. *Exposure to unplanned risk could be detrimental to the ongoing financial and reputational standing of the Council. Failure to innovate and take positive risks may result in loss of opportunity and reduced Value for Money. There are no direct financial implications with the report content.*

11. RISK MANAGEMENT

- 11.1. *It is the responsibility of management to mitigate risk to an acceptable level. Appropriate and proportionate mitigating actions to known risks are expressed in the Risk Register and subject to review as part of planned Audit work and the Annual Governance Statement.*
- 11.2. Implications verified/completed by: Michael Sloniowski, Principal Consultant Risk Management. 020 8753 2587

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 12.1. *Failure to address risk in procurement may lead to a reduction in the expected benefits (Value for Money, Efficiency, Resilience, Quality of Service) and leave the council exposed to potential fraud and collusion as identified in the Bribery Act.*

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Association of Local Authority Risk Managers & Institute of Risk Management, 2002, A Risk Management Standard	Michael Sloniowski 2587	Shared Services Internal Audit, Town Hall, Kensington
2.	The Orange Book, Management of Risk Principles & Concepts – HM Treasury	Michael Sloniowski 2587	Shared Services Internal Audit, Town Hall, Kensington
3.	Departmental Risk Registers, Shared Services Portfolio risk logs	Michael Sloniowski 2587	Shared Services Internal Audit, Town Hall, Kensington

4.	Shared Services Programme report updates	Michael Sloniowski 2587	TriBnet
5.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Shared Services Internal Audit, Town Hall, Kensington

LIST OF APPENDICES:

Appendix 1 - Strategic Shared Services Risk Register

Appendix 2 - Forward Plan

SHARED SERVICES RISK REGISTER DASHBOARD

Review date 07/05/2015

Ref	RISK			Assigned To	Residual risk assessment: Quarter 1				DOT	Residual risk assessment: Quarter 2				DOT	Reducing the risk		
	Risk cause and context				Likelihood	Impact	Overall	Likelihood		Impact	Overall	Management comments on measures.	Management control measures, planned action(s)		Date / in place		
Strategic risks																	
h&f	RBKC	WCC		OFFICER(S)	3	4	12	↑	4	4	16	↓					
1	Managing budgets, finance risks and systems.				Management controls					Comments							
	Managing reductions in local, regional and national (capital and revenue) income streams. Impact of the movement away from sovereign Finance systems to the Managed Service for accounts payable, accounts receivable, management of the chart of accounts, management reporting and auditing.			Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea. Hitesh Jolapara, Bi-borough Director for Finances.	Budget proposals (growth and reductions). Capital and Revenue monitoring. Managed Services Programme Team, communications, incident reporting and resolution, contingencies, sanctions and escalations with the service provider.								Move to Managed Services for financial transactional services, stabilisation period then handover to Intelligent Client Function.	June - July 2015			
h&f	RBKC	WCC		OFFICER(S)	5	4	20	↑	3	4	12	↑					
2	Loss of Government grant.				Management controls					Comments							
	Increase in difficulty to respond to reductions in grants allocated by central government, in particular to specific grants affecting residents and stakeholders.			Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea. Hitesh Jolapara, Bi-borough Director for Finances.	Business and financial planning. Medium term financial strategy.								New proposals for h&f strategic procurement.	July-August 2015			

SHARED SERVICES RISK REGISTER DASHBOARD

Review date 07/05/2015

Ref	RISK			Assigned To	Residual risk assessment: Quarter 1				DOT	Residual risk assessment: Quarter 2				DOT	Reducing the risk		
	Risk cause and context				Likelihood	Impact	Overall	Likelihood		Impact	Overall	Management comments on measures.	Management control measures, planned action(s)		Date / in place		
h&f	RBKC	WCC		OFFICER(S)	3	4	12	↑	3	4	12	→					
3	Management of the Better Care fund.				Management controls					Comments							
	Compliance with the Care Act legislation underpinning the BCF; <ul style="list-style-type: none"> • the accountability arrangements and flows of funding; • the reporting and monitoring requirements for 15-16; • arrangements for the operation of the payment for performance framework; • how progress against plans will be managed and what the escalation process will look like; and • the role of the BCF Task Force / Better Care Support Team going forward. 			Liz Bruce, Executive Director of Adult Social Care	The Care Act implementation programme. Governance arrangements to implement the Care Act reforms have been in place since April 2014. Workstream leads regularly report progress to the Care Act Implementation Board, chaired by Liz Bruce. Risks are regularly monitored by the programme and major risks logged on a risk register.					The process for managing personal budgets has been outlined in a new set of Adult Social Care (ASC) standard operating procedures, which all ASC staff will adopt. Demand and Financial Modelling - the Care Act is expected to result in a significant increase in the requirement for assessments for carers, prison population and self-funders with needs for care and support. Work has been undertaken to predict the level of demand, and interim workforce capacity will be put in place to respond to increased demand. Implementation of new safeguarding duties – the London Association of Directors of Adult Social Services (ADASS) is developing a Care Act			April 2015				

SHARED SERVICES RISK REGISTER DASHBOARD

Review date 07/05/2015

Ref	RISK			Assigned To	Residual risk assessment: Quarter 1				Residual risk assessment: Quarter 2				Reducing the risk		
	Risk cause and context				Likelihood	Impact	Overall	DOT	Likelihood	Impact	Overall	DOT	Management comments on measures.	Management control measures, planned action(s)	Date / in place
h&f	RBKC	WCC		OFFICER(S)	4	3	12	↑	3	4	12	→			
4	Market testing risks.				Management controls				Management controls				Comments		
	Delivering high quality commissioned services at the best cost to the taxpayer. Not achieving Social Value through procurement. Contract performance management.			Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea. Lyn Carpenter, Executive Director of Environment, Leisure and Resident Services.	A Shared Services Contracts Approval Board has been established. Adult Social Care and Childrens Services Departments have established contract and commissioning boards. Procurement Strategy Board (h&f). Contract registers are now managed through the CapitalESourcing e-procurement system hosted by Westminster City Council. Contract Standing Orders for h&f Council. Procurement regulations for the Royal Borough of Kensington and Chelsea.										
h&f	RBKC	WCC		OFFICER(S)	3	4	12	↑	3	4	12	→			
5	Failure to manage Public Health Service risks.				Management controls				Management controls				Comments		
				Meradin Peachey, Director of Public Health	Public Health strategic business plan and associated aims, deliverables and risks. The Public Health Outcomes framework. (The three boroughs will be measured against public health outcomes). Strategic direction is derived from a number of sources including; The Royal Borough of Kensington and Chelsea 2015/16 budget proposals. Shared Services Joint Strategic Needs Assessments.										
h&f	RBKC	WCC		OFFICER(S)	4	3	12	↑	3	4	12	→			
6	Business resilience.				Management controls				Management controls				Comments		
	Systems, processes and resources are not joined up in the event of a Royal Borough of Kensington and Chelsea and London Borough of Hammersmith and Fulham incident.			Lyn Carpenter, Executive Director of Environment, Leisure and Residents Services. Tony Redpath, Director of Strategy and Local Services, the Royal Borough of Kensington and Chelsea.	Corporate Incident Management procedures have been reviewed and updated. The Royal Borough of Kensington and Chelsea, Westminster City Council and h&f Council use Creditsafe for the assessment of credit and liquidity risks. Contractors are required to confirm their business continuity arrangements as part of the tendering process. Terrorism insurance cover.				Re-procurement of the Royal Borough's and WCC's Short Breaks for People with Learning Disabilities contract due to contractor performance.				The Royal Borough's Business Impact Analysis system is becoming obsolete. A decision on h&f Council and the Royal Borough using the Westminster City council system has been made. Resources are to be identified to undertake a data transfer exercise.	July-August 2015	

SHARED SERVICES RISK REGISTER DASHBOARD

Review date 07/05/2015

Ref	RISK			Assigned To	Residual risk assessment: Quarter 1				Residual risk assessment: Quarter 2				Reducing the risk		
	Risk cause and context				Likelihood	Impact	Overall	DOT	Likelihood	Impact	Overall	DOT	Management comments on measures.	Management control measures, planned action(s)	Date / in place
h&f	RBKC	WCC		OFFICER(S)	4	3	12	↑	4	4	16	↓			
7	Information management and digital continuity.			Management controls					Comments						
	Risks associated with the management, availability and security of information. Breach of the Data Protection or Freedom of Information Acts.			Ed Garcez, Chief Information Officer, Shared Services. Barry Holloway, Head of Information System, The Royal Borough of Kensington and Chelsea. Ben Goward, Interim Chief Information Officer, Westminster City Council.	Management controls Shared Services Information Management Strategy. Shared Services Information sharing register. Shared Services Information management work programme. Shared Services Privacy Impact Assessment process. Sovereign security incident management protocols and reporting. Caldicott Guardians for Adult Social Care and Childrens Services. Sovereign Senior Risk Information Officers. Netconsent software used at the Royal Borough of Kensington and Chelsea to train and inform I.T. users. h&f staff are required to complete and provide a certificate confirming they have passed training known as the Personal Commitment Statement. Potential breaches of policy can be treated as a potential disciplinary matter and referred to Human Resources or the Corporate Fraud team for investigation.				Data breach currently under investigation. Lower levels of compliance with Personal Commitment Statement than desirable in Children's Services = 53% complete; Adult Social Care = 68%			Development of; Shared Services Information Management policies; Learning and development programme; Governance; Communications strategy and creation of an Information Asset Register.	March 2016		

SHARED SERVICES RISK REGISTER DASHBOARD

Review date 07/05/2015

Ref	RISK			Assigned To	Residual risk assessment: Quarter 1				DOT	Residual risk assessment: Quarter 2				DOT	Reducing the risk		
	Risk cause and context				Likelihood	Impact	Overall	Likelihood		Impact	Overall	Management comments on measures.	Management control measures, planned action(s)		Date / in place		
h&f	RBKC	WCC		OFFICER(S)	4	3	12	↑	4	3	12	→					
8	Managing statutory duties.				Management controls					Comments							
	Non-compliance with laws and regulations. Breach of a duty of care. Equalities and Human Rights.			Nigel Pallace, Chief Executive, h&f Council. Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea. Charlie Parker, Chief Executive, Westminster City Council.	Local Codes of Corporate Governance, consituitions and schemes of delegation. Officers codes of conduct. Shared Health and Safety Service between the Royal Borough of Kensington and Chelsea and h&f Council. Shared Services Incident reporting on-line software. Shared Services training software, Workrite. Legislative changes are adopted and reflected in amendments to the Councils constituitions and budgets allocated through a unified business and financial planning process. Amey now manage a number of statutory and regulatory procedural and record management processes. Statutory returns to, for example, the Food Standards Agency, Health and Safety												

SHARED SERVICES RISK REGISTER DASHBOARD

Review date 07/05/2015

Ref	RISK			Assigned To	Residual risk assessment: Quarter 1				Residual risk assessment: Quarter 2				Reducing the risk		
	Risk cause and context				Likelihood	Impact	Overall	DOT	Likelihood	Impact	Overall	DOT	Management comments on measures.	Management control measures, planned action(s)	Date / in place
h&f	RBKC	WCC		OFFICER(S)	4	3	12	↑	3	4	12	→			
9	Standards and delivery of care.				Management controls				Management controls				Comments		
	Breach in the standard of delivery of care, caring services and care homes.			Liz Bruce, Executive Director of Adult Social Care Andrew Christie, Executive Director of Childrens Services	Insurance cover in place in the event of a claim for a breach of duty of care. Legislative changes are adopted and reflected in the Councils constitutions. Budget allocation is made through a unified business and financial planning process.										
h&f	RBKC	WCC		OFFICER(S)	4	3	12	↑	3	4	12	→			
10	Failure of partnerships and major contracts.				Management controls				Management controls				Comments		
	Nigel Pallace Interim Chief Executive, h&f Council Charlie Parker, Chief Executive, Westminster City Council Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.				The Link Intelligent Client Function (ICF) manages the AMEY Total Facilities Management contract. Contractor liquidity checking through Credisafe. Procurement and commissioning is undertaken through CapitalEsourcing software acting as a repository for contract information and providing a workflow for the procurement process. Section 113 agreements under the Local Government Act 1972 for Shared Services.								Intelligent Client Function (ICF) for Managed Services. Review of Shared Services Section 113 agreements. New proposals for h&f Strategic Procurement. May-June 2015		
h&f	RBKC	WCC		OFFICER(S)	4	3	12	↑	3	4	12	→			
11	Increase in complexity of working with partners.				Management controls				Management controls				Comments		
	Working with the National Health Services, Clinical Commissioning Groups, Police, G.P.'s., 3BM and Epic CIC Public Service mutuals.			Nigel Pallace Interim Chief Executive, h&f Council Charlie Parker, Chief Executive, Westminster City Council Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.	Information sharing protocols and agreements. Members scrutiny of partners risk management is undertaken by the Scrutiny Committees at the Royal Borough of Kensington and Chelsea and Policy and Accountability Committees at h&f.										

SHARED SERVICES RISK REGISTER DASHBOARD

Review date 07/05/2015

Ref	RISK			Assigned To	Residual risk assessment: Quarter 1				Residual risk assessment: Quarter 2				Reducing the risk		
	Risk cause and context				Likelihood	Impact	Overall	DOT	Likelihood	Impact	Overall	DOT	Management comments on measures.	Management control measures, planned action(s)	Date / in place
h&f	RBKC	WCC			4	3	12	↑	3	4	12	→			
12	Decision making and maintaining reputation and service standards. Pre-determination of policies or contract reviews. Breach of Officer or Member code of conduct. Breach of Information Security or Governance or Confidentiality. Poor quality data internally or from third parties.			Nigel Pallace Interim Chief Executive, h&f Council Steve Mair, City Treasurer, Westminster City Council Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.	Management controls Feasibility studies and options appraisals. Members induction programme. Capacity building of I.T. and Staff. Business planning and performance management and information. Complaints and compliments reviews reported to Committees.							Comments			
h&f	RBKC	WCC			4	3	12	↑	3	4	12	→			
13	Failure to identify and address internal and external fraud.			Hitesh Jolapara Bi-borough Director of Finance, h&f Council Steve Mair, City Treasurer, Westminster City Council Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.	Management controls Shared Services Corporate Fraud function. Risk assessment used to assist in targeting fraud and for workload prioritisation. Whistleblowing policy, Bribery policy, Officer Codes of Conduct. Procurement teams have attended Counter Fraud training.							Comments			

SHARED SERVICES RISK REGISTER DASHBOARD

Review date 07/05/2015

Ref	RISK				Assigned To	Residual risk assessment: Quarter 1				DOT	Residual risk assessment: Quarter 2				DOT	Reducing the risk		
	Risk cause and context					Likelihood	Impact	Overall	Likelihood		Impact	Overall	Management comments on measures.	Management control measures, planned action(s)		Date / in place		
h&f		RBKC		WCC		4	3	12	↑	3	4	12	→					
14	Change in management of schools.					<u>Management controls</u>						<u>Comments</u>						
	Relationship and accountabilities of academies. Managing the potential of Fraud in schools. Managing statutory responsibilities. Safeguarding responsibilities.					AMEY/Link now provide some statutory compliance services for schools.												

**Audit Pension and Standards Committee
Forward plan, risk management.**

*Last audit of
departmental
risk
management*

*Assurance
level on risk
management*

<i>Rank</i>	<i>APSC Year</i>	<i>Department</i>	<i>Quarter</i>	<i>Finance Officer</i>	<i>Risk Rep.</i>	<i>Last audit of departmental risk management</i>	<i>Assurance level on risk management</i>	<i>Strategic Risk Register entry</i>
1	2015 2016	Childrens Services	Quarter 1	Dave McNamara	John O'Sullivan	2014 2015	Satisfactory	Market testing, care standards and delivery, change in the relationship with and management of schools.
2	2015 2016	Adult Social Care and Public Health	Quarter 2	Rachel Wigley	Mike Rogers	2013 2014	Limited	Management of the Better Care fund, market testing, Public Health, care standards and delivery
3	2015 2016	Corporate Services	Quarter 3	Hitesh Jolapara	Jane West	New department		Market testing
4	2015 2016	Housing Department	Quarter 4	Kathleen Corbett	Norman Whyte	2013 2014	Satisfactory	Market testing
5	2016 2017	Transport and Technical Services	Quarter 1	Mark Jones	Iain McCord	2014 2015	Satisfactory	Market testing, compliance with statutory duties - health and safety, licensing, environmental. Significant Partnerships, Amey.
6	2016 2017	Libraries and Archives	Quarter 2	Mark Jones				
7	2016 2017	Environment Leisure and Residents Services	Quarter 3	Mark Jones	Sharla Gorsia			Market testing, business resilience
8	2016 2017	Finance Department	Quarter 4	Hitesh Jolapara	Not designated	2014 2015	Full	Market testing, managing budgets, finance risks, loss of government grant, decision making and corporate governance, fraud management.
9	2017 2018	Corporate Property Se	Quarter 1	Michael Clark	Sue Seal			Failure of partnerships and major contracts.