

Audit, Pensions and Standards Committee

Agenda

Wednesday 21 June 2017

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration:	Opposition
Councillor Iain Cassidy (Chair) Councillor Ben Coleman Councillor Vivienne Lukey Councillor PJ Murphy Councillor Guy Vincent	Councillor Michael Adam Councillor Nicholas Botterill Councillor Mark Loveday Councillor Donald Johnson

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Date Issued: 13 June 2017

Audit, Pensions and Standards Committee Agenda

21 June 2017

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1.	MINUTES OF THE PREVIOUS MEETING To approve the minutes of the previous meeting as an accurate record.	1 - 9
2.	APOLOGIES FOR ABSENCE	
3.	DECLARATIONS OF INTEREST If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent. At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant 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. Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest. Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Audit, Pensions and Standards Committee.	
4.	APPOINTMENT OF VICE CHAIR The Committee is asked to elect a Vice Chair from its membership for the 2017-18 Municipal Year.	
5.	PENSIONS SUB-COMMITTEE MEMBERSHIP The Committee is asked to agree the membership of the Pensions Sub-Committee for the 2017-18 Municipal Year.	10 - 11

6.	TREASURY OUTTURN REPORT 2016-17	12 - 20
	This report presents the Council's Outturn Treasury Report for 2016-17 in accordance with the Council's treasury management practices.	
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8.	CORPORATE ANTI-FRAUD SERVICE END OF YEAR REPORT 2016-17	29 - 40
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13.	HEAD OF INTERNAL AUDIT ANNUAL REPORT 2016-17	96 - 119
	This report is a summary of all audit work undertaken during the 2016/17 financial year.	
14.	INTERNAL AUDIT CHARTER 2017	120 - 130
	This provides an updated version of the Internal Audit Charter and Strategy following a review in 2017.	
15.	RISK MANAGEMENT UPDATE	131 - 138
	This report provides an oversight of the Council's key service risks and the processes to facilitate the identification and management of those risks.	
16.	DATE OF NEXT MEETING	
	The next meeting is scheduled for 20 September 2017.	

17. EXCLUSION OF 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.

18. RISK MANAGEMENT UPDATE - EXEMPT ELEMENTS

This items contains the exempt elements of Item 15.

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee Minutes



Tuesday 21 March 2017

PRESENT

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

Officers: Hitesh Jolapara (Strategic Finance Director), Michael Sloniowski (Risk Manager), Moira Mackie (Interim Director of Audit, Fraud, Risk, and Insurances), Geoff Drake (Senior Audit Manager), Nilavra Mukerji (Director for Housing Services), Michael Hainge (Director for Commercial Revenue), and David Abbott (Scrutiny Manager)

External: Mat Bishop (Managing Director at MITIE), Andrew Sayers (KPMG), and Jennifer Townsend (KPMG)

1. MINUTES OF THE PREVIOUS MEETING

Correction

On page 6, delete the last two sentences of the second paragraph and replace with:

“Councillor Murphy then asked what proportion of absenteeism was caused by stress. Nicholas Austin said officers were waiting for data on this from HR.”

RESOLVED

That, with the correction noted above, the minutes of the meeting held on 7 December 2016 were approved as a correct record and were signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Ben Coleman.

Apologies for lateness were received from Councillor Mark Loveday and Michael Adam.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. CERTIFICATION OF GRANT CLAIMS 2015-16

Andrew Sayers and Jennifer Townsend (KPMG) presented the report. Andrew Sayers noted the following key findings from the report:

- There were no recommendations arising.
- The Housing Benefit Subsidy claim was subject to a qualification letter which set out the detailed findings from their testing. This identified two overstatements totalling £10,777.48 relating to 5 cases. Officers expected the DWP to make an amendment to our claim in respect of these cases.
- Two adjustments were noted in respect of the Pooling of Housing Capital Receipts return which have now been corrected by officers.
- The Teacher's Pensions EOYC return required one minor adjustment but otherwise no issues were raised.

RESOLVED

To note the 2015/16 Grants report as put forward by KPMG.

5. EXTERNAL AUDIT PLAN 2016-17

Andrew Sayers (KPMG) presented the report and highlighted the following:

- Materiality had been set at £12m for the Authority and £17m for the Pension Fund – but lower levels were also reported where appropriate.
- Significant risks included managed services, pension fund assets, and pension liabilities more generally looking to the triennial valuation that sets the agenda for the next three years. Other areas of risk included management overrides and fraudulent revenue recognition – with a focus on Section 106.

Councillor PJ Murphy noted KPMG's fee had not increased from last year and thanked them for that. He then asked KPMG if they could reduce their fee further to help the Council contend with the ongoing funding reduction from central Government and demand for services. Andrew Sayers responded that KPMG had already reduced their fee significantly over a period of time but they would consider the proposal.

RESOLVED

That the 2016/17 Audit Plan, as put forward by KPMG, was noted.

6. INTERNAL AUDIT REPORT - TRADING ACCOUNTS 2015-16

Geoff Drake (Senior Audit Manager) presented the report and noted that this was an exploratory audit requested by Michael Hainge (Director for Commercial Revenue). The audit produced two main recommendations – to establish a robust governance framework and to monitor the trading accounts. At the time of the meeting the recommendations had already been implemented.

Councillor Michael Cartwright asked Michael Hainge what his responsibility was regarding the trading accounts. Michael Hainge responded that he had been given

oversight of all trading activities to ensure the Council was hitting its revenue targets and to hold heads of service to account.

Councillors PJ Murphy and Guy Vincent commended officers for being proactive and requesting the audit. Councillor Murphy asked officers to pass on the committee's thanks to the senior leadership team for their help in changing attitudes to the audit process.

Councillors commented that there was a lack of clarity around some of the figures in the report and asked officers to make reports more accessible in future.

RESOLVED

That the Committee noted the audit report and recommendations.

7. HEALTH AND SAFETY CHECKS - PROGRESS UPDATE

Nilavra Mukerji (Director for Housing Services) presented the report that provided an update on actions taken since the previous report in December 2016. Mat Bishop (Managing Director at MITIE) was also in attendance.

Nilavra Mukerji informed the committee that significant progress had been made since the previous meeting - seven of the actions identified had been completed and the remaining two were on track to be completed in May. The additional inspections that had been requested had been undertaken and all associated works had been completed and post-inspected. MITIE had brought the inspections in-house (it had previously been sub-contracted) and had reviewed their internal quality assurance and post-inspection regime to make it more robust going forward.

Councillor Michael Cartwright said he was still not comfortable with the situation – the Council expected the checks to be right first time. He asked what assurances could be given that the latest round of checks could be trusted.

Nilavra Mukerji responded by saying all the other 591 properties had been visited and post-inspections would be carried out. MITIE had completed all outstanding work. The key problem was that there wasn't a proper contract specification in place but that had been resolved.

Councillor PJ Murphy asked if there needed to be an independent review of the checks to confirm they had been carried out properly.

Nilavra Mukerji said there would be an independent review by PCM of a sample of properties. The results of this review would be ready by the end of April and could be presented at the next meeting.

ACTION: Nilavra Mukerji

Councillor Mark Loveday, in reference to 5.7a of the report, noted that 30 percent of the installations had Cat 1 and 2 issues and asked what those categories meant in terms of risk. A representative from MITIE said Cat 1 meant that 'action needed to be taken'. Councillor Loveday also raised a concern about the fact that

all other testing had been suspended to put resources into resolving this issue. Nilavra Mukerji said, following the findings of the audit report, officers took the decision to suspend the testing process to ensure it was robust and resilient. The testing programme would still be completed by 2019 with revised processes.

Mat Bishop addressed the committee and said it was not acceptable to find the issues detailed in the audit report. However, the quality of services was generally very strong. MITIE had removed the sub-contractor responsible for the checks and had employed their own operatives to take this work forward. They had also introduced internal processes to ensure a better quality service - including refreshed training for engineers and a new 'three check' testing process (a MITIE engineer did the work, MITIE and council supervisors checked it, and PCM provided an independent check).

Councillor Mark Loveday asked officers how confident they were in meeting their targets. Nilavra Mukerji said officers would produce a programme that would be monitored monthly – and if necessary they would employ additional engineers.

Councillor PJ Murphy asked if the additional engineers would be paid for by MITIE. Officers said they would.

Councillor PJ Murphy asked how many council contracts MITIE had where the problems identified in the audit report could occur. Mat Bishop said the issue was with a sub-contractor who was no longer used by MITIE. He was confident MITIE had the appropriate controls in place and this was a localised issue.

Councillor Michael Adam asked if MITIE was now comfortable that all their sub-contractors were performing. Mat Bishop said he was confident they were - all sub-contractors were accredited. The sub-contractor responsible for the original checks had been referred to the relevant regulatory body.

Councillor Guy Vincent asked if officers were now confident that the contract and specification issues had been resolved. Nilavra Mukerji said this work had been picked up as part of an overall review of the contract looking at compliance areas. The service was putting in resource to ensure it meets the council's expected standards. So far officers had reviewed electrical and gas inspections – with other areas to follow.

Councillor Vincent questioned if it was sensible to rewrite the contract on the job. Nilavra Mukerji said it was a virtue of this style of contract – it could be reviewed and improved as it progressed. Councillor Vincent said he was concerned that other areas could be unsafe too. He felt there needed to be a thorough review. He asked how much time officers had spent trying to remedy this. Nilavra Mukerji said time had been spent by both MITIE and the council to improve processes and communication.

Councillor Guy Vincent asked if the committee should be concerned about the review of fire risk assessments (6.12 of the report). Nilavra Mukerji said they were still being carried out by council officers. The service wanted to focus on compliance to ensure they were aligned with current good practice.

Councillor Vincent asked for more information on the backlog of assessments – how many had to be completed over what period. He also asked if the risk of not completing the assessments by the target date was in the risk register. Councillors also asked for more information on the water hygiene and asbestos assessments.

ACTIONS: Nilavra Mukerji

Councillor Mark Loveday asked how many gas safety checks were still to assess following the whistleblowing investigation. Nilavra Mukerji said there was 100 percent compliance on landlord inspections – they were also sample checked and the results were monitored and reviewed internally.

Councillor Loveday asked if the sampling was only of the properties identified by the whistle-blower. Nilavra Mukerji said the issues were not of a serious nature and had been rectified. The department had implemented an improvement plan to increase quality.

Councillor Michael Adam, referring to the contract specification, commented that it was possible there wasn't the right knowledge and experience in the council to know what to include in the specification. He asked, when it came time to re-tender, if the council would be able to counter push-back from a commercial contractor.

Nilavra Mukerji responded that officers were currently thinking about the balance of expertise in the service. In many cases they commissioned external support. Mat Bishop noted that PCM had been used in this case to guide the revised specification. Councillor Adam felt there was a fundamental risk here – the council needed to have the right pool of expertise to avoid situations like this from happening.

Councillor Michael Adam raised concerns about the state of the wiring across the estate as it was only replaced on an ad hoc basis – rather than automatically at a certain age. Nilavra Mukerji responded that there was a programme of testing 100 properties a month and the department would act on those findings if there were problems.

Councillor Adam noted that there didn't appear to be any monitoring of when the wiring was reaching the end of its safe life cycle. Nilavra Mukerji said there had been a lot of improvements to wiring done under the decent homes programme. The department also had an asset management database that recorded when rewires were completed. Based on testing there were no patterns of any significant problems – though this data would be reviewed again.

Councillor Michael Cartwright, in reference to 6.9 of the report, noted that 10 properties had not been inspected due to no access - and said it was vital that access was gained to ensure the properties were safe. Nilavra Mukerji agreed and noted the department was seeking legal advice on the next steps. They were also bringing forward the annual service of those properties to gain access as quickly as possible. If that didn't work, they would undertake forced entry procedure.

The Chair, noted that there seemed to be confusion among council staff about the process of gaining entry. In some cases the process could take many months. Nilavra Mukerji said his department had now produced guidance for junior officers.

Councillor PJ Murphy asked what proportion of the issues identified in the report were down to workmanship problems and what percentage were administration problems. Mat Bishop said paperwork was the major issue and accounted for over two thirds of the issues.

Councillor PJ Murphy, in reference to 7.4 of the report, noted that new roles had been created – he asked how many had been created in total. Nilavra Mukerji said in the short term two or three roles were needed to strengthen compliance. Longer term there would be a review of the structure to see what additional support was required. Councillor Murphy asked if these roles had existed in the past – he questioned if the department had lost vital roles due to years of cuts and had now created an unstable environment. Nilavra Mukerji said when the contract was originally written the view was that it would be ‘thin client’ – but it needed more monitoring and investment. Officers were working to ensure there was sufficient resource in place now to deliver the council’s aspirations for the service.

Councillor Nick Botterill asked if officers knew how tenants felt about MITIE. Officers responded that the general feeling was that tenants were happy with the new gas boiler appliances that had been installed – that work was done in-house so MITIE operatives were building relationships with tenants.

Councillor Guy Vincent commented that MITIE’s reputation in the borough was rather poor. The Chair noted that issues tended to compound – one led to another and so on – which led to very poor perceptions from tenants. Mat Bishop responded that MITIE’s customer satisfaction results were some of highest in London – they would continue working to improve though.

RESOLVED

1. That the Committee noted the contents of the report and the actions taken to date by officers.
2. That the Committee requested a further update at the next meeting on the results of the independent review by PCM.
3. That the Committee requested a further update at the next meeting on the outstanding water hygiene, asbestos, and fire risk assessments.

8. INTERNAL AUDIT REPORT - MITIE CONTRACT QUALITY ASSURANCE 2016-17

Nilavra Mukerji presented the report and noted that the key issues had been covered in the previous discussion. Another audit would be starting shortly to review the work that had already been undertaken.

RESOLVED

That the Committee noted the contents of the report.

9. RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski (Risk Manager) presented the report - including the corporate risk register and the service high risk extract dashboard. He advised the Committee of the escalation protocol now applied when registers are not submitted to the Risk Manager for review in a timely way. The Director of Audit, Fraud and Risk Management had been informed that the Housing department hadn't sent through their latest risk register and Directors would be contacted to remind them of their responsibilities in this regard and if necessary required to attend a future Committee to respond.

Councillor Guy Vincent commented that the presentation of the report was very clear and brought major issues to the attention of the committee. He then asked for more detail behind Adult Social Care's key risks. Michael Sloniowski responded that the department was concerned about the national funding issues. The department was working on contingency planning in case a major supplier left the market.

Councillor PJ Murphy, referring to page 96 of the report, commented that Adult Social Care's mitigations seemed to be insular - work with other councils, putting pressure on government etc. Michael Sloniowski noted that they had veered away from lobbying as a mitigation in this instance as it was a national problem that was very difficult to mitigate.

Councillor Michael Adam noted that this process was dependent on departments to identify and mitigate risks. He asked if there were other safeguards outside the departments. Michael Sloniowski responded by saying that he was involved in council's safety committee and he drew on other data to help inform his view including from Subject Matter Experts such as Insurance, Health and Safety, Business Continuity, Information Management, Fraud and Internal Audit. Risk management was also on the agenda at senior leadership team meetings.

Councillor Adam asked if the service was appropriately resourced or was too lean. Michael Sloniowski responded that both the Director of Audit, Fraud, Risk and Insurances and Strategic Director of Finance keep that under review and that for example some of the Training Programme being developed would be being delivered through the Internal Audit contractor.

Councillor Michael Adam asked if the risk appetite of the organisation had changed due to restrictions on finance. Michael Sloniowski agreed that the council's flexibility had changed due to budget reductions – and the greater complexity of the working environment of shared services. Staff were generally more risk aware following support of this Committee, the Strategic Leadership Team and Hitesh Jolapara the Strategic Finance Director whom have accentuated the importance of good risk management.

Councillor PJ Murphy asked if risk was included in directors' objectives. Hitesh Jolapara noted that directors had a target that covered resource management and risk was included within that but it wasn't explicit. He added that officers could consider making it a standalone target or objective.

RESOLVED

That the Committee noted the contents of the report.

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

Geoff Drake (Senior Audit Manager) presented the report that summarised progress on implementing recommendations from the External Audit Report 2015/16 and the Annual Governance Statement.

RESOLVED

That the Committee noted the contents of the report.

11. INTERNAL AUDIT PLANS 2017-18

Geoff Drake (Senior Audit Manager) presented the report that provided the 2017/18 Internal Audit plans that were designed to address key risk areas to the council.

Councillor Nicholas Botterill asked how the audits were prioritised. Geoff Drake responded that audits that were considered high priority were done as early as possible but it was flexible – so if there was a service change in progress they would wait until that was complete.

Councillor Botterill asked if audits of related services were bundled together. Geoff Drake said they would be if there were efficiencies to be gained.

Councillor Guy Vincent asked if the audit plan picked up the central issues that came out of the discussion tonight – particularly around procurement. Geoff Drake said procurement was a high risk area and therefore got significant coverage. Other areas of high risk included special purpose vehicles (SPVs).

Councillor PJ Murphy noted that there were over 100 separate areas to be audited in the plan. He asked if that was achievable with the current resource. Geoff Drake responded that it was achievable as Mazars delivered the majority of the plan – there was a funding issue in that the audit team were overcommitted by 40 days but this was expected to fall as the year progressed.

Councillors asked for a high level summary to be sent to councillors.

ACTION: Geoff Drake

RESOLVED

That the Committee noted the contents of the report.

12. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake (Senior Audit Manager) presented the report that summarised internal audit activity and the performance of the internal audit service. He noted that the

nine outstanding recommendations had now been reduced to just five – a record low.

RESOLVED

That the Committee noted the contents of the report.

13. DATES OF FUTURE MEETINGS


The next meeting was scheduled for 21 June 2017.

Meeting started: 7.00 pm
Meeting ended: 9.22 pm

Chair

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Agenda Item 5

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>21 June 2017</p>	 <p>h&f hammersmith & fulham</p>
PENSIONS SUB-COMMITTEE MEMBERSHIP	
Report of the Monitoring Officer – Rhian Davies	
Open Report	
Classification: For Decision Key Decision: No	
Wards Affected: All	
Accountable Director: Sarah Thomas, Director of Delivery and Value	
Report Author: David Abbott, Scrutiny Manager	Contact Details: Tel: 020 8753 2063 E-mail: david.abbott@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. The Audit, Pensions and Standards Committee is required to approve the membership of the Pensions Sub-Committee for the 2017-18 Municipal Year.

2. RECOMMENDATION

- 2.1. The Committee is asked to approve the 2017-18 membership of the Pensions Sub-Committee as follows:

Administration Councillor Iain Cassidy (Chair) Councillor P J Murphy Councillor Guy Vincent	Opposition Councillor Michael Adam Councillor Nicholas Botterill
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3. REASON FOR DECISION

- 3.1. The Audit, Pensions and Standards Committee is required to approve the Pensions Sub-Committee membership on an annual basis.


4. BACKGROUND

- 4.1. The Council established the Pensions Sub-Committee to better enable the Council to discharge its responsibility for the management of the Pension Fund effectively.

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

None.

Agenda Item 6

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>21 June 2017</p>	
TREASURY OUTTURN REPORT 2016/17	
Report of the Cabinet Member for Finance - Councillor Max Schmid	
Open report	
Classification: For Decision Key Decision: No	
Wards Affected: All	
Accountable Director: Hitesh Jolapara – Strategic Finance Director	
Report Author: Halfield Jackman, Treasury Manager	Contact Details: Tel: 020 7641 4354 E-mail: hjackman@westminster.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. This report presents the Council's Outturn Treasury Report for 2016/17 in accordance with the Council's treasury management practices.

2. RECOMMENDATIONS

- 2.1. That this report be noted.

3. REASONS FOR DECISION

- 3.1. The Code of Practice on Treasury Management 2011, adopted by the Chartered Institute of Public Finance and Accountancy and later by the Council, requires the following:
 - Creation and maintenance of a treasury management policy statement which sets out the policies and objectives of the Council's treasury management activities. This was reported to the Cabinet in January 2012;
 - Creation and maintenance of treasury management practices which set out the manner in which the Council will seek to achieve those policies and objectives;
 - Receipt by the full Council of an annual treasury management strategy report for the year ahead and a mid-year review of the strategy;

- Receipt by the Cabinet Member for Finance, the Audit, Pensions and Standards Committee and full Council of an annual review of the previous year (this report);
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and the execution and administration of treasury management decisions; and Delegation by the Council of the role of scrutinising of treasury management strategy and policy to a specific named body, which for this Council is the Audit, Pensions and Standards Committee.

4. INTRODUCTION AND BACKGROUND

4.1. Treasury management in this context is defined as:

“The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”¹

4.2. This annual treasury report covers:

- the treasury position as at 31 March 2017;
- the borrowing strategy for 2016/17;
- the borrowing outturn for 2016/17;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2016/17; and
- investment outturn for 2016/17.

5. TREASURY POSITION AT YEAR END

5.1. The Council’s debt (all held with the Public Works Loan Board - PWLB) and investment positions at the beginning and end of the year were as follows:

	31 March 2016 Principal £m	Rate/ Return at 31 March 2016	31 March 2017 Principal £m	Rate/ Return at 31 March 2017
Fixed Rate Borrowing				
General Fund (GF)	39.62	5.11%	38.40	5.01%
Housing Revenue Account (HRA)	192.28	5.11%	186.42	5.01%
Total / Weighted Average	231.90	5.11%	224.82	5.01%
Investments				
Total / Weighted Average	299.24	0.59%	326.51	0.45%

¹ Treasury Management Policy Statement adopted by Cabinet on the 31 January 2012 and continues to be adhered to.

5.2. The table below shows the allocation of interest paid and received during the year:

Fund	Interest Paid		Interest Received		Net £m
	Apportionment %	Amount £m	Apportionment %	Amount £m	
General Fund	17.1	(1.97)	95.6	1.48	(0.49)
Housing Revenue Account	82.9	(9.55)	4.4	0.07	(9.48)
Total	100	(11.52)	100	1.55	(9.97)

5.3. Following the implementation of the self-financing initiative for housing, the Housing Revenue Account (HRA) is responsible for servicing 82.9% of the Council's external debt and the General Fund is responsible for the remainder.

5.4. **The Strategy for 2016/17**

5.5. The treasury strategy for 2016/17, was approved by the Council on 22 February 2016.

5.6. Taking into account the worldwide economic climate it was considered appropriate to keep investments short-term and only invest with highly rated or UK Government backed institutions, resulting in relatively low returns compared to borrowing rates.

5.7. Due to the level of cash balances held by the Council at the start of the year (£327 million at 31 March 2016), it was anticipated that there would not be any need to borrow during 2016/17.

5.8. **Outturn for 2016/17**

5.9. The main event influencing the UK financial markets in 2016/17 financial was the EU referendum on 23 June.

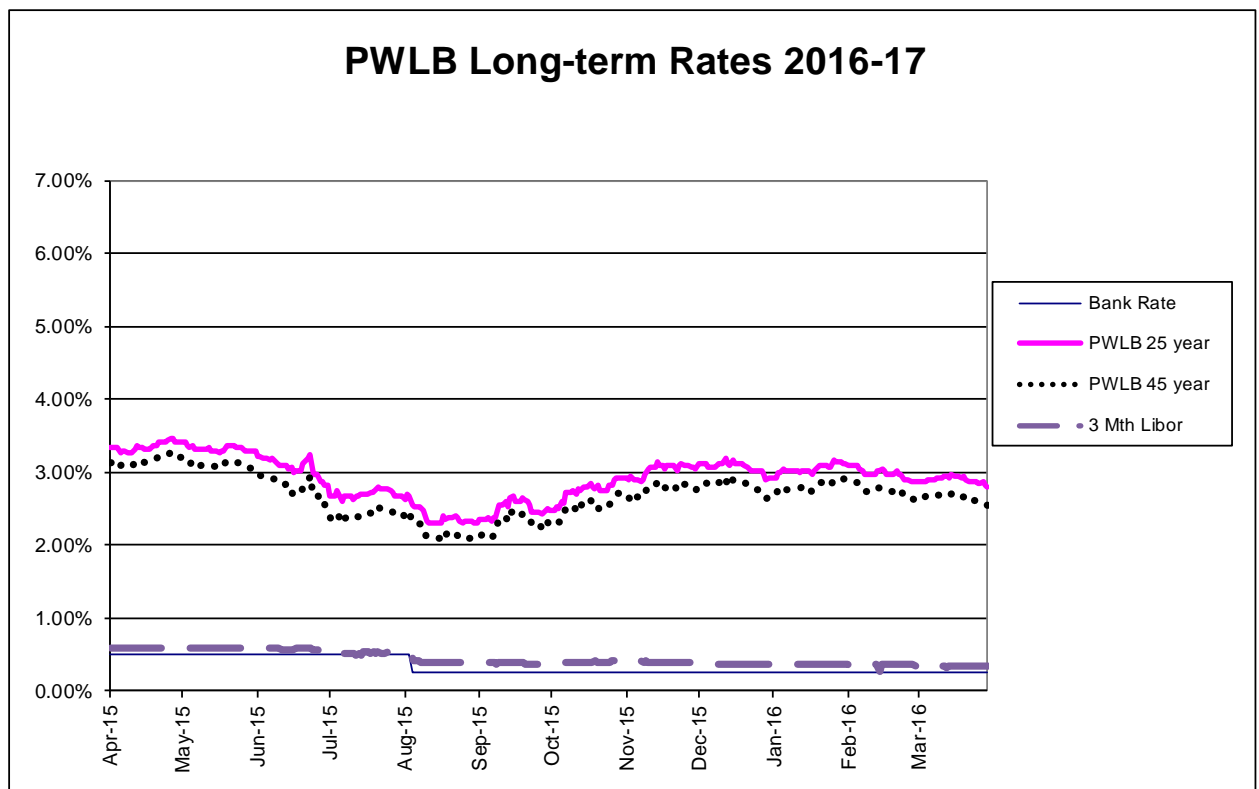
5.10. On the 4 August the Monetary Policy Committee (MPC) cut the Bank Rate from 0.50% to 0.25%. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

5.11. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.07% respectively to produce an annual growth for 2016 of 1.8%.

5.12. Treasury Borrowing

5.13. No new long-term borrowing was undertaken during the year. Public Works Loans Board (PWLB) debt maturing during the year, which was not refinanced, totalled £7.1 million with an average nominal interest rate of 8.2 per cent. This resulted in a reduction in debt to £224.8 million and the average interest rates went from 5.11% to 5.01%.

5.14. The following graph shows the levels of Bank of England Bank rate, three month London Interbank Offer Rate (LIBOR), PWLB 25 and 45 year rates during the year:



5.15. During 2016/17 there was significant volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising during quarter 3 and then partially easing back towards the end of the year.

5.16. Housing Revenue Account (HRA) Self Financing

5.17. In 2016/17, the HRA PWLB debt of £186 million has dropped below the HRA Capital Financing Requirement (CFR) of £211 million, which generates internal borrowing of £25 million. This difference does not, as yet, exceed the value of HRA working balances. As such, the HRA could be considered to be borrowing from itself. Moving forwards, a policy will need to be considered concerning the charging of interest in the event that the HRA is internally borrowing from the general fund. HRA reserves and working capital, in excess of the internal borrowing, represents cash balances on which interest is allocated from the

general fund. As at 31 March 2017, the HRA held cash balances of £14.9 million over and above the £25 million internal borrowing.

5.18. Capital Financing Requirement (CFR)

5.19. As at 31 March 2017, the Council had an under-borrowed position². This means that the capital borrowing need was not fully funded by existing external loan debt and the balance is funded by cash reserves (internal borrowing).

The Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account.

£m	31 st March 2016 CFR	31 st March 2016 EXTERNAL DEBT	31 st March 2017 CFR	31 st March 2017 EXTERNAL DEBT
GF CFR (Excluding DSG funded Schools Windows borrowing)	44.179	-	47.250	-
GF CFR (DSG funded Schools Windows borrowing)	1.117	-	3.570	-
GF TOTAL	45.296	39.614	50.820	38.406
HRA TOTAL	204.846	192.282	204.846	186.416
TOTAL CFR/DEBT	250.142	231.896	255.666	224.822

NB: The 'headline' CFR shown above is the consistent with capital reports. The annual accounts disclose CFR of £272.544 million (of which General Fund £61.865m and HRA £210.679m) due to the inclusion of PFI, finance leases and deferred cost of disposal.

5.20. Annual Investment Strategy for 2016/17

5.21. Throughout the year the Council's strategy maintain higher rated and more tradable investments like Government Treasury Bills (T/Bills), Supra-Nationals Banks and European Agencies, close to maturity Bonds, Certificates of Deposit and Commercial Paper. The Council strategy allowed investment in the following areas:

- An unlimited investment limit with the UK Government (DMO) deposits, UK gilts, Repos and T/Bills.
- Up to a maximum of £100 million per counterparty in Supra-national Banks, European Agencies and covered bonds debt on a buy to hold basis with maturity dates of up to five years, Transport for London(TfL) and Greater London Authority (GLA) bonds for up to three years;

² 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.

- A limit of £10 million to be invested with any UK Local Authority (subject to internal counterparty approval by the Director of Treasury and Pensions);
- No more than £30 million to be invested with any individual Money Market Fund;
- Any financial instrument held with a UK bank limited to £70 million depending on Credit rating and Government ownership above 25% (limit of £50 million was implemented);
- Any financial instrument held with a Non-UK bank limited to £50 million.

5.22. A small deposit was held in a National Westminster Bank call account to aid cash flow.

5.23. Investment Outturn for 2016/17

5.24. The investments outstanding at 31 March 2017 amounted to £326.51 million invested in short-term deposits. This compares with £299.24 million short-term investments at 1 April 2016.

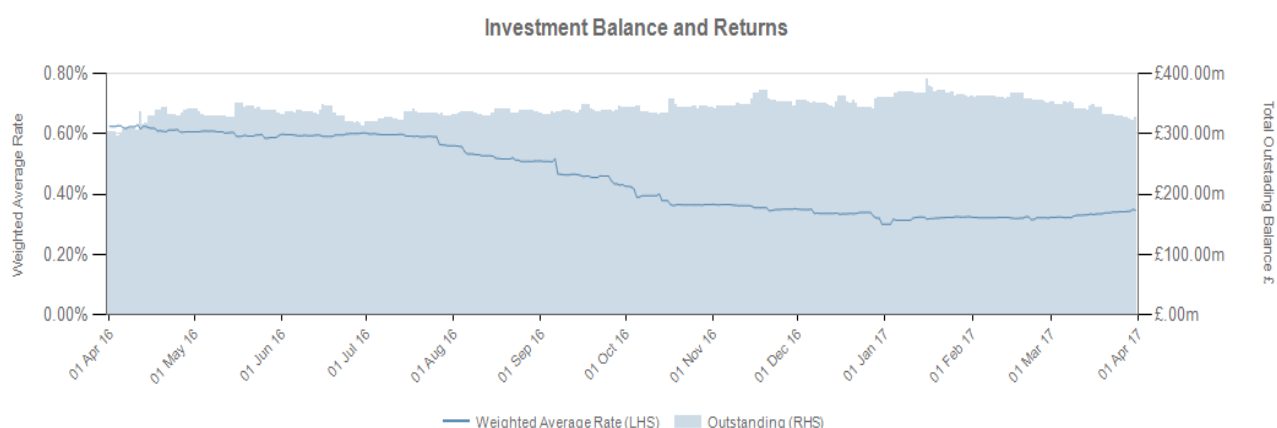
5.25. The table below provides a breakdown of the cash deposits, together with comparisons from the previous year.

(£m)	31/03/14	31/03/15	31/03/16	31/03/17
Liquid Deposits	-	-	0.90	2.35
Money Market Funds	39.20	34.15	33.70	38.10
Notice Accounts	25.00	14.00	19.90	33.00
Custodian Held Assets	189.50	212.13	204.74	208.06
Term Deposits	66.50	99.50	40.00	45.00
Total	320.20	359.78	299.24	326.51

General Fund and Housing Revenue Account

(£m)	31/03/14	31/03/15	31/03/16	31/03/17
General Fund (GF)	243.6	296.0	253.6	311.9
Housing Revenue Account (HRA)	76.6	63.8	45.6	14.6
Total	320.2	359.8	299.2	326.5

5.26. The investments outstanding during the year together with the average return are shown in the diagram below. Cash balances varied between £390 million and £299 million reflecting the timing of the Council's income (council tax, non-domestic rates, government grants and capital receipts, etc) and expenditure (precept payments, payroll costs, supplier payments and capital projects).



5.27. The average return achieved on investments managed internally for the year was 0.45 per cent compared to the average 7-day money market rate (uncompounded) of 0.36 per cent. The total interest received of £1.55 million (compared with a weighted average of 0.50 per cent and a total interest £1.85 million for 2015/16). Interest rates remained low throughout the year; the Council follows a low risk strategy and does not seek potential higher returns which would increase counterparty risk.

6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

6.1. During the financial year the Council operated within the treasury limits set out in the Council's Treasury Policy Statement and Treasury Strategy Statement. The outturn for Treasury Management Prudential Indicators is shown in **appendix A**.

6.2. Non Treasury related Prudential Indicators are set and monitored as part of the Council's Budget process.

7. CONSULTATION

7.1. N/A.

8. EQUALITY IMPLICATIONS

8.1. N/A.

9. LEGAL IMPLICATIONS

9.1. N/A.

10. FINANCIAL IMPLICATIONS

10.1. The report is wholly of financial nature.

11. RISK MANAGEMENT

11.1. N/A.

12. IMPLICATIONS FOR BUSINESS

12.1 N/A.

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

13.1. N/A.

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		

LIST OF APPENDICES:

Appendix A – Treasury Management Prudential indicators

**LBHF – TREASURY MANAGEMENT PRUDENTIAL INDICATORS
2016/17**

Indicator	Approved Limit	Actual Debt	No. of days Limit Exceeded
Authorised Limit ³	£345m		None
Operational Boundary ⁴	£290m	£224.8m	None
Interest Rate Exposure	Lower Limit	Upper Limit	Actual at 31 Mar 2017
Fixed Rate Debt	£0m	£345m	£224m
Variable Rate Debt	£0m	£69m	£0m
Maturity Structure of Borrowing	Lower Limit	Upper Limit	Actual at 31 Mar 2017
Under 12 Months	0%	15%	3%
12 Mths to within 24 Mths	0%	15%	2%
24 Mths to within 5 years	0%	60%	9%
5 years to within 10 years	0%	75%	11%
Over 10 years	0%	100%	75%

³ 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.

⁴ The Operational Boundary is the expected normal upper requirement for borrowing in the year.

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>21 June 2017</p>	
<p>UPDATE ON HEALTH AND SAFETY CHECKS</p>	
<p>Report of the Interim Director: Property Services</p>	
<p>Open Report</p>	
<p>Classification: Review and comment Key Decision: No</p>	
<p>Wards Affected: All</p>	
<p>Accountable Director: Jane Martin, Head of Neighbourhood Services</p>	
<p>Report Author: Julian Mitchell (Interim Head of Operations)</p>	<p>Contact Details: Tel: 0208 753 4394 E-mail: julian.mitchell@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1 This report provides an update to committee on actions taken since the last report to Committee in March 2017.
- 1.2 All nine recommendations within the Health and Safety audit report have now been completed, with the last two recommendations concerning housing electrical safety now resolved.
- 1.3 The report also provides a summary of ongoing work in respect of key Health and Safety compliance risk areas (including Gas Safety, Fire Risk Assessments, Asbestos and Legionella).
- 1.4 Following improvements to the EICR testing process reported at the last committee meeting Mitie have re-commenced the electrical testing programme.
- 1.5 Housing Property Services has brought in additional specialist resources and created new compliance roles, to improve and strengthen its management of compliance areas such as gas, fire safety and asbestos.
- 1.6 A new high level Housing Property Services compliance action monitoring process is in place.

2. RECOMMENDATIONS

- 2.1. The Committee notes the contents of this report and the actions taken to date by officers.
- 2.2 The committee is invited to make comments and suggestions on the report.

3.0 BACKGROUND

- 3.1 An internal audit report dated July 2016 in regards of Health and Safety, reviewed a number of different areas of compliance. Based on their findings, Audit could only provide a Limited Assurance, mainly due to shortcomings found in respect of the EICR communal testing.
- 3.2 Following the September 2016 meeting, Audit Committee officers commissioned independent external electrical specialist Phoenix Compliance Management Ltd (PCM) to carry out a sample audit of electrical testing. The audit was completed in early December 2016 and their findings and proposed actions were reported to the Audit Committee the same month.
- 3.3 Since the December 2016 Audit Committee Mitie and Housing Property Services have, implemented actions from the PCM audit report, actioned a joint health and safety health compliance review, and responded to gas whistleblowing allegations as reported at the March 2017 Audit Committee.

4.0 AUDIT RECOMMENDATIONS

- 4.1 The table below, summarises the recommendations from the internal audit report and the actions taken all of which are now completed. Recommendations 3 and 6 were completed since the March 2017 Audit Committee.

	Recommendation	Progress to Date	Status
1	Corporate policies to be reviewed and updated	As reported to the last Committee, the Corporate Health and safety policies have all been updated by Environmental Health. They have now been presented and signed off at the safety committee in January 2017.	Complete
2	HRD policies – Provision of local Electrical Policy	An Electrical Safety policy has been developed and is now in place. The policy was peer reviewed by Frankham Risk Management Services Limited. It is scheduled for a review in 2018, unless regulatory /	Complete

	Recommendation	Progress to Date	Status
		legislative changes trigger an earlier review.	
3	The newly developed policies will be placed on the LBHF intranet	The new Housing Electrical Safety policy is complete and is available by a link on the LBHF intranet.	Complete
4	The implementation of the new gas database on lworld	Gassys is now closed down and gas data has been transferred to lworld (the Council's Housing Management system.)	Complete
5	When Mitie amends their booked appointment this should be recorded	An audit of this process was carried out by H&F officers in October 2016 and the booking and recording system managed by Mitie was deemed to be satisfactory.	Complete
6	Satisfactory performance of EICR checks	Introduction of an active EICR tracker managed by Mitie and jointly monitored with Property Services and supported by independent audits checks.	Complete
7	Asbestos Management – contracts	Contract was presented to the Cabinet Member for Housing in December 2016, in accordance with the Council's procedures, and approved.	Complete
8	Asbestos Management programme- Monthly monitoring reports	The Asbestos Survey programme commenced January 2017. The first progress report was reviewed by LBHF officers to ensure the consultant is meeting our requirements. The results are being entered onto the IT system and shared with Mitie and relevant officers	Complete
9	Completion of communal hot water tank chlorination tests	This recommendation was implemented prior to the July 2016 Audit report	Complete

5.0 FEEDBACK ON ACTIONS

5.1 PCM (Phoenix Compliance Management Ltd) -

Officers were requested to commission PCM to carry out a further independent sample review of Mitie's remaining 591 EICR test reports not covered by their original December 2016 sample review. Unfortunately, due to staff resource issues PCM's independent sample review of Mitie's previous EICR electrical tests has not been commissioned and will not be available for review and comment at the 21st June 2017 Audit Committee update. However, a PCM sample review will be reported at the next meeting.

5.2 Pending a new procurement exercise PCM will continue to support Housing Property Services by completing independent sample audit checks on Mitie's EICR electrical tests (Electrical Installation Condition Reports), and LGSR annual gas safety checks (Landlord Gas Safety Record). The PCM audit checks will be actioned by Mitie and performance monitored jointly with property services engineers who also undertake their own additional sample checks.

5.3 Officers Confirm that Mitie restarted their previously suspended communal EICR electrical test programme in May 2017.

5.4 Fire Risk Assessment (FRA) Backlog - In September 2010 LBHF tendered and commissioned the Sweett Group to undertake a programme of approximately 1,350 FRA surveys to its housing stock between November 2010 and August 2013.

5.5 Following an assessment and advice from Property Services' recently appointed consultant fire specialist Graham Coupar, a decision was made to complete a targeted programme of new FRA surveys by Turner & Townsend consultancy. The FRA surveys will start in July 2017 and are due for completion in December 2017.

5.6 Turner & Townsend will initially focus their FRA survey programme on LBHF's higher risk 6+ storey high blocks, sheltered housing, and hostels. In the meantime, Property Services recently increased team of Fire Risk Assessors (four staff) will concentrate on blocks 5 storeys or less.

6.0 INTERNAL HEALTH AND SAFETY COMPLIANCE MANAGEMENT

6.1 As per the previous March 2017 Audit Committee meeting report Housing Property Services has appointed additional resources and staff to support the existing teams and strengthen health and safety compliance. The following posts were recruited to in May:

- i. Principal Compliance Manger (new post)
- ii. Fire Risk Assessment Surveyors x3
- iii. Asbestos Manager (new post)

6.3 Housing Property Services has also commissioned Graham Coupar a consultant fire specialist in March 2017 to lead on the ongoing fire investigations at Shepherds Court and Housing Property Services fire strategy management compliance matters. Graham is also the lead point of contact with the London Fire Brigade's senior management team

- 6.4 Following a number of recent reviews and audits on areas of Housing Property Services compliance activity a new departmental 'Compliance Action Plan' (CAP) process has been set up to provide executive oversight and to ensure the department achieves and maintains regulatory compliance in relation to LBHF housing portfolio. The 'Compliance Action Plan' process outlines the key strategy areas required to achieve compliance, key areas are: -
1. Education & Training to achieve high visibility, responsibility, and engagement
 2. Governance & Performance
 3. Separation of Duties
 4. Audit - Internal & External
 5. Data Systems
 6. Gap Analysis
 7. Process Control
 8. Risk Profiling & Rating
- 6.5 The CAP covers all housing's key compliance areas with experienced managers allocated to oversee and report on eight individual compliance areas. The CAP key compliance areas currently include: -
- i. Compliance Management
 - ii. Asbestos Management
 - iii. Fire Safety
 - iv. Gas & Carbon Monoxide
 - v. Water Management
 - vi. Electrical Safety
 - vii. Lift Maintenance
 - viii. General Compliance
- 6.6 Progress on the CAP is monitored weekly with Corporate Health & Safety and Housing Property Services representatives, and is further scrutinised by the Chief Executive's office every six weeks.
- 6.7 Geometra compliance database is an online compliance management system which will be used to monitor and manage all compliance areas, and will provide accurate record keeping and management performance information. Geometra will be used initially for:
- Fire
 - Asbestos

7.0 Fire Risk Management

- 7.1 With the appointment of consultant fire specialist Graham Coupar, Housing Property Service has embarked on an immediate targeted programme of service evaluation and improvements to ensure LBHF is in a better position to deal with existing and future fire investigations, meet its responsibilities under the Regulatory Reform (Fire Safety) Order 2005, provide clear lines of responsibility within LBHF and further develop the borough's strategic approach to fire safety and risk management.

- 7.2 A new Fire Safety Strategy reflecting current best practice and embedding a risk based approach to ensure clear accountabilities of all inputs has been written. The strategy promotes an appropriate mixed economy of delivery reflecting risk (i.e. specialist to do high risk). It will ensure that high priority levels are included in the form and that certificates are evidenced and referenced.
- 7.3 The new Geometra compliance management system will be used to record all FRAs survey records and their management actions.
- 7.4 External Support - In addition to the additional FRA staff mentioned previously Housing Property Services has also commissioned the following specialist firms to work with us on LBHF's current high risk fire safety projects.

Provider	Aspect
C S Todd Associates	Expert fire safety work on Shepherds Court FRAs on Shepherds Court and neighbouring tower blocks
BRE (Building Research Establishment)	Part of the CS Todd expert work Poynter, Stebbings, Norland ventilation design calculations as part of Enforcement Notice issued
Turner & Townsend	Commissioned to do all FRAs to 6 storey and above blocks plus specialised housing and any high risk units
Geometra Systems (Formerly Xantive)	Compliance management system
Churchill Hui	Three projects: <ul style="list-style-type: none"> • Project manage Poynter House works and sign off • Physically inspect 'long list' of suspected panels of the same kind as Shepherds Court • Physically inspect all units with LFB notification to establish if all required works are concluded

8.0 Asbestos Risk Management

- 8.1 Asbestos management was a potential risk area identified within the July 2016 'Health & Safety Checks' audit report. Concerns centred around:
- Use of a temporary contract arrangement with the previous surveying firm Ayerst to maintain existing asbestos survey records, and
 - The reporting on programmed asbestos surveys being undertaken by the new surveying contractor ACE (Asbestos Consultants Europe Ltd.).
- Note: ACE Ltd entered the current 'Asbestos Surveying, Sampling & Monitoring' contract with LBHF in February 2015).
- 8.2 In May 2017 Gradient Consulting a specialist asbestos management consultancy where commissioned to undertake a full Asbestos Health Check of Housing Property Services existing asbestos management processes and procedures to identify any areas where there may be risk or inefficient use of resources, or where improvements can be made.

8.3 Gradient Consulting's review will look at six key asbestos management areas:

- i. Policy, plan and procedure
- ii. Responsibilities, competence, and training
- iii. Identification of asbestos
- iv. Asbestos register and risk assessment
- v. Asbestos removal
- vi. Emergencies

Gradient's commenced their detailed review at the beginning of June which will be completed by the end of July 2017. A service improvement action plan will also be agreed.

8.4 An Asbestos Manager was appointed at the end of May 2017 (new post).

9.0 Water Hygiene Risk Management

9.1 The water management policy is currently in development and the final draft will be available for review during June working towards this being signed off in July. A review of the current contract arrangements is taking place to understand if the current contract meets the current legislative requirements.

9.2 The Department is also undertaking the following actions as part of the overall compliance action plan

- validate property data to ensure that our list of all properties where there is a need to implement 'legionella bacteria in water systems' controls are properly scheduled and risk assessed.
- review all risk assessments to compile a list of assets and ensure that the correct regimes are undertaken at the correct intervals in each property.
- review Legionella and Scalding management plans and safety policy and update as necessary to fully comply with L8 and HSG 274. Incorporate the ongoing servicing of thermostatic mixer valves (TMVs) into term contracts including establishing a database that is comprehensive.
- match audited property data against our contractor's data to ensure that our contractors are undertaking regimes in all properties where there is a need to do so.
- to draft an information article for service users (website and/or leaflet) to advise and introduce good principles of water safety

9.3 The progress on all aspects of the action plan are being monitored on a weekly basis. An update will be provided at the next meeting of the Audit Committee regarding policy, contract and asset management information requirements.

9.4 A new Legionella (Water Hygiene) testing and treating 5+2 year contract is currently out to tender and due for return on 20th July 2017.

10.0 Equality Implications

The Council has a statutory duty towards the health and safety of all residents living in its properties.

11.0 Legal Implications

- 11.1 The Council is responsible for health and safety checks in a range of premises, both as an employer and a landlord. It has statutory obligations under various pieces of legislation, a contractual obligation to its tenants and leaseholders and a duty of care to ensure the safety of residents.
- 11.2 It is important that the Council has robust procedures and policies to ensure compliance with its legal obligations. Non-compliance could pose a health safety risk and result in a criminal prosecution.
- 11.3 Implications completed by: Janette Mullins, Senior Solicitor (Housing Litigation), 208 753 2744

12.0 Financial Implications

- 12.1 It is envisaged that the cost of the additional posts created and specialist contractors commissioned will be funded in 2017/18 from existing resources available within the Housing Revenue Account.
- 12.2 These costs will be closely monitored and any potential variance will be subject to a mitigating action plan and reported via the Council's corporate revenue monitoring regime.
- 12.3 Implications completed by: Danny Rochford, Head of Finance, 020 8753 4023.

13.0 Implications for Business


- 13.1 There are no impacts for businesses in the Borough.

14.0 Other Implications

- 14.1 None

15.0 Background Papers Used in Preparing This Report

None.

<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p style="text-align: center;">21 June 2017</p>	
<p>CORPORATE ANTI-FRAUD SERVICE END OF YEAR REPORT - 1 APRIL 2016 TO 31 MARCH 2017</p>	
<p>Open Report</p>	
<p>For Information</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Hitesh Jolpara, Director of Finance</p>	
<p>Report Author: Andrew Hyatt Shared Service Head of Fraud</p>	<p>Contact Details: Tel: 0207 361 3795 E-mail: andrew.hyatt@rbkc.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1 This report provides an account of fraud related activity undertaken by the Corporate Anti-Fraud Service (CAFS) 1 April 2016 to 31 March 2017.
- 1.2 CAFS continues to provide H&F with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.
- 1.3 CAFS follow the Council's Anti-Fraud and Corruption Strategy which is aligned to the national strategy document, Fighting Fraud and Corruption Locally and made up of three key elements.
 - i) **Acknowledge:** recognising and understanding fraud risks and committing support and resource to tackling fraud to maintain a robust anti-fraud response.
 - ii) **Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
 - iii) **Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.
- 1.4 Since April 2016 CAFS identified 145 positive outcomes against a target of 130, including nine successful prosecutions, 21 recovered tenancies and 14

Proceeds of Crime (POCA) cases with awards to H&F totalling £662,073 of which £310,551 has been repaid to date.

- 1.5 For the financial year ending 31 March 2017, fraud with an estimated value of over £7million has been prevented, detected, stopped and pursued, as detailed in the following table.

Activity	Fraud proved 2015/16	Fraud proved 2016/17	Fraud identified to date (£'s)
Housing Fraud – applications	5	12	180,000
Housing Fraud - assignments & successions	3	5	81,000
Right to Buy	17	42	4,363,800
Prevention	25	59	4,624,800
Tenancy Fraud (Council and Registered Providers)	30	21	990,000
Housing and Council Tax Benefit (legacy cases 15/16)	8	-	-
Internal Staff and Other Services	14	23	429,800
Low-risk fraud – Parking, Accessible Transport and Council Tax SPD	20	18	15,667
Detection	72	62	1,435,467
Proceeds of Crime Act – awarded	5	8	662,073
Proceeds of Crime Act – repaid	7	6	310,551
Press stories	-	10	-
Deterrence	12	24	972,624
TOTAL	109	145	7,032,891

- 1.6 Details of sample fraud cases are reported in Appendix 1.

N.B.: fraud in the different areas has been notionally valued as follows;

- Tenancy Fraud: £45,000 per property based upon the average cost of temporary accommodation (£18,000 p.a.) multiplied by the average length of stay. An additional £8,000 saving is also claimed when keys are returned based upon the average cost of legal action and bailiff intervention to recover property via the court.
- Right to Buys: £103,900, the value of the discount per application.
- Succession: As per Tenancy Fraud because each time a fraudulent assignment or succession is stopped a vacant possession is returned to the Council.
- Housing Fraud: £18,000 based upon the average cost of maintaining a family in temporary accommodation for one year.

2. RECOMMENDATIONS

- 2.1 Note the fraud work undertaken during the year 1 April 2016 to 31 March 2017.

3. REASONS FOR DECISIONS

- 3.1 To inform the Committee of the actions of the Council's counter fraud response.

4. FRAUD PREVENTION ACTIVITIES

Fraud in Brief

- 4.1 In November 2016 CAFS launched a newsletter entitled Fraud in Brief, which was circulated to all Council staff via the intranet.
- 4.2 The quarterly newsletter aims to keep staff up-to-date with counter fraud activities as well as making them aware of the latest threats and emerging risks, as well as informing staff how to identify the warning signs of fraud and what to do if they suspect fraud.
- 4.3 The first two issues have been well received and contribute towards enhancing the Council's anti-fraud culture and general fraud awareness. A third edition is due in early July.



Cybercrime

- 4.4 In January 2017 CAFS officers all completed a ProQual Level 2 Award in Cyber Security Awareness.
- 4.5 The aim of the training, and subsequent qualification was to provide officers with a greater understanding of best practice in cyber security, while also understanding the different types of cybercrime threats, from remote attacks like malware or hacking to more intrusive threats like social engineering.
- 4.6 CAFS realise that protecting the organisation from cybercrime is everyone's responsibility, not just ICT, and while cybercrime remains an increased risk, CAFS want to support ICT by maintaining awareness and disseminating good practice.
- 4.7 The training provides the Council with the assurance that fraud officers have attained a good level of competency in cyber security and can use this level of knowledge to raise awareness across the Council. Attainment of the qualification also provides officers with additional access to resources which will ensure CAFS are kept up to date with details of new threats, emerging risks and the latest developments.

- 4.8 Since the training, an eLearning course entitled Introduction to Cybercrime has been designed and made available to Council staff along with several articles in the CAFS newsletter, Fraud in Brief.

Housing (Prevention)

- 4.9 CAFS continue to provide an investigative support resource across all aspects of housing, including the verification of applications for support, as well as vetting requests for the succession or assignment of tenancies.
- 4.10 For the period 1 April 2016 to 31 March 2017, CAFS have successfully prevented 12 false housing applications and five fraudulent successions.

Right to Buy (RTBs)

- 4.11 The levels of RTB applications remain constant with tenants benefiting from the scheme's discounts up to a maximum of £103,900.
- 4.12 CAFS continue to apply enhanced fraud prevention processes to all new RTB applications including anti-money laundering questionnaires as well as financial and residential verification.
- 4.13 In the year to 31 March 2017 CAFS have successfully prevented 42 Right to Buys from completion, where suspicion was raised as to the tenant's eligibility or financial status. In many instances, these have been as a result of the tenant voluntarily withdrawing their application once checking commenced.

5. FRAUD DETECTION ACTIVITIES

Corporate investigations

- 5.1 Corporate investigations are defined as fraud cases which relate to employee fraud or other third party fraud which does not fall within a particular CAFS service area such as Housing or Tenancy Fraud.
- 5.2 Since 1 April 2016 work in this area has included;
- An individual who falsely claimed personal budget care payments by feigning disability
 - The dismissal of a member of staff who had misused their mother's blue badge.
 - A disciplinary hearing for two members of staff who had sub-let their social housing property.
 - Advisory reports to guide and assist departments about anti-fraud procedures (Including preventative measures).
 - Production of reports to support disciplinary investigations.
- 5.3 Details of sample fraud cases are reported in Appendix 1.

Housing/Tenancy Fraud

- 5.4 CAFS continues to provide an investigative support resource across all aspects of housing, from the initial applications for assistance to the investigation of tenancy breaches.
- 5.5 CAFS deal with any reactive allegation received and sought to recover misused tenancies and prosecute where there is believed to be criminal activity. CAFS continue to receive referrals from a variety of housing elements including;
- Housing applications
 - Under and over occupancy
 - Assignment and succession
 - Right to Buy
 - Sub-letting
 - Abandonment
- 5.6 For the financial year to 31 March 2017 CAFS and Housing have successfully recovered 21 social housing properties; stopped 42 Right to Buys, prevented five false succession/assignment applications, and stopped 12 false Housing applications.

Registered Social Landlords (RSLs)

- 5.7 CAFS continue to work in partnership with all RSLs operating across the Borough, sharing a common aim to prevent, detect and deter Tenancy Fraud.
- 5.8 CAFS provide investigative support to recover properties on behalf of the RSLs with the understanding that when CAFS regain a fraudulently sub-let property, the nomination rights to that property (or one of a similar size) is offered to the Council.
- 5.9 Details of significant housing and tenancy fraud investigations are reported in Appendix 1, for information.

6. FRAUD DETERRENCE

- 6.1 Preventing fraud and corruption from happening in the first place must be our primary aim. However, those who keep on trying may still succeed. It is, therefore, important that we try to deter potential fraudsters through the publicity of our enforcement action thereby demonstrating that the Council will take all available action to pursue fraudsters and stop others.

Publicity

6.2 Celebrating and publicising effective anti-fraud activity and successes is integral to having an active counter-fraud culture and contributes to the deterrence of fraud.

6.3 CAFS have a clear communication policy and liaise closely with the Media and Communication team to ensure that press releases are produced for all key anti-fraud activities and that social media is also used as an effective deterrent.

6.4 Members regularly provide comments, publically, to enhance press releases on successful anti-fraud activity, and remind the public of the Council's commitment to preventing and detecting fraud.

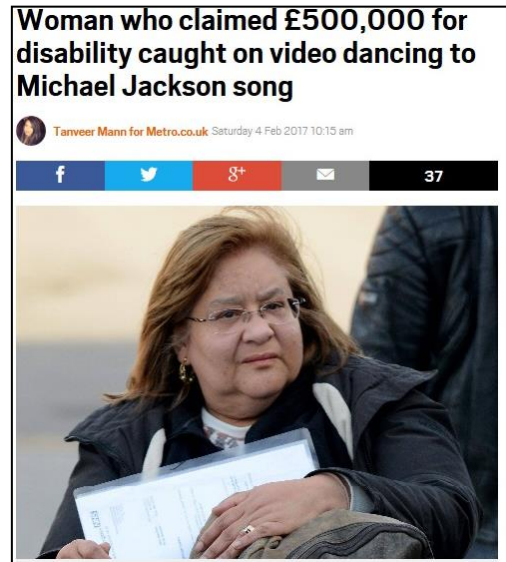


Prosecution

6.5 For the financial year ending 31 March 2017 CAFS successfully prosecuted eight offenders. These included;

- Unlawfully subletting social housing properties
- Fraudulently claiming disability support including personal budget payments and disability benefit
- Using a counterfeit parking permit
- Using false documents to obtain resident parking permits fraudulently

6.6 Currently, six cases remain in progress via Legal Services, including those with Proceeds of Crime confiscation orders attached.



6.7 Details of significant prosecutions are reported in Appendix 1, for information.

Proceeds of crime act

6.8 The use of dedicated Financial Investigators continues to provide rewards with £662,073 awarded for the financial year ending 31 March 2017, and £310,551 repaid to date.

6.9 Financial investigators continue to actively pursue opportunities to assist other departments across the Council, working closely with the Legal Services as suitable cases are identified.

7. OPTIONS AND ANALYSIS OF OPTIONS

7.1 Not applicable

8. CONSULTATION

8.1 Not applicable

9. EQUALITY IMPLICATIONS

9.1 Not applicable

10. LEGAL IMPLICATIONS

10.1 Not applicable.

11. FINANCIAL AND RESOURCES IMPLICATIONS

11.1 Not applicable.

12. RISK MANAGEMENT

12.1 Not applicable.

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

13.1 Not applicable.

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.	Operational and performance management papers.	A Hyatt	HTH

APPENDIX 1

Anti-Fraud Activity 1 Apr 2016 - 31 Mar 2017 – Case Examples


	Case Description	Result/Outcome
1.	<p>EMPLOYEE and TENANCY FRAUD - CAFS received an allegation of sub-letting at a Shepherds Bush Housing Association (SBHA) property in Cairns House, SW6. The complaint also suggested that the tenant was an employee of the Council.</p> <p>An initial interrogation of Council records verified the key information of the referral including the tenant's details who was employed as a meals supervisor/teaching assistant at a large secondary school.</p> <p>CAFS investigators visited the property, and the intercom was answered by a gentleman called "Luca" who stated that the tenant was not in and would be back later. A letter was posted into the postbox asking for the tenant to make contact.</p> <p>The tenant contacted CAFS within 30 minutes of the note being left, and an interview was arranged where the tenant denied any subletting and said the man, Luca, was just a friend.</p> <p>Unconvinced by the tenant's explanation, investigators continued with their enquiries and revealed a spate of subletting dating back to 2012, including tenant's bank account which had credits from five different individuals between 2012 and 2014, most with a reference of "rent" or "rental".</p> <p>In a final interview under caution, the tenant continued to deny the fact she had been sub-letting. But when specific questions were asked, "Did you part with possession of Cairns House to sublet it" and "Did you reside with your mother in Vereker Road while you sublet", she replied "no comment".</p>	<p>Based upon the evidence gathered SBHA served a Notice to Quit, and the repossession trial took place in December 2015 at Hammersmith County Court.</p> <p>During the hearing, the tenant stood up and told the judge that she no longer wanted to participate and that she would be appealing against his decision. The judge advised her that no decision had been made yet, but the tenant walked out.</p> <p>Judge Ryan awarded SBHA outright possession forthwith, although following an unsuccessful appeal the tenant was not evicted from the property until February 2016.</p> <p>The Council's Legal Service accepted the case for criminal proceedings in accordance with the Prevention of Social Housing Fraud Act.</p> <p>The tenant entered a not guilty plea to all offences and a four-day trial at Isleworth Crown Court began in December 2016 where the tenant was found guilty on all four counts of Social Housing Fraud.</p> <p>On 23rd January 2017, the tenant was sentenced to 18months imprisonment, suspended for two years with a requirement that she completes 250 hours of unpaid work.</p>

<p>2.</p>	<p>PERSONAL BUDGET FRAUD - A 53-year-old, formerly of Lindrop Street, SW6, illegally claimed more than £500,000 in benefits after pretending she was profoundly disabled.</p> <p>The case was initially referred to CAFS by Adult Social Care when they became suspicious that she was not residing at the Lindrop Street address.</p> <p>Working in collaboration with the Department for Work and Pension, CAFS investigators traced her to West Cornforth, County Durham where they found she was working as a masseuse after turning the top floor of her home into a massage parlour.</p> <p>The individual had claimed disability benefits from the DWP, and care payments from LBHF due to her disability, including Income Support, Disability Living Allowance, Severe Disablement Allowance and Independent Living Fund. In total she had fraudulently claimed is £535,707</p> <p>Evidence gathered included surveillance footage which showed that she had completely fabricated her disability. She was arrested at the address in Durham in 2013 and interviewed three times following her arrest. She always gave a “no comment” reply to all questions put to her. During her arrest items seized included a video showing her dancing at a wedding in Venezuela to a Michael Jackson song and also a photograph of her giving massages as a qualified masseur.</p> <p>The investigation also showed that the Direct Payments (£2,200 per month) she received from LBHF was paid to a care company, invoices were regularly submitted to LBHF to verify this. However, it transpired that the care company was a fake, set up by for the sole purpose of facilitating her fraud.</p>	<p>In February 2017 a jury found her guilty of seven charges under the Theft Act.</p> <p>She was unable to attend the sentencing claiming that Teeside Crown Court did not have adequate wheelchair access. Instead, she listened via a video link as the judge sentenced her to three years imprisonment.</p> <p>Investigations regarding Proceeds of Crime Act are ongoing with £,000s assets already frozen.</p>
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<p>3.</p>	<p>RIGHT TO BUY – Application received from a couple in Gibbs Green, W14, although initial checks during the CAFS vetting process showed that the male tenant was linked an address in Clacton-on-Sea.</p> <p>Enquiries with the local council, Tendring, revealed that they too had been investigating the same person and that their investigation had found him living at an address in Essex.</p> <p>The investigation by CAFS also uncovered a Court Order forbidding the tenant from living at the Gibbs Green property, where his estranged wife was now living alone.</p> <p>Given the above, the tenant's non-residency at the property meant that he failed to meet the criteria for the Right to Buy and his application was refused. However, this prompted a new Right to Buy application from the estranged wife in her sole name, although following challenges from CAFS regarding how the purchase was to be financed, she failed to reply.</p>	<p>CAFS made a recommendation to Homebuy to issue a 56-day letter giving the wife sufficient time to provide the necessary information requested by CAFS.</p> <p>The wife failed to reply to this request, and in November 2016 a notice was served to withdraw the tenant's Right to Buy.</p>
<p>4.</p>	<p>RESIDENT'S PERMIT FRAUD – A case was referred by Parking to CAFS when vigilant officers spotted a recent application which appeared to be supported by fake documents.</p> <p>The suspect had applied for and received, a resident's parking permit in Munster Road but provided both fake V5 Vehicle Registration Documents and a false tenancy agreement.</p> <p>A summons was issued charging the individual under Section 1 of the Fraud Act, and two charges under the Forgery and Counterfeiting Act.</p>	<p>The defendant initially elected for a Crown Court Trial but pleaded guilty to all charges at the pre-trial hearing at Isleworth Crown Court.</p> <p>On 23 November 2016 he was sentenced to a 12 month Community Order to complete 80 hours unpaid work, ordered to pay compensation of £1,214 (<i>cost of parking in the Munster Road area for the 11 week period he held the permit before being detected</i>) and ordered to pay the Council costs of £2,199.</p>

<p>5. RESIDENT'S PERMIT FRAUD - CAFS received a referral regarding the subletting of an Ormiston Grove property. The information suggested that the tenant was working in the United Arab Emirate, and while working overseas had rented the flat to a professional person who was complicit in the deception.</p> <p>The subsequent investigation, which led to the repossession of the property and the conviction of the tenant, confirmed the allegations to be true.</p> <p>During the lengthy investigation into sub-letting, CAFS officers gathered evidence which revealed that the sub-tenant was a willing party to the deception.</p> <p>She was an Associate Director of a large UK pharmaceutical corporation and drove a company car. She held a H&F Resident's Parking Permit for an address in Old Oak Common. However, when the Old Oak permit was renewed, she was no longer living in Old Oak Common but was now sub-letting the Ormiston Grove property.</p> <p>These actions showed that she had tried to conceal the sub-letting. Rather than correctly applying for a permit from Ormiston Grove address, she realised this might have alerted the Council to the unlawful sub-letting. Instead, she knowingly submitted a false parking application, along with fake documents, to wrongfully obtain a permit from her old address.</p>	<p>The subtenant admitted two counts of fraud and two counts of forgery and counterfeiting when she appeared at Isleworth Crown Court in September 2016.</p> <p>The court was told that although the financial loss to H&F Council was small, the culpability regarding the offences was high.</p> <p>On 30 October 2016, she was sentenced at the same court and fined £250 per offence. She was ordered to pay court costs of £7,592.</p>
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<p>6.</p>	<p>EMPLOYEE and BLUE BADGE FRAUD – An employee was discovered misusing her father's Blue Disabled Parking Badge to receive concessionary parking.</p> <p>The employee who was an administrator at a primary school admitted that her father was not present when she used the badge to park.</p> <p>The case was passed to Legal Services to prosecute, and a report submitted to Human Resources, but the employee resigned forthwith ahead of any disciplinary action</p>	<p>In December 2016 at Hammersmith Magistrates Court, she was fined £100 and ordered to pay costs £450 and a £30 victim surcharge.</p>
<p>7.</p>	<p>HOUSING FRAUD – A daughter applied to succeed a tenancy in Mortimer House, W11 when her mother died.</p> <p>Initially, the housing department rejected the application, but the individual appealed the decision and CAFS were asked to review the file.</p> <p>The subsequent investigation linked the applicant to an address in Glasgow, as well as attendance at Glasgow Clyde College where she was studying for a child care qualification.</p>	<p>In March 2017 CAFS asked the applicant to attend an interview where she admitted that her succession application was false and that her main and principal address was in Scotland.</p>

<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p style="text-align: center;">21 June 2017</p>	
<p>INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JANUARY – 31 MARCH 2017</p>	
<p>Report of the Interim Director of Audit, Fraud, Risk and Insurance</p>	
<p>Open Report</p>	
<p>For Information Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Moira Mackie, Interim Director of Audit, Fraud, Risk and Insurance</p>	
<p>Report Author: Geoff Drake – Senior Audit Manager</p>	<p>Contact Details: Tel: 0208 753 2529 E-mail: geoff.drake@lbhf.gov.uk</p>

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 2017 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. PROPOSAL AND ISSUES

- 4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2017, and is for the Committee to note.

Internal Audit Coverage

- 4.1.1. 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.
- 4.1.2. A total of 19 audit reports were finalised in the fourth quarter of 2016/2017 from 1 January to 31 March 2017.
- 4.1.3. 3 Limited assurance reports were issued in this period.
- 4.1.4. The audit of St Thomas of Canterbury Primary School received Limited Assurance with 10 medium priority recommendations being raised. Five of these have been reported as implemented and 5 were not yet due for implementation as at 31 March 2017.
- 4.1.5. The audit of Leasehold Service Charges was given a satisfactory assurance opinion in relation to Operations, and a Limited assurance opinion for Agresso / income collection. 1 medium and 1 high priority recommendation was made. These recommendations were not yet due for implementation at the time of this report.
- 4.1.6. The audit of the MITIE contract quality assurance arrangements, with a final report being issued in February 2017, was reported to Committee in March 2017 and therefore has not been included further in this report.
- 4.1.7. A summary of the limited assurance reports is provided in Appendix D.
- 4.1.8. 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 are 2 outstanding draft reports at the time of writing. A summary of these reports is provided in Appendix B.

Outstanding audit recommendations

- 4.1.9. The Internal Audit department works with key departmental contacts to monitor the implementation of agreed recommendations.
- 4.1.10. There are now 9 audit recommendations where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or the auditee has not provided any information on their progress in implementing the recommendation. These are shown at Appendix E. This compares to 9 outstanding as reported at the end of the previous quarter. We will continue to work with departments to reduce the number of outstanding issues.

4.1.11. The breakdown of the 9 outstanding recommendations between departments is as follows:

- Adult Social Care – 5
- Children’s Services (excluding schools) – 2
- Schools - 2

4.1.12. 7 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.

Implemented Recommendations

4.1.13. 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 due	Number of recommendations implemented
2014/15	202	202
2015/16	269	262
2016/17	104	101

4.2. Internal Audit Service

4.2.1. P

art of

the Senior Audit Manager’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 Quarter 4 of the 2016/17 financial year.

Performance Indicators 2016/17

Ref	Performance Indicator	Target	At 31 March 2017	Variance	Comments
1	% of deliverables completed	95%	95%	0%	89 deliverables issued out of a total plan of 94 (excluding exceptions)
2	% of planned audit days delivered	95%	95%	0%	1125 days delivered out of a total plan of 1188 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	100%	+5%	53 out of 53 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%	94%	-1%	59 out of 63 draft reports issued within 10 working days of exit meeting. Average time of 6 days.
5	% of Final reports issued within 5 working days of the management responses	95%	100%	+5%	38 out of 38 final reports issued within 5 working days.

4.3. Audit Planning

4.3.1. Amendments to the 2016/17 year Internal Audit plan are shown at Appendix C.

5. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix A	Audit reports issued 1 January to 31 March 2017
Appendix B	Summary of Outstanding Audit Reports
Appendix C	Amendments to 2016/17 audit plan
Appendix D	Summary of Limited Assurance Reports
Appendix E	Outstanding Recommendations

APPENDIX A

Audit reports Issued 1 January to 31 March 2017

We have finalised a total of 19 audit reports for the period of 1 January to 31 March 2017 to be reported to this Committee. We categorise our opinions according to our assessment of the controls in place and the level of compliance with these controls.

No.	Audit Plan	Audit Title	Director / Sponsor	Audit Assurance
1	2016/17	Risk Management – Compliance Review	Nigel Pallace	Satisfactory
2	2016/17	Queensmill School	Clare Chamberlain	Satisfactory
3	2016/17	St. Thomas of Canterbury RC	Clare Chamberlain	Limited
4	2016/17	William Morris 6th form Academy	Clare Chamberlain	Substantial
5	2016/17	Corporate Governance (Annual Audit for AGS)	Nigel Pallace	Substantial
6	2016/17	Service Charges	Kath Corbett	Operations: Satisfactory Agresso/Income: Limited
7	2016/17	ASC Supplier Resilience	Mike Boyle	Satisfactory
8	2016/17	VAT	Hitesh Jolapara	Satisfactory
9	2016/17	Security Incident Management	Veronica Barella	Satisfactory
10	2016/17	MITIE Contract Quality Assurance	Nilavra Mukerji	Limited
11	2016/17	Commercial Property Management	Maureen McDonald-Khan	Satisfactory
12	2016/17	Community Support Service	Stella Baillie	Satisfactory
13	2016/17	Carers Assessments	Stella Baillie	Satisfactory
14	2016/17	Anti-Fraud Service	Moira Mackie	Satisfactory
15	2016/17	Information Governance and Exchange - (NHS Toolkit)	Rachel Wigley,	Satisfactory
16	2016/17	Housing Emergency Planning	Nilavra Mukerji	Satisfactory
17	2016/17	iWorld Application	Kath Corbett	Satisfactory
18	2016/17	Asylum Seekers – Unaccompanied Minors*	Steve Miley	Satisfactory
19	2016/17	School Meals Contract*	Rachael Wright-Turner	Satisfactory

* Undertaken by the RBKC in-house internal audit team.

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.

Internal Audit reports in issue more than two weeks

There are currently 2 reports in issue more than two weeks at time of reporting.

Ref	Department	Audit Name	Assurance	Date draft report issued	Responsibility	Sponsor (Title)
1	Regeneration, Planning and Housing Services	Departmental Risk Management - Housing	Satisfactory	06/03/2017	Health and Safety Manager	Director for Housing Services
2	Regeneration, Planning and Housing Services	Planning Control	Satisfactory	10/02/2017	Planning Change Manager	Lead Director of Regeneration, Planning and Housing Services

Amendments to 2016/17 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Corporate	Consultancy Service	Added	Added from contingency
2	Adult Social Care	ASC Accounts Receivable	Added	Added to plan to expand upon Corporate Accounts Receivable audit
3	Regeneration, Planning & Housing	Management of Hazardous Materials and Substances	Added	Added at Request of Audit Manager
4	Regeneration, Planning & Housing	Budget and MTFS Savings Management	Added	Added at request of Strategic Finance Director

Summary of Limited and Nil Assurance Reports

Ref	Audit and Scope	Details	Assurance / Risk
1	<p>St. Thomas of Canterbury Catholic 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 & Petty Cash • Income • Payroll • Head Teachers Pay • Assets and Inventory • Leasing • Unofficial Funds 	<p>This audit was undertaken as part of the 2016/17 audit plan 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 purpose of the audit is to help Schools establish and maintain robust financial systems.</p> <p>Three low priority recommendations and ten medium priority recommendations were raised. The ten medium priority recommendations were as follows:</p> <ol style="list-style-type: none"> 1) The 2016-17 School Development Plan should be developed and approved by the Governing Body. This should include financial costs associated with delivering the agreed outcomes. 2) Budget monitoring reports and payroll reports should be reviewed on a monthly basis. Evidence of the review process should be retained. 3) The unofficial fund, income, and petty cash reconciliations should be signed by the undertaking officer, and the reviewer on a monthly basis. 4) Where costs relating to transactions can be identified in advance, a purchase order should be raised and authorised prior to placing the order with the supplier. Purchases in excess of £10,000 should be approved by the Governing Body or Finance Committee, with quotes obtained in accordance with the School's Financial Regulations. Payment of undisputed invoices should be made within 30 days. 5) Quotes should be obtained before entering into contracts, or high value purchases in line with the School's Financial Regulations. Where it is not possible to obtain the required number of quotes, a waiver to the regulations should be sought from the Governing Body, and evidence of this retained. 6) Expense claim forms should be signed and dated by the claimant to confirm the receipt of payment. Where payments of significance are made in exceptional circumstances, this should be reported and agreed by the Governing Body. 7) The School should ensure that appointment letters, qualifications and references are retained for new starters: 8) The School should ensure that the ISR and pay scales for the Head Teacher, Acting Head Teacher, and Deputy Head Teacher are formally approved and documented by the Governing Body. The School should ensure that additional payments to staff are in line with the Pay Policy, and approved by the Governing Body or delegated Committee with justification documented. 9) Asset register checks should be undertaken on an annual basis. This should be recorded and presented to the GB or delegated committee. 10) Unofficial Fund Account reconciliations should be completed and checked by a second independent officer. The Unofficial Fund Account Audit should be presented to the Governing Body for review. 	Limited

Ref	Audit and Scope	Details	Assurance / Risk
2	<p>Service Charges</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"> • Policies and Procedures • Identification of Leaseholders • Identification and Allocation of Attributable Costs • Estimates and Invoicing • Collection • Debt Management 	<p>Service charges are levied by Councils to recover the costs incurred in providing services to a building and/or estate. The way in which the service charge is organised is set out in the leaseholder's lease. The charge normally covers the cost of such matters as general maintenance and repairs, insurance of the building and, where the services are provided, lifts, lighting and cleaning of common areas.</p> <p>A satisfactory audit opinion was provided in relation to Operations, and a limited opinion for Agresso / income collection. One high priority recommendation was made in relation to Agresso/Income, which was that:</p> <ol style="list-style-type: none"> 1) Management should further escalate the issues raised with the service provider, BT, to resolve the functionality issues in Agresso, preventing service charge income from being automatically allocated to service charge accounts. Once resolved, the Council should develop a plan of action to pursue outstanding service charge debts. 	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	Sponsor (Name)	Sponsor (Title)	Status
1	2015/16	Adult Social Care	Continuing Healthcare Funding	Satisfactory	Training should be provided to Health staff regarding the social care aspects of the clients' needs and joint working with the Council.	2	31/10/2016	Stella Baillie	Tri Borough Director of Integrated Care	Training has yet to be formally arranged across health and social care in a systemised way. It is recognised that once the policy had been written - no money had been set aside to facilitate a training programme
2	2015/16	Adult Social Care	Continuing Healthcare Funding	Satisfactory	Panel discussions should be recorded and this should be provided to both Health and Councils. The record should include as a minimum: <ul style="list-style-type: none"> • A list of validated recommendations; • Date on which the responsibility transfers to CCG; and • A list of recommendations where further information and evidence is required, including the rationale for seeking additional information. A periodic analysis of all cases that are taken to the Panel should be undertaken to assess the number of recommendations that are validated first time and the level and pattern of recommendations that are queried and what happens to these cases. In addition, the proposed review of the Panel should be undertaken to	2	30/09/2016	Stella Baillie	Tri Borough Director of Integrated Care	Panel decisions are being recorded and shared. We need to review whether there have been any disagreements / where further information has been requested/ how many recommendations have been validated. This has not happened because of capacity issues in both of the services.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name)	Sponsor (Title)	Status
					assess their effectiveness.					
3	2015/16	Adult Social Care	Continuing Healthcare Funding	Satisfactory	<p>Management should liaise with Health and agree how best to ensure that all assessments are undertaken by a multi-disciplinary team where applicable and that the results of the assessment are shared.</p> <p>The CHC Panel process should include checking that the Decision Support Tool (DST) for each case presented has been completed by a multi-disciplinary team and sufficient level of input has been made by the social care practitioner where applicable.</p> <p>A copy of Health Needs Assessment (HNA) and DST should be retained on Frameworki for all cases presented to the Panel as evidence of the assessment.</p>	2	31/10/2016	Stella Baillie	Tri Borough Director of Integrated Care	<p>Training has yet to be formally arranged across health and social care in a systemised way. It is recognised that once the policy had been written, no money had been set aside to facilitate a training programme. It is accepted that perhaps this needs to be formally checked. Again there has been delay in doing this because of capacity issues in the services</p>
4	2015/16	Adult Social Care	Continuing Healthcare Funding	Satisfactory	<p>The time taken from the receipt of referral to completion of the assessment and panel date should be monitored for all referrals across the three boroughs and any significant performance issues should be escalated.</p>	2	31/10/2016	Stella Baillie	Tri Borough Director of Integrated Care	<p>Again we still need to formally do this. It was initially hoped that that these actions would have occurred after the training had taken place so that the effectiveness could also be measured.</p>
5	2015/16	Adult Social Care	Section 75 Agreements - Mental Health	Limited	<p>LBHF and WLMHT should ensure the Section 75 agreement is finalised and signed.</p> <p>If necessary, the partners should consider practical ways of facilitating the finalisation and signing of the</p>	1	01/03/2017	Stella Baillie	Tri Borough Director of Integrated Care	<p>The plan is to refresh all three section 75 agreements taking Audit's advice to develop it in such a way that the schedules can be updated on an annual basis.</p> <p>Evidence to be sent.</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name)	Sponsor (Title)	Status	
Page 52					<p>agreement. For example, certain schedules and appendices that contain detail that is likely to change over the life of the agreement could be included in a separate document that is reviewed and agreed annually by the partners. Such schedules and appendices could include: Schedule 1, Appendix 1 Performance indicators; Schedule 4, section 1 Partnership Staffing; Schedule 4, Appendix 1 Service Line Management Structure; and Schedule 5, Appendix 1 Staff Pay Budgets.</p> <p>The benefit of a Section 75 agreement written in this way is that it is less likely to quickly become out of date due to structural, financial and programmatic changes. Appropriate legal consultation should be made in consideration practical ways of facilitating the finalisation and signing of the agreement.</p>					Implementation is ongoing.	
	6	2016/17	Children's Services	Old Oak Primary	Satisfactory	<p>The following policies and documents should be subject to review and approval by the Governing Body on an annual basis:</p> <ul style="list-style-type: none"> • Charging Policy; • Pay Policy; and • School Staffing Structure. <p>Approval should be documented within meeting minutes.</p>	2	30/11/2016	Dave McNamar a	Director for Finance and Resources (Children's Services)	School Business Manager provided updated Policy documents 12/05/2017, however, no minutes were provided to evidence approval. Minutes requested.
	7	2015/16	Children's Services	Schools Information	N/A	<p>Consideration should be given to whether the following policies should</p>	2	31/10/2016	Dave McNamar	Director for Finance and Resources	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name)	Sponsor (Title)	Status
			Security Self Assessment		<p>be in place at schools:</p> <ul style="list-style-type: none"> • Records Management Policy & Information Security Policy. • Website Privacy Policy. • Records Retention and Disposals Policy. • Freedom of Information Policy. • Cookies Policy. <p>Where these are required to be maintained by schools, example policies should be provided for schools to adopt.</p>			a	(Children's Services)	
Page 53 8	2015/16	Children's Services	Schools Information Security Self Assessment	N/A	<p>Schools should be provided with guidance on information sharing arrangements, including:</p> <ul style="list-style-type: none"> • Where information sharing agreements are required and sample agreements. • In which circumstances and how information sharing should be recorded. • When and how to assess security arrangements of other organisations with which data is shared. • In which circumstances security arrangements should be reviewed. 	2	31/10/2016	Dave McNamara	Director for Finance and Resources (Children's Services)	No update received.
9	2016/17	Children's Services	Vanessa Nursery	Satisfactory	<p>For long standing contractors, the market should be periodically tested to confirm that value for money is still being achieved.</p> <p>The Nursery should ensure that copies of all contract agreements are retained.</p>	2	31/01/2017	Dave McNamara	Director for Finance and Resources (Children's Services)	No update received.



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

London Borough of Hammersmith & Fulham

Final Internal Audit Report

St. Thomas of Canterbury Primary School

February 2017



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1 Introduction


This audit was undertaken as part of the 2016/17 audit plan. The London Borough of Hammersmith & Fulham's 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.

The executive summary provides the overall view of the system which is supported by RAG (Red/Amber/Green) ratings for the activities covered by the audit. The remainder of the report is by exception only to highlight areas for improvement.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made as well as agreed management actions to implement them.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Governance and Leadership			0	1	1
Financial Management			0	2	1
Procurement			0	2	0
Staff Expenses & Petty Cash			0	1	0
Income			0	0	0
Payroll			0	1	0
Head Teachers Pay			0	1	0
Assets and Inventory			0	1	0
Leasing			0	0	1
Unofficial Funds			0	1	0
Total			0	10	3

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

At the time of the audit, a number of control weaknesses were identified. In Internal Audit's opinion, Limited assurance can be given to the Governing Body on the current controls. The School's Administration team has had a restructure, with a new School Business Manager in place since September 2016.

Design of and compliance with controls to address the key risks identified

- The Governing Body and Finance Committee meet at least once a term in accordance with their terms of reference.
- A periodic skills audit has been carried out by Governors at the School to assess the level of training each Governor requires.
- All Governors and staff with financial responsibilities are required to sign the School register of pecuniary interests and we confirmed that this had been completed by all Governors.
- The School Development Plan 2015/16 was in place, however it did not include financial resource requirements. The 2016/17 School Development Plan is yet to be put in place.
- The School has access to the Council's Financial Procedures and have adopted their own Finance Policy. The Finance Policy was approved in February 2016 by the Resources Committee but not the Governing Body.
- The 2016/17 budget plan is in place and was approved by the Governing Body in June 2016.
- Budget monitoring is conducted by the Finance Committee. This was evident in the meeting minutes for the last 12 months.
- Budget monitoring reports were reviewed by the School Business Manager (SBM) and Head Teacher on monthly basis, however, evidence of this review is not documented or retained.
- Monthly bank reconciliations were completed by the SBM and reviewed by the Head Teacher.
- The SFVS was submitted to the Council on 27th June 2016, after the deadline of 31st March 2016.
- Petty cash reconciliations were undertaken on a periodic basis; however, these were not signed by the conducting or reviewing officer.
- From a sample of five petty cash claims tested, the forms had been completed and authorised with evidence of receipts/invoices retained on file. However, in all five cases, the claimant did not sign the form to confirm receipt of the money and validity of the claim.
- One expense identified was for a four night stay in a hotel. It was established that this was for a member of staff with a long commute to the School, who was required to work extended hours on site. The expense was approved by the Headteacher, however, given the nature of the expense this should also be reported and agreed by the Governing Body.
- From a sample of 10 purchases tested, the following exceptions were identified:
 - In four applicable instances, a purchase order was not raised;

-
- In one instance, a purchase in excess of £10,000 was not approved by the Governing Body or Finance Committee, and evidence that value for money had been sought was not retained;
 - In four instances, the payment was not made within 30 days; and
 - In one instance, the invoice was not authorised by the Headteacher.
 - There was separation of duties with regards to the procurement of goods and services.
 - For a sample of three contracts, we were unable to confirm that the market was tested and value for money was sought. Although contracts are discussed at Resources Committee meetings there was no evidence suggesting the contracts were discussed and approved.
 - It was identified that income at the School was banked on a regular basis.
 - Reconciliations are undertaken between income records and cash and cheques due to be banked, however evidence is not retained.
 - For all main sources of income at the School, we found that there was an adequate audit trail to be able to trace income received through to banking.
 - Payroll reports are not reviewed and signed off by the Head Teacher.
 - From a sample of five new starters selected for testing, the following exceptions were identified:
 - In all five cases a letter of appointment was not available on file;
 - In two cases evidence of qualifications was not on file; and
 - In three cases only one reference was obtained.
 - From a sample of five overtime claims tested, in all instances the form was authorised.
 - During the audit, we confirmed the School's Individual School Range. Pay spinal points for the Head Teacher, Acting Head Teacher and Deputy Head Teacher were established, however, we were unable to confirm that these had been approved by the Governing Body.
 - The Head Teacher receives additional payments in excess of their spine point, but we were unable to confirm that justification for this had been documented, and that this had been approved by the Governing Body.
 - The School have data back-up arrangements with LGfL Gridstore.
 - A full inventory check has not been evidenced as completed within the last 12 months.
 - From a sample of five assets selected from the School, in all instances the asset could be traced to the asset register.
 - From a sample of five assets selected from the asset register, in all instances the asset could be located to verify its physical location.
 - The School has entered into a photocopier lease, however advice from the Council's Director of Finance was not sought.
 - The School operates an Unofficial Fund Account. We were unable to confirm that bank reconciliations were undertaken and we were also unable to confirm that an independent audit has taken place this year.

4 Acknowledgement

We would like to thank the following members of staff for their time and assistance during the audit:

- Joanne Breslin – Head Teacher
- Donna Birkinshaw – School Business Manager

Appendix 1: Management Action Plan

1. Governance – Review and Approval of Policies and Documents

Priority	Issue	Risk	Recommendation
Low	<p>Examination of Governing Body meeting minutes identified that four documents had not been minuted as approved within the last 12 months:</p> <ul style="list-style-type: none"> • Finance Policy; • Expenses Policy; and • Charging Policy. 	<p>Where approval has not been documented in meeting minutes, there is a risk that the School may be operating under plans or procedures that are no longer in line with the wishes of the Governing Body.</p> <p>Furthermore, there is a risk that the Governing Body lack oversight of the plans, policies and procedures under which the School operates.</p>	<p>The following policies and documents should be subject to review and approval by the Governing Body on an annual basis:</p> <ul style="list-style-type: none"> • Finance Policy; • Expenses Policy; and • Charging Policy. <p>Approval should be documented within meeting minutes.</p>
Management Response			
Agreed.			
Responsible Officer			Deadline
Governing Body/ Head Teacher			July 2017

2. Governance – School Development Plan

Priority	Issue	Risk	Recommendation
Medium	Examination of the School Development Plan for 2015-16 confirmed that it includes targets and success criteria, but did not include budget and resource requirements. The 2016-17 School Development Plan is also yet to be developed and put in place.	Where the School Development Plan does not include budget and resource requirements, there is a risk that financial resources may be insufficient to achieve the desired outcomes, particularly where additional costs may exceed available funds.	The 2016-17 School Development Plan should be developed and approved by the Governing Body. This should include financial costs associated with delivering the agreed outcomes.
Management Response			
This was discussed at the Resources Committee on 15 November 2016. The new SDP is given to subject leaders who will add costings ready for the next budget planning March 2017.			
Responsible Officer			Deadline
Head Teacher / School Business Manager			March 2017

3. Financial Management – Monitoring Reports

Priority	Issue	Risk	Recommendation
Medium	Through examination of the latest budget monitoring reports and payroll reports, we were unable to confirm that these are reviewed on a monthly basis.	Where the School cannot demonstrate that reports are reviewed, there is a risk that functions are not adequately monitored, and that variances or discrepancies are not identified or addressed in a timely manner.	Budget monitoring reports and payroll reports should be reviewed on a monthly basis. Evidence of the review process should be retained.
Management Response			
These are now signed off monthly.			
Responsible Officer			Deadline
Head Teacher / School Business Manager			Implemented

4. Financial Management – Review of Reconciliations

Priority	Issue	Risk	Recommendation
Medium	Examination of the latest unofficial fund, income, and petty cash reconciliations identified that these had not been signed by the undertaking officer, or a second officer as evidence of review.	Where reconciliations, are not signed by the undertaking officer and a second officer as evidence of review, there is a risk that variances or discrepancies are not identified or addressed in a timely manner.	The unofficial fund, income, and petty cash reconciliations should be signed by the undertaking officer, and the reviewer on a monthly basis.
Management Response			
These are now signed off monthly.			
Responsible Officer			Deadline
Head Teacher / School Business Manager			Implemented

5. Financial Management – SFVS Return

Priority	Issue	Risk	Recommendation
Low	<p>It was identified that the 2015/16 Schools Financial Value Standard (SFVS) had been submitted to the Council on 27 June 2016, and not by the 31 March 2016 deadline.</p> <p>Additionally, from examination of Governing Body meeting minutes, it could not be confirmed that the SFVS had been reviewed by the Governing Body, although the SFVS had been signed by the Chair of the Resources Committee.</p>	<p>Where the Schools Financial Value Standard is not signed and submitted in a timely manner, there is an increased risk that the Local Authority does not have adequate oversight of the School's financial environment.</p>	<p>The SFVS should be approved by the Governing Body and submitted to the Local Authority in a timely manner.</p> <p>The review of the SFVS should be documented in Governing Body meeting minutes.</p>
Management Response			
<p>Reminders and time will be set aside to ensure this is sent off in the timeframe for March 2017. This will also be given to the Clerk of Governors to record in the full GB minutes as well as the Resources minutes.</p>			
Responsible Officer			Deadline
Governing Body / Head Teacher			April 2017

6. Procurement – Ordering Goods and Services

Priority	Issue	Risk	Recommendation
Medium	<p>From a sample of 10 purchases tested, the following exceptions were identified:</p> <ul style="list-style-type: none"> In four applicable instances, a purchase order was not raised for goods/services; In two instances, a purchase order was raised but in one case was not authorised; In one instance, the invoice was authorised by the SBM and not the Head Teacher; In one instance, a purchase in excess of £10,000 was not approved by the Governing Body or Finance Committee. Furthermore, there was no evidence that value for money had been sought; and In four instances, payment was not made within 30 days. 	<p>Where purchase orders are not raised and authorised prior to placing the order with the supplier, there is an increased risk that inappropriate expenditure may be incurred, either directly through that purchase or indirectly through further purchases for which there is insufficient budgetary provision.</p> <p>Where the Governing Body or Finance Committee does not approve high value purchases, and where quotes are not obtained, there is a risk that inappropriate expenditure may be incurred and/or value for money may not be achieved.</p> <p>Where payments are not made within 30 days, there is a risk that the School damages relationships with its suppliers. Furthermore, late payment charges may be applied.</p>	<p>Where costs relating to transactions can be identified in advance, a purchase order should be raised and authorised prior to placing the order with the supplier.</p> <p>Purchases in excess of £10,000 should be approved by the Governing Body or Finance Committee, with quotes obtained in accordance with the School's Financial Regulations.</p> <p>Payment of undisputed invoices should be made within 30 days.</p>

Management Response

Costs identified in advance will now have an order raised against them and will follow the correct authorisation procedure. Consistency of authorisation will now be followed.

It was raised at the Resources meeting on 15 November 2016 that authorisation hadn't been signed off for an invoice over £10,000. This invoice was for Eden Catering and the committee advised that they authorise this as part of the SLA at the beginning of the year, so no need to sign off every invoice that comes through. It was agreed in the meeting on 15 November 2016 that Governors will sign off the supplier transaction listings at every meeting so they can see what expenditure has been raised against each supplier.

In September 2015, there were several suppliers chasing invoices, but these were sent to the previous Senior Admin Officer and were never passed on, so invoices had to be chased. In future any invoices dated outside of the 30 days will have a written reason on them.

Responsible Officer	Deadline
Head Teacher / School Business Manager	April 2017

7. Procurement – Contracts

Priority	Issue	Risk	Recommendation
Medium	For two contracts tested, we were unable to confirm that value for money had been sought and that quotes had been obtained in line with the School's Financial Regulations.	Where quotes are not obtained in line with the School's Financial Regulations, there is a risk that value for money is not obtained.	Quotes should be obtained before entering into contracts, or high value purchases in line with the School's Financial Regulations. Where it is not possible to obtain the required number of quotes, a waiver to the regulations should be sought from the Governing Body, and evidence of this retained.
Management Response			
Agreed.			
Responsible Officer			Deadline
Governing Body / Head Teacher / School Business Manager			May 2017

8. Petty Cash - Expenses

Priority	Issue	Risk	Recommendation
Medium	<p>For all five petty cash claims tested, the claimant had not signed the claim form to confirm receipt of payment.</p> <p>One expense identified was for a four night stay in a hotel. It was established that this was for a member of staff with a long commute who was required to work extended hours on site. The expense was approved by the Headteacher, however, given the nature of the expense this should also be reported and agreed by the Governing Body.</p>	<p>Where expense claim forms are not completed and signed by the claimant, there is an increased risk that inappropriate payments are approved and paid.</p> <p>Where expenditure in exceptional circumstances is not reported to the Governing Body, there is a risk that inappropriate expenses may be claimed.</p>	<p>Expense claim forms should be signed and dated by the claimant to confirm the receipt of payment.</p> <p>Where payments of significance are made in exceptional circumstances, this should be reported and agreed by the Governing Body.</p>
Management Response			
<p>These are now signed off and a report of expenditure was presented at the Resources committee meeting on 15 November 2016 and will be discussed at the next Full GB meeting in early 2017.</p>			
Responsible Officer			Deadline
Head Teacher / School Business Manager			Implemented

9. Payroll – Starters information

Priority	Issue	Risk	Recommendation
Medium	<p>From a sample of five new starters selected for testing, the following exceptions were identified:</p> <ul style="list-style-type: none"> • In three cases, only one reference was obtained; • In all five cases, a letter of appointment was not available on file; and • In two cases, evidence of qualifications was not on file. 	<p>Where two references, and evidence of qualifications are not obtained, there is a risk that the employee will not be suitable for the job.</p> <p>Where letters of appointment are not retained, there is a risk that the School cannot demonstrate transparency in the recruitment process.</p>	<p>The School should ensure that the following is obtained for new starters:</p> <ul style="list-style-type: none"> • Two satisfactory references; • Letter of appointment; and • Evidence of qualifications (where applicable).
Management Response			
Systems are now in place to ensure staff files have the satisfactory documentation that is needed. A tick sheet is now completed with the appropriate documentation enclosed.			
Responsible Officer			Deadline
Head Teacher			Implemented

10. Head Teacher's Pay – School's Individual School Range

Priority	Issue	Risk	Recommendation
Medium	<p>The Individual School Range (ISR) and spinal points for the Head Teacher, Acting Head Teacher and Deputy Head Teacher were established, however, we were unable to confirm that these had been approved by the Governing Body.</p> <p>Furthermore, the Head Teacher receives additional payments in excess of their spine point, but we were unable to confirm that justification for this had been documented and that this had been approved by the Governing Body.</p>	<p>Where the Head Teacher and Deputy Head Teacher's ISRs are not evidenced as approved by the Governing Body, there is a risk that the School is not complying with the School Teachers' Pay and Conditions.</p> <p>Where additional payments are not evidenced as approved by the Governing Body, there is an increased risk that inappropriate and excessive payments are made.</p>	<p>The School should ensure that the ISR and pay scales for the Head Teacher, Acting Head Teacher, and Deputy Head Teacher are formally approved and documented by the Governing Body.</p> <p>The School should ensure that additional payments to staff are in line with the Pay Policy, and approved by the Governing Body or delegated Committee with justification documented.</p>
Management Response			
This will be formally approved and put in the full GB minutes at the next appropriate meeting, rather than just email evidence.			
Responsible Officer			Deadline
Head Teacher			April 2017

11. Assets and Inventory – Annual Asset Check

Priority	Issue	Risk	Recommendation
Medium	Discussion with the ICT Systems Manager established that an asset check is not undertaken on a periodic basis.	Where asset register checks are not undertaken annually, there is a risk that theft or loss of assets will not be identified in a timely manner.	Asset register checks should be undertaken on an annual basis. This should be recorded and presented to the GB or delegated committee.
Management Response			
This was discussed at the Resources committee on 15 November 2016 and the Chair of Governors is visiting school to check and sign this off on 9 December 2016. A reminder has been set with the SBM to get this done every September.			
Responsible Officer			Deadline
Head Teacher / School Business Manager / Site Manager			Implemented

12. Leasing – Council Advice




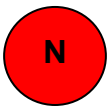
Priority	Issue	Risk	Recommendation
Low	The School has a lease in place for photocopiers, however, we were unable to confirm that advice and approval from the Director of Finance (via Children Services Finance) had been obtained prior to entering the leasing agreement	Where advice and approval from the Director of Finance (via Children Services) is not obtained prior to entering leasing agreements there is a risk that value for money is not obtained.	The School should ensure that advice and approval from the Director of Finance (via Children Services) is obtained prior to entering leasing arrangements.
Management Response			
The school didn't inform the LA when entering into the photocopier contract in August 2015, but will ensure this is addressed in future. This was also discussed at the Resources meeting on 15 November 2016.			
Responsible Officer			Deadline
Governing Body / Head Teacher			Implemented

13. Unofficial Funds – Reconciliation and Audit

Priority	Issue	Risk	Recommendation
Medium	<p>Discussion with the Senior Admin Officer established that the Unofficial Fund Account is not being reconciled on a regular basis.</p> <p>Additionally, whilst the Unofficial Fund Account has been audited on an annual basis, the results have not been presented to the Governing Body.</p>	<p>Where the Unofficial Fund Account is not reconciled regularly, there is a risk that errors and anomalies may not be identified.</p> <p>Where the Unofficial Fund Account Audit is not presented to the Governing Body, there is a risk that the Governing Body are not aware of the findings of the Audit.</p>	<p>Unofficial Fund Account reconciliations should be completed and checked by a second independent officer.</p> <p>The Unofficial Fund Account Audit should be presented to the Governing Body for review.</p>
Management Response			
<p>Discussed at the Resources meeting on 15 November, the chair of finance will recommend an independent auditor. The unofficial fund will be signed off by a second officer and this will be presented to the next full GB meeting.</p>			
Responsible Officer			Deadline
Governing Body / Head Teacher			April 2017

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
	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.
	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.
	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.

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Timetable and Distribution List

Stage	Date
End of Fieldwork	24/11/2016
Draft Report Issued	25/11/2016
Responses Received	26/01/2017
Final Report Issued	27/02/2017

Audit Team

Client Engagement Manager: James Graham

Auditor: Mithen Kotecha

Client Sponsors

Clare Chamberlain – Executive Director of Children’s Services

Staff Consulted

Joanne Breslin – Head Teacher

Donna Birkinshaw – School Business Manager



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

London Borough of Hammersmith and Fulham

Final Internal Audit Report

Service Charges

February 2017



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1 Introduction

As part of the internal audit plan for 2016/17, agreed by the Audit Pensions and Standards Committee, we have undertaken an audit of Service Charges in the London Borough of Hammersmith and Fulham.

Service charges are levied by Councils to recover the costs incurred in providing services to a building and/or estate. The way in which the service charge is organised is set out in the leaseholder's lease. The charge normally covers the cost of such matters as general maintenance and repairs, insurance of the building and, where the services are provided, lifts, lighting cleaning of common areas etc.

The Council calculates the service charges as a percentage, as set out in the lease. There are two types of charges made by the Council to leaseholders. These are:

- the annual service charge, which covers services delivered by the Council to a building or estate; and
- major works bills, which are for significant periodic works done to buildings.



Major works service charges are for necessary repairs, renewals, and in some cases, improvements which cannot be done under the normal day-to-day repairs arrangement due to the amount of work involved. The Council has a statutory duty to write to leaseholders before going ahead with any work where their contribution is likely to exceed £250 to tell them what the Council are planning and how much the leaseholder is likely to be charged. At this stage, the leaseholder is given an opportunity to comment and ask questions.

The annual service charge estimated invoices for the year ahead are sent at the end of March each year. The actual charges (where the actual costs incurred are adjusted after being calculated) are sent in September after the end of the financial year. A detailed breakdown of how the charges are allocated is included within the invoices.

When major works are needed, residents are issued with Section 20 notices, before the works begin. These are invoiced after completion, with flexible payment terms available.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion (Operations)				
Audit Opinion (Agresso/Income)				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Policies and Procedures			0	0	1
Identification of Leaseholders			0	1	0
Identification and Allocation of Attributable Costs			0	0	0
Estimates and Invoicing			0	0	0
Collection			1	0	0
Debt Management			*	0	0
Total			1	1	1

*A recommendation relating to Debt Management has been raised in the Collection Area of the scope.

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

In Internal Audit's opinion, Satisfactory Assurance can be given to Members, the Chief Executive and other officers that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application with regards to operations in Leasehold Services.

Since the implementation of Agresso as the Council's financial system in April 2015, the Service Charges team have been unable to identify, pursue and recover outstanding debts as arrears cannot be reliably identified. The Head of Leasehold Services estimates that at the time of the audit approximately £1.5m of income received had not been allocated to the customers' accounts. As such a Limited assurance opinion has been provided for relating to income collection / Agresso.

We have been advised that this has since been addressed, although there are still large numbers of payments being allocated to suspense prior to being allocated to accounts. It is expected that this will be significantly reduced with the introduction of the new cash receipting system process and procedures where payments can only be received quoting a valid outstanding invoice number (this will not apply to BACS or Post Office payments).

Design of and compliance with controls to address the key risks identified

- Policies and procedures are in place for the administration of Service Charges. However, these were written when Cedar/Olas was the finance system as opposed to the Council's current finance system Agresso. The department is awaiting training on the Agresso system before procedures can be re-written.
- A database of all Council leaseholders is held on iWorld. This records the property account number, name of the leaseholder, property address, correspondence address, and the date of sale.
- Legal Services inform the leasehold services team when a lease has been sold or transferred, and the leaseholder account on iWorld can then be created or amended as appropriate. From a sample of ten lease sales/transfers tested, it was confirmed in all cases that the leasehold services team had not been notified within a month of the transaction date.
- A spreadsheet is maintained by the Service Charges team, which records works planned on each building/block, and their corresponding costs. The policies and procedures in place provide guidance on which costs should be recharged to leaseholders.
- The lease for each property details the percentage of the overall building and/or estate service charge that the leaseholder is liable to pay. The annual invoice issued to the leaseholder records the overall service charge for the building and estate, and the percentage that the leaseholder is liable for each element. From a sample of ten leasehold properties selected for testing, it was confirmed that in all cases the service charge had been apportioned correctly.
- Service Charge estimates are in the majority of cases an average of the actual cost figures from the previous three years. Management can make adjustments to these figures, i.e. where significant upcoming works are known. A sample of ten leasehold properties was selected for testing, and in all cases, the service charge estimate had been calculated, and invoice sent to the leaseholder prior to the forthcoming financial year.
- Invoices of actual service charge costs are issued to leaseholders in the September following the end of the previous financial year. This will show either a credit, which can be credited against the service charge for the next financial year or refunded, or a debit which the leaseholder is required to pay. A sample of ten leasehold properties was

selected for testing, and in all cases the service charge invoice had been sent to the leaseholder in September, relating to the previous financial year.

- Multiple methods of payment are available to leaseholders paying the service charge. These are via direct debit, bank transfer, telephone, cheque, and in person with cash at the Town Hall or Post Office.
- The implementation of Agresso at the Council has resulted in operational issues with the monitoring of payments received and outstanding invoices. Management are currently unable to reliably monitor the payment of service charge invoices, as payments received are not always automatically posted against the corresponding invoice raised in Agresso.
- Where this posting fails, payments enter the suspense account, and are subsequently time consuming to allocate. Reconciliations between income expected and income received can be undertaken, but due to the amount of time this activity takes, we were informed it is impractical with the resources the department has in place.
- Aged debtor reports were previously run on a monthly basis prior to the implementation of Agresso. However, due to the issue with payments not posting correctly into Agresso, these reports no longer accurately identify non-payment of Service Charges. The reports are also not distinguishing between the different types of debt which makes focussed recovery action difficult.
- Policies and procedures are in place detailing the debt recovery process. The first stage of the debt recovery process is for reminder letters to be sent to the debtor, and if this fails, the Service Charges team liaise with Legal Services where legal action is required. The Council can then obtain a Judgement and consider its options for recovery which includes approaching the mortgage company. Due to the issues with identifying overdue debtors, no formal recovery action had taken place within the last 12 months.

4 Acknowledgement

We would like to thank the following members of staff for their time and assistance during the audit:

- Jana Du Preez – Head of Leasehold Services
- Maylene Cave – Service Charge Manager
- Peter Graham – Systems Accountant
- William O'Brien – Team Leader Property Services

Appendix 1: Management Action Plan

1. Policies and Procedures – Implementation of Agresso

Priority	Issue	Risk	Recommendation
Low	Policies and procedures are in place for the administration of Service Charges. However, these were written when Cedar/Olas was the finance system as opposed to the Council's current finance system, Agresso. We were informed that the department is awaiting training on the Agresso system before procedures can be re-written.	Where policies and procedures are not periodically reviewed and updated where required, there is an increased risk of inconsistent and inefficient working practices, and non-compliance with legislation and management requirements.	Policies and procedures relating to the administration of Service Charges should be reviewed, updated and approved by management. If training is required prior to updating procedures, this should be arranged as soon as is practical.
Management Response			
<p>The Leasehold Services team would like the training to take place ASAP but were advised in March 2016 and again in October 2016 by the Agresso Client team that some functionality issues within Agresso will first need to be resolved. We are still awaiting this to happen. The training need is regularly flagged to the Financial Systems Manager and more senior officers in the Agresso Client team.</p> <p>We are however currently in the process of drafting as much of the service charge production process as possible and it will be available on the Intranet by the end of December 2016, but full implementation will not be possible until we have received the Agresso training, we are still waiting for a date for this from the Finance Systems Manager</p>			
Responsible Officer			Deadline
Pete Graham and Jana du Preez			July 2017

2. Identification of Leaseholders – Notification of Lease Sales/Transfers

Priority	Issue	Risk	Recommendation
Medium	<p>From a sample of ten leaseholder sales/transfers tested, in all cases the Service Charges team had not been notified by Legal Services of the change of leaseholder within a month of the transaction date.</p> <p>We were informed that there is currently a backlog of notices to be sent to the Service Charges team.</p> <p>The Head of Leasehold Services is currently negotiating with the Head of Legal Services for these notices to be administered by the Service Charges team.</p>	<p>Where Legal Services do not notify the Service Charges team of a change of leaseholder for a property promptly, there is an increased risk that the Service Charges team cannot invoice the liable party accurately and in a timely manner. This could lead to a financial loss for the Council.</p>	<p>To reduce delays in notification of changes to leaseholders, the Service Charges team should agree working arrangements with Legal Services that will allow for notifications of lease sales/transfers to be received in a timely manner.</p>
Management Response			
<p>The Legal team has recently employed paralegals who are working through the notices and have significantly reduced the backlog. The aim remains for the Service Charge team to administer the notices in future and the Leasehold team has recently gone through a restructure to prepare for this work to be taken over by the team.</p> <p>Leasehold Services and Legal Services have a standing arrangement where all Notices of Assignment are brought up to date before the invoices are issued in March and September to ensure that the invoices are issued correctly. Any RTS invoices are investigated promptly by Leasehold Services and re-issued. The risk to income is therefore minimal.</p>			
Responsible Officer			Deadline
David Walker and Jana du Preez			April 2017

3. Collection – Agresso Income Posting

Priority	Issue	Risk	Recommendation
High	<p>Since the implementation of Agresso as the Council's financial system in April 2015, there have been issues preventing income received from being automatically posted against service charge invoices raised.</p> <p>Reconciliations between income expected and income received can take place, but due to the time it would take to clear the suspense account, we were informed it is impractical with the resources the team currently has in place.</p> <p>As such, the Service Charges team have been unable to identify, pursue and recover outstanding debts as these cannot be reliably identified.</p> <p>The Head of Leasehold Services estimates annual service charge income of around £4m, of which approximately £1.5m was in suspense and yet to be allocated to the customers' accounts. We were informed that the Council has raised these issues with the service provider, BT, however they have not yet been resolved.</p>	<p>Where income collected cannot be reliably matched to invoices, there is a risk that overdue service charge income is not identified and debt recovery action taken leading to financial loss to the Council.</p>	<p>Management should further escalate the issues raised with the service provider, BT, to resolve the functionality issues in Agresso, preventing service charge income from being automatically allocated to service charge accounts.</p> <p>Once resolved, the Council should develop a plan of action to pursue outstanding service charge debts.</p>

Management Response




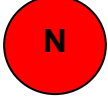
These issues have been repeatedly escalated to BT on several occasions but we have had practically no engagement from them. The issues have also been escalated to the Agresso Client team by the HRD Director of Finance and Resources. This has recently resulted in a project to address the high priority issues. The Financial Systems Manager confirmed on 17th November 2016 Project Update that the suspense account was significantly reduced (100 transactions remaining) and that his team is currently up to date allocating the cash daily.

This has now resulted in money allocated to accounts which needs to be allocated to the individual outstanding invoices. Leasehold Services officers are in the process of completing the backlog. Officers are undertaking ad hoc recovery of arrears and implementing a full recovery plan after the Christmas holiday period.

Responsible Officer	Deadline
Jana du Preez	June 2017

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
	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.
	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.
	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.

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope & Limitations

This audit was a full risk based review of the arrangements for the Council's administration of leaseholder service charges and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
1	Policies and Procedures	Policies and procedures in place are comprehensive, up-to-date and available to all relevant members of staff to help staff perform duties in an efficient and effective manner.
2	Identification of Leaseholders	All leaseholders who are liable to pay service charges to the Council are identified by the Council in a timely manner.
3	Identification and Allocation of Attributable Costs	All eligible service charge expenditure is identified and accurately allocated to leaseholders.
4	Estimates and Invoicing	Estimates and invoices are completely, accurately and promptly raised for all leaseholders in line with management and regulatory requirements.
5	Collection	Service charge income received is completely, accurately, and promptly recorded in the authority's accounts.
6	Debt Management	Management are provided with accurate and timely management information regarding outstanding debts and debt recovery activity. Where appropriate, debts are referred to Legal Services. Accounts in arrears are reviewed periodically and any debts deemed irrecoverable are written off.

Key risks

Key generic risk factors that affect this service are:

- All Council leaseholders may not be identified and included in service charge calculations
- Leaseholder service charges may not be properly identified, apportioned and recharged
- Income received from leaseholders may not be allocated promptly to the correct account
- Leaseholder services charges may not be recovered in a timely manner

Limitations to the Scope of the Audit

The internal audit approach was developed through an assessment of risks and management controls operating within the agreed scope. The following procedures were adopted:

- Identification of the role and objectives of each area;
- Identification of risks within each area which threaten the achievement of objectives;
- Identification of controls in existence within each area to manage the risks identified;
- Assessment of the adequacy of controls in existence to manage the risks and identification of additional proposed controls where appropriate; and
- Testing of the effectiveness of key controls in existence within each area.

Management should be aware that our internal audit work was performed in accordance with the Public Sector Internal; Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Our internal audit testing was performed on a judgemental sample basis and focussed on the key controls mitigating risks. Internal audit testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that, in relation to the agreed scope, whilst our internal audit will assess the efficiency and effectiveness of key controls from an operational perspective, it is not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

Appendix 4: Timetable and Distribution List

Stage	Date
End of Fieldwork	22/09/2016
Draft Report Issued	29/09/2016
Responses Received	17/02/2017
Final Report Issued	17/02/2017

Audit Team
Client Engagement Manager: James Graham
Auditor: Niall Gilchrist
Auditee
Jana Du Preez – Head of Leasehold Services
Maylene Cave – Service Charge Manager
Peter Graham – Systems Accountant
Client Sponsor
Kath Corbett – Director for Finance and Resources

Report Distribution List
Jana Du Preez – Head of Leasehold Services
Maylene Cave – Service Charge Manager
Peter Graham – Systems Accountant
Copy Recipients of Report
Kath Corbett – Director for Finance and Resources

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

This report is prepared solely for the use of Audit Committees and senior management of the London Borough of Hammersmith and Fulham. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

Agenda Item 12

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>21 June 2017</p>	 <p>h&f hammersmith & fulham</p>
<p>ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT.</p>	
<p>Report of the Interim Director of Audit, Fraud, Risk and Insurance</p>	
<p>Open Report</p>	
<p>For Information Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Moira Mackie, Interim Director of Audit, Fraud, Risk and Insurances</p>	
<p>Report Author: Geoff Drake – Senior Audit Manager</p>	<p>Contact Details: Tel: 0208 753 2529 E-mail: geoff.drake@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report summarises progress on implementing recommendations arising from the External Audit Report 2015/16 and the Annual Governance Statement.

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. In September 2016 the Council's External Auditors (KPMG) issued their 'Report to those charged with governance (ISA 260) 2015/16'. The report contained three recommendations for implementation by management.

- 4.2. The Council's 2015/16 Annual Governance Statement (AGS) also contained three issues that required action by management. Action plans are a necessary result of the AGS and should provide sufficient evidence that the individual significant control weaknesses taken from the AGS will be resolved as soon as possible, preferably in-year before the next statement is due.
- 4.3. Failure to act effectively on the significant control issue would increase the exposure of the council to risk. As these issues are considered to be significant, the action plans and the progress made in implementation will be periodically reported to the Audit, Pensions and Standards Committee to agree and then to monitor progress.

5. PROPOSALS AND ISSUES

5.1. Update on External Audit Recommendations

- 5.1.1. All recommendations arising from the KPMG 'Report to those charged with governance (ISA 260) 2015/16' have now been reported as implemented.
- 5.1.2. Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position.

5.2. Update on Annual Governance Statement recommendations

- 5.2.1. The table attached as Appendix A shows the progress reported by the responsible managers in implementing recommendation from the 2015/16 Annual Governance Statement.
- 5.2.2. Unless otherwise stated, Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position.

LIST OF APPENDICES:

Appendix A Annual Governance Statement Recommendations

2015/16 Annual Governance Statement Action Plan

Entry	Responsible Officer	Action Plan	Progress To date
<p>Contract Management and Procurement Contract management arrangements had been developing into a “tri-borough” service with significant procurements undertaken such as the SEN childrens’ transport contract and the Managed Services Programme (both procured prior to 2015/16). In order to strengthen both procurement and contract management, the Council appointed a new Commercial Director in December of 2015, with extensive experience in both the public and private sectors. Following an initial review, Council Standing Orders have been changed to improve visibility and oversight of procurement projects by requiring Cabinet sign off of procurement strategies for any project with a value greater than £100,000. A further review of procurement is underway, to better define the boundaries and interfaces between the corporate procurement function and related activities devolved to service departments. In terms of contract management, a maturity assessment of existing contract management capability has been initiated. The results will allow the Council to compare itself against prevailing best practice across all sectors on an international basis. A cohort of approximately 30 staff are undergoing formal commercial and contract management training that will lead to a recognised qualification from the International Association of Commercial and Contract Management.</p>	<p>Director of Commercial and Procurement</p>	<p>The Council's Strategic Leadership Team have agreed to significantly strengthen the Commercial Director's role across the organisation in procurement and contract management. Actions are as follows:</p> <p>Corporate Procurement</p> <p>a. Coordinate and support major procurement activities contracts (by value or sensitivity) across H&F to maximise opportunities and make sure resources are available b. Provide support, development, training and assistance to service departments on a project by project basis c. Develop and implement procurement policy, practice and guidance d. Ensure compliance with policy, standards and procurement law e. Work with economic development to ensure that maximum local economic benefit is derived from all procurements.</p> <p>Strategic Contract Management</p> <p>a. Set contract corporate contract management standards and ensure compliance b. Lead, supervise and coordinate all contract management activities on major contracts (by value or sensitivity) and share line management of relevant contract management staff c. Be accountable for contractual performance of</p>	<p>A new Head of Commercial Management has been appointed, whose role encompasses procurement and contract management. Relationship Managers within the Corporate Procurement team are using two year rolling plans created for each of the major departments across the Council to coordinate key management information across major contracts identifying:</p> <ul style="list-style-type: none"> • Potential savings • Major procurements, • Contract renewals, • Contract extensions • Service Reviews • Contract spend - contract V actual • Non contract spend • Engagement plan • Stakeholder plan • Procurement strategies <p>The Relationship Managers will then ensure that procurements and contracts are only let within the procurement rules. They are also developing engagement plans with the departments to ensure that an on the ground presence and advice is always available. The Relationship managers will also undertake the process of signing off cabinet papers and procurement strategies under the guidance of the Head of Commercial Management. This ensures that a commercial view is always conveyed to the relevant boards for fully informed decisions to be made.</p> <p>The creation of these comprehensive plans ensures that all the required commercial management information is held within the</p>

Entry	Responsible Officer	Action Plan	Progress To date
		<p>major contracts</p> <p>d. Work with commissioners and service managers to carry out contract development for all major contracts to ensure their relevance and suitability during the contract term</p> <p>e. Work with, commissioners, service managers and major suppliers to continuously improve quality and cost through investment and innovation</p> <p>f. Maintain a watching brief on the financial and commercial stability of major contractors</p> <p>g. Train and develop capability and skills of contract management staff across H&F</p>	<p>e sourcing platform and the central contracts register. In addition to this the need for sound financial information in a central place to be able to identify spend anomalies and monitor contract value has been identified and will be developed in conjunction with the departments and corporate finance. This will improve the ability to quickly identify under and over spend on contracts which could relate to further identified saving in the MTFs.</p> <p>The Head of Commercial Management is also developing a central register of all contract KPIs so that contracts which start to underperform are identified quickly. This will also allow Commercial Management to support contract managers implement retentions and other penalties.</p> <p>The Head of Commercial Management will ensure monthly, corporate reporting of all major contracts takes place and will include: performance against contract requirements, corrective actions, penalties imposed or notices served. Status of previous corrective actions and any unresolved issues along with a plan to deal with them. The report will be provided individually and in aggregate and will be reported monthly to the BDT. Actions to resolve any outstanding issues will be agreed, tracked and recorded at the BDT. These reports will be for information only unless there are unresolved or outstanding actions.</p> <p>Accredited Commercial and Contract management training is underway and due to complete throughout 2017. More contract management workshops are planned to further enhance the skills competencies and understanding of Council staff engaged in contract management activities. In addition, the Head of Commercial Management is intending introduce further staff resources to develop these Relationship Manager roles and bring the skills of procurement and contract management closer together.</p>

Entry	Responsible Officer	Action Plan	Progress To date
			<p>Individual reviews of the Serco, Mitie and Pinnacle contracts have been undertaken and improvement action plans implemented to ensure the services are delivered to contract standards. A Head of estates has been recruited to oversee the improvements, work with the suppliers, eradicate poor performance and establish ongoing continuous improvement. In addition to this the Head of Estates will also be reviewing the Quadron/Ideverde contract for grounds maintenance to further enhance resident facing contracts. It is intended to develop a cross contract supplier network to remove service anomalies for areas that fall in between contracts.</p>
<p>BT Managed Services Contract Delivery The Managed Services Programme was procured by Westminster City Council in 2013 to provide transactional Human Resources, including payroll, finance services and a Shared Service help desk for the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and the City of Westminster Councils. The programme overran its original delivery date of 1 April 2014 and went live on 16 March 2015 with a further programme of staged implementation originally extending to 30 April 2015 that has continued to be extended since. Overall, the programme work plans were reviewed by the Programme post go-live and this established key deliverables with revised due dates. These plans and the target date for to achieve a steady state, have slipped and a more recent review of plans has re-set due dates which now stretch through to June 2016. The Council has recognised through its Audit Committee and Contract management arrangements that the contract with BT has had significant issues. During the year, the Council discontinued the use of Westminster City Council's Chief Executive as the SRO for the contract with BT and appointed the Council's Chief Executive as its SRO for the contract</p>	<p>Chief Executive, supported by MSP sponsors - Strategic Finance Director and Director for Human Resources</p>	<p>3.1) LBHF management Oversight of Services and Performance</p> <p>3.2) Assurance for the control environment at BT</p> <p>3.3) Delivery of plans to achieve a steady state</p>	<p>Due to the open status of this report it is not possible to include details of activities which are commercially sensitive and confidential.</p> <p>3.1) Since January 2017 the frequency of governance meetings has been aligned to the contractual frequencies; meaning a reduction to the number of meetings undertaken; however, since March 2017 meetings have not been attended by BT. This has limited the Councils ability to have oversight. BT continue to provide written information on re-plan progress to the Intelligent Client Function (ICF) team against deliverable dates, and matters requiring inputs from the Council.</p> <p>3.2) March 2017: KPMG are conducting an audit of the accounting controls environment at the BT Shared Services Centre (SCC) located in Jarrow. Prior to release of the main audit report verbal indications from KPMG have indicated that no significant areas of concern were identified. An additional internal audit is planned to focus on controls for key areas of legislative compliance by the SCC, work is anticipated to commence on this audit in Q2 2017/18.</p> <p>3.3) The ICF/ continue to monitor and challenge progress against the transitional activities (re-plan) being undertaken by BT through written updates provided by BT to the ICF team. The</p>

Entry	Responsible Officer	Action Plan	Progress To date
<p>with BT. Officers and members from the Council held regular meetings with BT to review plans to improve performance, including making sure measures were taken to ensure internal controls operated. Work is on-going with BT to address the issues raised in this statement and additional resources are being applied by them and the Council to resolve the issues as soon as possible, although over the period improvements have been made we are unable to say with confidence when the system and service will be fully operational. In order to undertake an effective internal audit whereby reliance can be placed on the testing undertaken, there needs to be confidence that the system being reviewed is operating in a stable environment with changes properly controlled and tested prior to being implemented. Apart from the high level controls review of the Managed Service, which indicated that there were a number of areas where assurance on controls could not be given, Internal Audit have not been able to independently review the system controls and have therefore not undertaken any substantive testing during 2015/16 in the key areas of HR, Payroll and Finance. Due to problems with the system, additional internal finance and HR resources were engaged during the year by the Council to support HR and finance work, including to assist the production of the final accounts. The additional support mitigated the issues that have been experienced.</p>			<p>ICF team exception report matters requiring escalation to LBHF.</p> <p>As stated in 3.1) BT are not attending the Operational Framework Board (OFB), Strategic Framework Board (SFB), and Board to Board forums (B2B).</p> <p>Ongoing discussions between LBHF and BT (ancillary to OFB, SFB, B2B) will seek to agree with BT a level of service designed to meets needs of the Council. We anticipate a revised service specification will fall below contracted standard but which is suitable to support ongoing Council operations. This is due to the Councils belief that BT will not achieve the levels of contracted service during the term of the Call off Contract.</p>

Agenda Item 13

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>21 June 2017</p>	 <p>h&f hammersmith & fulham</p>
HEAD OF INTERNAL AUDIT ANNUAL REPORT 2016/17	
Report of the Interim Director of Audit, Fraud, Risk and Insurance	
Open Report	
For Information Key Decision: No	
Wards Affected: None	
Accountable Director: Moira Mackie, Interim Director of Audit, Fraud, Risk and Insurances	
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 Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2016/17 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 including the following areas:

- 1.1.1. Management and oversight of Trading Accounts
- 1.1.2. 2 Adult Social Care contract management audits and 1 procurement audit received Limited assurance opinions
- 1.1.3. The Quality Assurance arrangements related to the MITIE Repairs contract
- 1.1.4. Use of Consultants.
- 1.1.5. Disability Services Direct Payments

1.2. 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

3. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix A	Assurance Levels 01/04/2016 – 31/03/2017
Appendix B	Internal Audit Performance – 2016/17
Appendix C	Internal Audit work for which an assurance opinion was not provided
Appendix D	Follow up Audits

***London Borough of Hammersmith
and Fulham***

***2016/17 Head of Internal Audit
Annual Assurance Report***

May 2017

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1. Executive Summary

- 1.1. From the Internal Audit work undertaken in 2016/17, 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 2017 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 8.

2. Introduction

- 2.1. 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. This opinion statement is provided for the use of the London Borough of Hammersmith & Fulham and is used to support its Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 2.2. From the Internal Audit work undertaken in 2016/17, 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 2017 accords with proper practice, except for any details of significant internal control issues as documented at section 8.

3. Scope of Responsibility

- 3.1. 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.
- 3.2. 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.

4. The Purpose of the System of Internal Control

- 4.1. 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.

5. The Internal Control Environment

- 5.1. 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.

6. 2016/2017 Year Opinion

- 6.1. From the Internal Audit work undertaken in 2016/17, 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 2017 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 8.
- 6.2. 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 2016 and 31 March 2017. 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) 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
 - d) Follow up of audits undertaken previously. A summary of the outcome of these follow up visits can be found in Appendix D.

Internal Control

- 6.3. The system of internal 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

Managed Services

- 6.4. The Managed Services Programme was procured by the Council in 2013 to provide transactional Human Resources, payroll and finance services and commenced limited service provision in April 2015.

- 6.5. Since this point BT have continued to deliver a number of staged improvements to their service, however they are yet to deliver to the required contracted standard. Officers and members from the Council have held regular meetings with BT to review plans to improve performance, including making sure measures were taken to ensure internal controls operated.
- 6.6. To provide the Council with some assurance over their key financial and HR systems, a number of internal audits have been undertaken during 2016/17 including:
- Accounts Receivable (Satisfactory Assurance);
 - Accounts Payable (Satisfactory Assurance);
 - General Ledger (Satisfactory Assurance);
 - Treasury Management (Substantial Assurance);
 - VAT (Satisfactory Assurance), and
 - Budgetary Control (Satisfactory Assurance)
 - Payroll (Limited assurance)
- 6.7. Sample testing has also been undertaken on key areas of the Payroll process and, although the testing has identified a number of exceptions, no material issues were identified.
- 6.8. Further audits in respect of managed services will be undertaken in the 2017/18 financial year.

Governance

- 6.9. In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. 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.

Risk Management

- 6.10. Three risk management audits were completed as part of the 2016/17 audit plan. Namely, Corporate Risk Management Compliance Review and audits of risk management of both Housing Services and the new ICT Service.
- 6.11. A Satisfactory assurance opinion was provided for the Corporate Risk Management Compliance Review. Recommendations were raised that related to:
- Recording individual risk owners and planned actions for all risks.
 - Submitting risk registers to the Shared Services Risk Manager promptly each quarter.
- 6.12. A Satisfactory assurance opinion was provided for the audits of Housing Services and ICT Risk Management (both currently at draft stage). Recommendations raised related to:
- Using the standard dashboard template for risk registers and completing all fields of the risk register
 - Including planned actions for significant residual risks
 - Reviewing inherent, residual and target risk scores to ensure that existing and proposed controls reduce residual and target risk scores to a level the Council is willing to accept (and that this is correctly reflected in the register).
 - Submitting annual assurance statements on time.

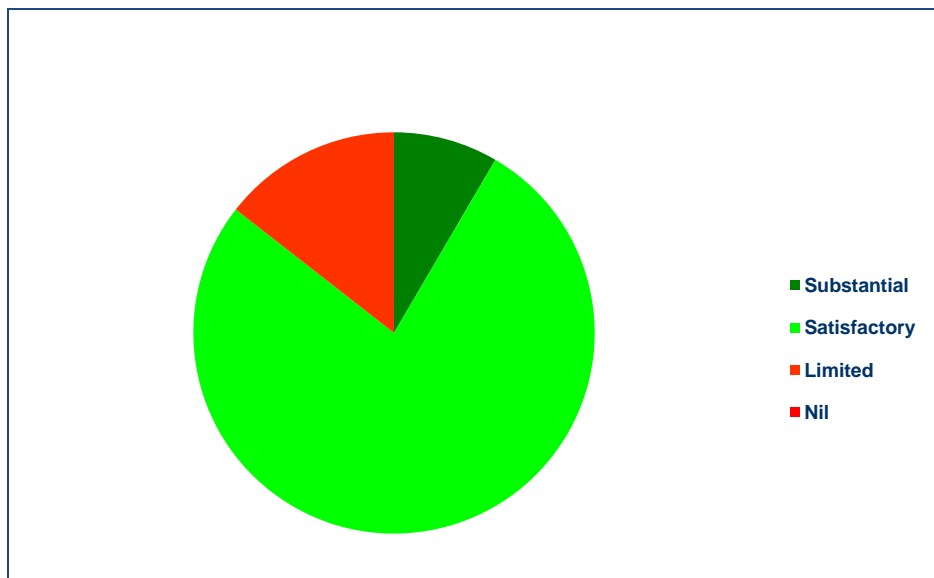
Qualifications to the opinion

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

7. Basis of Assurance

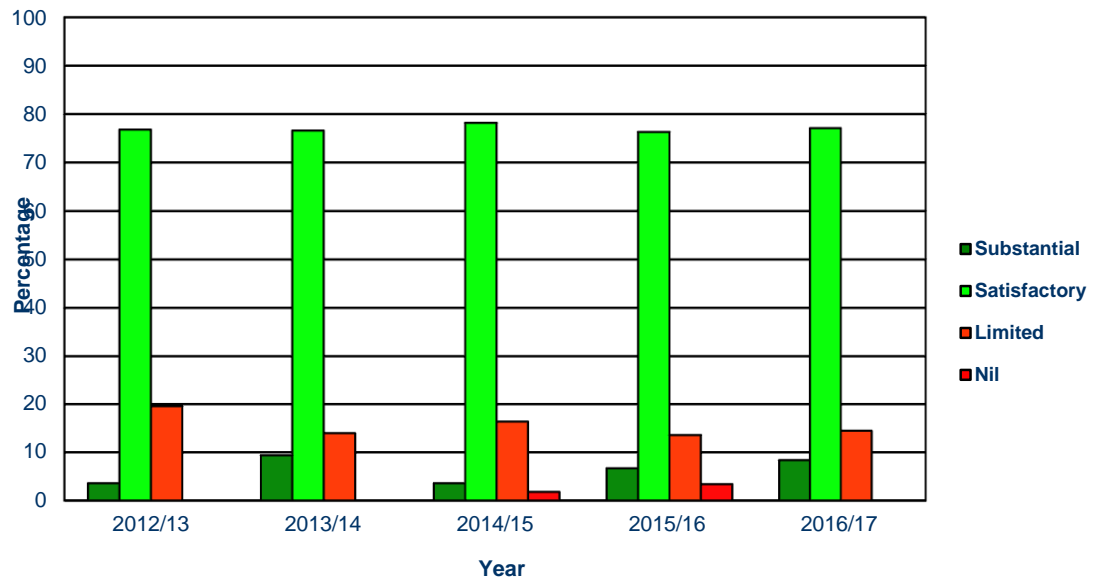
- 7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Public Sector Internal Audit Standards and additionally from our own internal quality assurance systems.
- 7.2. Our opinion is limited to the work carried out by Internal Audit based upon the internal audit plan. Where possible we have considered the work of other assurance providers, including External Audit and the Internal Audit services of Royal Borough of Kensington and Chelsea and Westminster City Council as part of the shared services arrangement.
- 7.3. The audit work that was completed for the 2016/17 financial year is listed in Appendices A, C and D. Appendix A lists all the audits where assurance opinions are provided.
- 7.4. The pie chart below shows the levels of audit assurance achieved for the 2016/17 year including internal audits undertaken by the Royal Borough of Kensington and Chelsea and Westminster City Council, so that it covers all audits covering systems that support delivery of LBHF services.
- 7.5. 86% of the systems audited achieved an assurance level of Satisfactory or higher, of which 7 audits received Substantial Assurance. 14% received a Limited Assurance and no Nil Assurance reports were issued in 2016/17.

Assurance Levels for the year to 31 March 2017



- 7.6. To help put this into context the bar chart below shows the levels of assurance provided for all systems audited since the 2012/13 financial year. The distribution of assurance opinions shows a relatively stable position with a slight increase in substantial assurance reports over the last three years.

Assurance Levels of Reports from 2012/13 to 2016/17



Acceptance and implementation of Internal Audit recommendations

7.7. Almost all of the recommendations made during the year were accepted by management. The exceptions being:

- One High Priority recommendation arising from the 2015/16 premises licensing audit, a Limited Assurance audit. We were informed in 2016 that this will not be implemented. Namely that an interface and reconciliation should be implemented between the Agresso and Uniform systems. In view of the cost, and the priority Finance and the ICF place on this, it was not considered viable. The risk of human error and the ongoing resource requirements of a manual reconciliation has been accepted by management.
- One medium priority recommendation from the 2016/17 Planning Enforcement audit, a Satisfactory Assurance audit, will not be implemented due to the resource input required. Namely implementing a second check of fees input on the Uniform system and a reconciliation of fees received as per Uniform with the fee income recorded on Agresso. The increased risk of errors being undetected has been accepted by management.

7.8. Whilst 15 reports remain at the draft report stage we have been provided with assurance by management as part of the debrief meeting process that the recommendations made will be implemented.

7.9. 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.

7.10. In total 75 reco mme ndati	Year	Number of recommendations due	Number of recommendations implemented
	2014/15	202	202
	2015/16	269	262
	2016/17	104	102

ons arising from Nil and Limited Assurance reports have been followed up by internal audit of which 50 were either fully implemented or no longer relevant, representing 66% of all those tested. If partially implemented recommendations are added this totals 92% of all those tested. This is in line with 2016/17 and provides reasonable confidence that recommendations reported as implemented have been effectively actioned. The results of our follow up visits can be seen in Appendix D.

7.11. In 2016/17 Internal Audit introduced an additional light touch regime of follow ups for all High and Medium priority recommendations not covered by the above follow up regime. 91 recommendations were followed up with 87 (96%) being confirmed as implemented and 4 (4%) no longer applicable.

8. Significant Control Weaknesses

8.1. 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 2016/17, the following significant issues were identified:

- Weaknesses were found within the Trading Accounts Audit, mainly relating to limited central guidance and oversight of traded services;
- 2 Adult Social Care contract management audits and 1 procurement audit received Limited assurance opinions.
- 2 schools received Limited Assurance opinions (Phoenix High School and St Thomas of Canterbury RC Primary School). One of these (Phoenix) has since transferred to Academy status; and
- The Quality Assurance arrangements related to the MITIE Repairs contract received a Limited assurance opinion. The assurance opinion provided is based on sample testing across the entire contract period to date. It should be noted that a number of improvements have been made to the quality assurance framework since October 2016. We were unable to fully test the effectiveness of the new or strengthened controls as they are not yet fully embedded.
- Use of Consultants received a limited assurance opinion. Weaknesses identified included a lack of transparent competition when appointing consultants, formal contracts not always being in place, and checks of employment status not being undertaken.
- Disability Service Direct Payments received a Limited assurance opinion. The DP arrangements are operated independently in each Council with staff often undertaking the DP processes as part of a wider role. As a result, the knowledge and expertise around DP was spread thinly across the three Councils.

- Pensions Administration received a Limited assurance opinion. Although the audit identified a number of the controls in place for calculating, processing and maintaining the scheme as operated by Surrey County Council are appropriate, the weaknesses in the information provided by BT has impacted on the overall assurance opinion.
- Payroll also received a Limited assurance opinion. The absence of documentation and records on Agresso for payroll transactions meant that the audit trail for many cases tested was incomplete and information could not be relied upon. The lack of cooperation from BT was also a concern.

Annual Governance Statement

8.2. The Council's Annual Governance statement states:

8.2.1. "We have been advised of the results and implications of the review of the effectiveness of the governance framework by the Audit, Pensions and Standards Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below. A satisfactory level of Assurance has been achieved following the conclusion of the review." and

8.2.2. "Matters reported below in the 2015-16 Annual Governance Statement, with the exception of those related to the Managed Services Programme, have been addressed during 2016-17 and are considered resolved." The 2015/16 year matters that were reported related to contract management arrangements, across the council, the Local Government Finance Settlement and unfunded new responsibilities, plus Managed Services,

8.2.3. No significant governance issues were identified in the 2016/17 Annual Governance Statement.

9. ICT

9.1. Internal Audit undertook 9 ICT or ICT related audits in 2016/17. Six audits received a Satisfactory Assurance opinion and 3 audits are in progress.

9.2. We found the areas audited in 2016/17 to be generally well controlled. Areas of strength identified included controls related to compliance with the Information Governance & Exchange NHS toolkit.

10. Finance

10.1. Of the 13 finance related audit in the 2016/17 financial year, 1 received Substantial assurance, 4 received Satisfactory assurance, 1 received Limited assurance and 1 a split Limited/Satisfactory assurance with the Limited opinion relating to Agresso and income collection. This represents a similar position to 2016/17. 6 audits remain in progress.

10.2. In addition, the 2016/17 internal audit plan included an audit of MTFs savings where a sample of savings was selected to confirm their delivery can be supported by evidence. Issues identified include responses not being provided to Internal Audit and a reasonable basis or rationale used to set targets not always being available.

10.3. No significant error or fraud against the Council was detected as a result of our audit work.

11. Procurement and Contract Management

- 11.1. Of the 23 procurement and contract management related audits undertaken in 2016/17 11 received Satisfactory Assurance and 5 received Limited Assurance. 7 were still in progress at the time of writing.
- 11.2. This shows a similar position to 2015/16, where out of 6 applicable audits, 2 split Satisfactory/Limited Assurance and one Nil Assurance opinion report were issued. Common issues identified in these audits were 3 audits where contracts had expired and not formally extended prior to the end of the contract period and 4 audits where assurance was not being gained that the contractor is compliant with the requirements of the contract (such as staff qualifications, post inspections and safety check required by the contractor).

12. Schools

- 12.1. Overall the results in 2016/17 have improved since the previous year, with 2 schools receiving a Substantial Assurance opinion, 11 schools receiving Satisfactory Assurance opinion and 2 schools receiving a Limited Assurance. This compares to 8 schools receiving Satisfactory Assurance opinion and 3 schools receiving a Limited or Nil Assurance opinion in 2015/16.
- 12.2. 5 high priority recommendations were raised as a result of the schools audits 2016/17 in comparison to 18 in 2015/16. The main issues identified were:
- The adequacy of school income records and the audit trail between income collected and cash banked;
 - Approval of policies and/or School Development plans;
 - Retaining the tax status checks of self-employed individuals, and;
 - The maintenance of Assets & Inventory records.

13. Key Issues for 2017/18

- 13.1. There are a range of key issues that are likely to be of significance for the 2016/17 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 the impact of Brexit on local authorities, the likely increases in demand for services, and the performance levels and financial stability of organisations the Council works with;
 - The move of some shared services with the Royal Borough of Kensington and Chelsea and Westminster City Council to sovereign services presents transformational challenges to implement the change successfully without impacting negatively on finances or 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'.
 - The contract for Managed services, which delivers finance, human resources, and payroll services is due to expire in March 2019. The process to re-tender for these services has already started and Internal Audit will want to review

those arrangements, the procurement project, and may be asked to have a direct involvement in due diligence work.

- Organisational culture has become increasingly seen as a key factor in understanding corporate governance failures. Consensus is that recognition and proactive management of cultural issues can help avoid such failures. With current high levels of uncertainty and reorganisation managing culture is a key to helping achieve objectives.
- With increasing volumes of data being collected, generated and handled, the Council is facing increasing challenges in protecting this information and delivering value from it. In addition, at a time when a significant proportion of activity takes place in the digital space and through mobile working, all organisations need to consider the impact of any cyber security breaches they may have. The Secretary of State confirmed on 24 October 2016 that the UK would be adopting the General Data Protection Regulation (GDPR). While the main concepts are the same as those in the current Data Protection Act, there are amendments and new requirements that the Council must comply with.

14. Internal Audit Performance

Audit Plan

- 14.1. The Operational Plan for the 2016/17 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 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.
- 14.2. 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.
- 14.3. The level of Internal Audit resources was considered adequate for the 2016/17 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.

Internal Audit Assurance Levels

- 14.4. 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. 2 areas audited this year have shown deterioration in control since the last time they were audited: Phoenix High School and Bayonne Nursery School.
- 14.5. Of the 12 audits that received a Limited Assurance opinion (7 final and 5 draft), 3 related to Adult Social Care, 3 to Housing Services, 2 were schools, 2 corporate, one related to Children's Services and one to Environment Services. 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.
- 14.6. Six follow up visits were undertaken in 2016/17 to determine if recommendations raised within

previous audit visits had been implemented. A summary of our findings can be found in Appendix D.

- 14.7. In total, 75 recommendations have been followed up, of which 50 were either fully implemented or no longer relevant, representing 66% of all those tested. If partially implemented recommendations are added this totals 92% of all those tested. This is in line with 2015/16. The follow up regime will continue, and has been expanded in 2016/17 to include all high and medium priority recommendations, so that it can continue to provide assurance going forward. The result of follow ups will continue to be reported to the Audit Pensions and Standards Committee.
- 14.8. The results of our follow up work can be seen in appendix D.

Internal Audit Performance

- 14.9. 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 2016/17, with all targets being achieved or narrowly missed.
- 14.10. Focus will be given to maintaining these performance standards in 2017/18.

Compliance with CIPFA Public Sector Internal Audit Standards

- 14.11. 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 Mazars;
 - b) An internal self-assessment review in March 2017 against the new enhanced PSIA Standards, an exercise that is undertaken annually.

Working with External Audit

- 14.12. The Council's external auditors do not intend to rely on the work of internal audit at this stage; however, they have requested copies of a number of audit reports issued in 2016/17. We have been in liaison with External Audit and will continue to offer information and support where required.

Internal Audit Provision Going Forward

- 14.13. 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 2016/17 planning process across the three boroughs. This approach has increased the level of assurance received by each Council as well as better coordinating audit work across the three boroughs. A potential move to a sovereign internal audit service for Hammersmith and Fulham will not impact on arrangements significantly as the LBHF audit plan is currently delivered almost entirely by Mazars, other than some shared services audit. The internal audit teams will continue to liaise and coordinate their work relating to the remaining shared services.
 - As transformation projects and changes to service delivery continue to be undertaken, there is likely to be continued 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 01/04/2016 – 31/03/2017

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	Nil	Limited	Satisfactory	Substantial	Issued
FINALISED						
Adult Social Care	Elgin Close Resource Centre Contract Management					07/04/2017
Adult Social Care	Quality Assurance					19/12/2017
Adult Social Care	Information Governance and Exchange (NHS Toolkit)					06/01/2017
Adult Social Care	Supplier Resilience					27/03/2017
Adult Social Care	Community Support Service					03/01/2017
Adult Social Care	Carers Assessments					09/02/2017
Adult Social Care	Continuing Healthcare Funding					31/08/2016
Adult Social Care	MiHomecare procurement					28/04/2017
Adult Social Care	Health & Wellbeing Strategy					02/05/2017
Adult Social Care	Customer Journey Target Operation Model					09/05/2017
Children's Services	Bayonne Nursery School			←		09/09/2016
Children's Services	Brackenbury School			→		25/07/2016
Children's Services	John Betts VA				→	31/05/2016
Children's Services	Larmenier and Sacred Heart RC			↔		09/08/2016
Children's Services	Miles Coverdale			↔		21/09/2016
Children's Services	Old Oak			↔		20/09/2016
Children's Services	Phoenix High		←			24/08/2016
Children's Services	Queensmill School			↔		20/01/2017
Children's Services	Sir John Lillie			↔		22/11/2016
Children's Services	St. Augustine's RC			↔		19/09/2016

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Children's Services	St. Paul's C of E			→		20/10/2016
Children's Services	St. Thomas of Canterbury RC		↔			27/02/2017
Children's Services	Vanessa Nursery School			↔		02/11/2016
Children's Services	Wendell Park			↔		07/07/2016
Children's Services	William Morris Academy 6th form				→	31/03/2017
Children's Services	Departmental Performance Management					08/11/2016
Children's Services	Asylum Seekers - Unaccompanied Minors					06/01/2017
Children's Services	Children and Families Act Implementation					22/12/2016
Children's Services	Direct Payments – Disabled Children					22/09/2016
Children's Services	Procurement of Residential Placements					17/10/2016
Children's Services	School Meals Contract					28/03/2017
Children's Services	Departmental Governance				→	06/06/2017
Corporate Services	Corporate Governance				→	27/03/2017
Corporate Services	Grants to Voluntary Organisations					17/11/2016
Corporate Services	Risk Management Compliance			↔		18/01/2017
Corporate Services	Anti-Fraud Service					01/03/2017
Corporate Services	Trading Accounts					06/10/2016
Corporate Services	ICT Risk Management					23/05/2017
Corporate Services	Members Allowances, Expenses, Hospitality and Declarations of Interest					12/09/2016
Corporate Services	Security Incident Management					16/03/2017
Corporate Services	Treasury Management					18/04/2017
Corporate Services	Budgetary Control			↔		24/05/2017
Corporate Services	VAT					08/02/2017
Corporate Services	Use of Consultants		↔			30/03/2017
Corporate Services	Accounts Payable P2P					06/06/2017

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Corporate Services	Payroll – Managed Services					
Corporate Services	Pensions Administration					
Environment Services / Corporate Services	Highways Infrastructure Accounting					25/04/2017
Environment Services	Procurement Compliance – Work Setting Sensors and Live Occupancy Display					25/04/2017
Environment Services	Commercial Property Management					03/03/2017
Environment Services	Fuel Contract					15/06/2017
Environment Services	CCTV			↔		02/05/2017
Environment Services	Planning Enforcement					19/05/2017
Environment Services	SPUR Parking Application					15/05/2017
Environment Services	Procurement Compliance – Drug Dealing YOS Film Project					27/04/2017
Environment Services	Bridge Maintenance					27/04/2017
Housing Services	Emergency Planning					11/01/2017
Housing Services	Gas Safety			↔		13/06/2016
Housing Services	Homelessness			↔		16/08/2016
Housing Services	Housing Voids			↔		23/11/2016
Housing Services	Service Charges			↔		17/02/2017
Housing Services	Stakeholder Engagement					12/10/2016
Housing Services	Mitie Contract Quality Assurance					09/03/2017
Housing Services	iWorld Application			↔		24/01/2017
Housing Services	Economic Development					28/04/2017
Public Health	Cardio Vascular Contract Monitoring					10/08/2016
Public Health	GP and Pharmacists Contract Management					06/04/2017
Draft						
Adult Social Care	Befriending and Community Engagement procurement					13/04/2017

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Adult Social Care	Community Equipment Procurement					13/04/2017
Adult Social Care	Carers Hub Contract Management					19/04/2017
Children's Services	Passenger Transport Contract Management					06/04/2017
Corporate Services	Procurement Governance			↔		08/02/2017
Corporate Services	General Ledger			↔		13/04/2017
Corporate Services	Your Voice Survey					12/04/2017
Corporate Services	Accounts Receivable			↔		03/03/2017
Environment Services	Utilisation of Space					02/03/2017
Environment Services	Planning Control (Excluding Enforcement)					10/02/2017
Environment Services	HMO Licensing					31/03/2017
Environment Services	Community Safety Wardens					07/04/2017
Housing Services	Departmental Risk Management					06/03/2017
Housing Services	Joint Venture					24/04/2017
Housing Services	Regeneration Governance			↔		0/03/2017
In Progress						
Adult Social Care	Carers Counselling Service Contract Management					
Adult Social Care	Advocacy Services for Adults Contract Management					
Adult Social Care	Accounts Receivable					
Adult Social Care	Commissioning Planning					
Adult Social Care	Homecare Service Delivery (including eMonitoring system)					
Children's Services	SEN					
Corporate Services	Smarter Budgeting					
Corporate Services	Consultancy Service					
Corporate Services	IT Asset Management					
Corporate Services	Recruitment and Selection					

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Corporate Services	Mobile Device Security					
Corporate Services	MSP Organisational Structure					
Corporate Services	Cloud Computing					
Environment Services	TFM					
Environment Services	Property Health and Safety - TFM					
Environment Services	Vertical Construction Contract Audit - Refurbishment of Wormholt Park					
Environment Services	Parking Notice Processing					
Environment Services	Parking Pay and Display					
Housing Services	HRD Budget Management					
Housing Services	Management of Hazardous Materials and Substances					
Public Health	Supplier Resilience					
Public Health	Commissioning Governance					
Public Health	Obesity Contract Monitoring					
Total		0	12*	64*	7	

Total Reports (including those not yet issued)	105
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* Both assurance opinions for Service Charges audit included in these totals.

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 – 2016/17

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 (2016/17)	95%	95%	0%
2	% of planned audit days delivered (201/17)	95%	95%	0%
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%	94%	-1%
5	% of Final reports issued within 5 working days of the management responses	95%	100%	+5%

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
Corporate/Finance	MTFS Savings	13/06/2017
Corporate/Finance	Section 113 Agreements	07/12/2017

APPENDIX D - Follow up Audits

Follow visits were undertaken in 2016/17 on the following audits that received a 'Limited' or 'Nil' assurance opinion in their audit visit. The number of recommendations found to be implemented was as follows:

Department	Audit	Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
Children's Services	Melcombe Primary School	17	15	2	0	0
Children's Services	Good Shepherd RC Primary School	17	13	3	1	0
Children's Services	Kenmont Primary School (First follow up)	17	7	9	1	0
Children's Services	Kenmont Primary School (Second Follow up)	10	4	1	4	1
Environment Services	Highways Licensing	7	4	3	0	0
Corporate Services	Bank Reconciliations	7	6	1	0	0
	Total	75	49	19	6	1
	%		65.3	25.3	8	1.3

Agenda Item 14

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 21 June 2017	 hammersmith & fulham
INTERNAL AUDIT CHARTER AND STRATEGY – REVIEWED 2017	
Report of the Director of Audit	
Open Report	
Classification: For information Key Decision: No	
Wards Affected: None	
Accountable Director: Moira Mackie, Acting Director of Audit	
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 provides an update version of the Internal Audit Charter and Strategy following a 2017 year review. While there are a few minor word changes this is almost entirely 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 Senior Leadership Team (SLT) 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 is designated as the 'Board' for the purposes of this charter.

The Hammersmith and Fulham Senior Leadership Team (SLT) 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 SLT, 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 SLT 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 SLT. It is then presented to SLT 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 SLT 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 SLT and the APSC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to SLT 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 SLT

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. 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 SLT 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 SLT for approval.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, Hammersmith & Fulham SLT 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 LB Croydon using the services of 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 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 SLT and management.
- Discussions with shared services Executive Directors and 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 input from and feedback from directors across the council will be sought and taken into account as part of the annual planning process

The Internal Audit Plan 2017-18 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 are 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 including any additional work 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 governance, 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 2017	Geoff Drake	Senior Manager Audit	Moira Mackie	Acting Director of Audit
April 2016	Geoff Drake	Senior Manager Audit	Moyra McGarvey	Director of Audit
April 2015	Geoff Drake	Senior Manager Audit	Moyra McGarvey	Director of Audit
May 2014	Geoff Drake	Senior Manager Audit	Moyra McGarvey	Director of Audit
May 2013	Michael Sloniowski	Shared service Risk Manager	Geoff Drake	Chief Internal Auditor
March 2012	John Kanés	Internal Manager Audit	Geoff Drake	Chief Internal Auditor
March 2011	John Kanés	Internal Manager Audit	Geoff Drake	Chief Internal Auditor
March 2010	John Kanés	Internal Manager Audit	Geoff Drake	Chief Internal Auditor

<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p style="text-align: center;">21 June 2017</p>	
<p>RISK MANAGEMENT</p>	
<p>Report of the Interim Director of Audit, Fraud, Risk, and Insurances</p>	
<p>Part Exempt Report Confidential elements of this report can be found in the exempt agenda.</p>	
<p>Classification: For Information Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Moira Mackie, Interim Director of Audit, Fraud, Risk, and Insurances</p>	
<p>Report Author: Michael Sloniowski, Risk Manager</p>	<p>Contact Details: Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to provide the Audit, Pensions, and Standards Committee with:

- a) An oversight of the authority's processes to facilitate the identification and management of its significant business risks.
- b) Oversight of the Corporate and the key Service risks.

1.2. The report enables the Audit, Pensions and Standards Committee fulfil part of its functions as set out in the Committee's terms of reference, to review the Risk Management arrangements of the authority.

2. RECOMMENDATIONS

2.1. The Committee is asked to note the contents of the report;

3. REASONS FOR DECISION

- 3.1. The Chartered Institute of Public Finance and Accountancy's local government risk framework is based on a belief that 'good governance structures enable an authority to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk'. In other words, risk management is implicit in good performance.

4. PROPOSAL AND ISSUES

Directors Assurance Statements

- 4.1. In accordance with regulation 6(1) of the Accounts and Audit (England) Regulations 2015 in relation to the preparation of an Annual Governance Statement, the Council is required to conduct a review at least once a year of the effectiveness of its governance arrangements, including its system of internal control and arrangements for risk management.
- 4.2. To facilitate this, Directors are required to complete and certify a self-assessment questionnaire on at least an annual basis. This questionnaire acknowledges the responsibility of the Director in disseminating corporate messages and monitoring practices that uphold the council's governance framework within their Service.
- 4.3. The self-assessment includes the requirement to comment on the following areas during 2016/17:
- Policy and decision making;
 - Service Planning and Delivery;
 - Strategic and Operational Risk Management;
 - Performance Management;
 - Partnerships with other public bodies, voluntary and community organisations, Arm's Length Management Organisations and Mutuals;
 - Finance and asset management;
 - Staffing;
 - Information governance;
 - The control environment;
 - Programmes and projects;
 - Performance management;
 - Significant control or governance failings reported during the year 2016/17.
- 4.4. Additionally, each Director is required to state whether, in their opinion and considering the Directors self-assessment reports, an appropriate level of control was maintained in their area during the year. All Directors submitted affirmative statements for 2016/17.
- 4.5. There have been two disclosures made in this year's statements, associated with the ongoing issues associated with the Finance and Human Resources Managed Service, legacy casework and data quality associated with a prior

Pensions administrator, the latter mitigated through additional short-term staffing.

4.6. ***The Reporting of Corporate, Organisational Risks***

- 4.7. The approach to managing risk is outlined in the Council's Risk Management Strategy Statement 2017-2020. The Statement encourages innovation and creative approaches to service delivery whilst requiring careful consideration of the risks involved and responding appropriately to manage them.
- 4.8. The Corporate Risk Management Process is aimed at identifying, assessing, prioritising and mitigating the significant risks which could impact on the delivery of the council's objectives (i.e. corporate risks). This process is also aligned with the council's Service Teams Management arrangements. Corporate risks are those concerned with ensuring overall success of Council objectives, and the vitality and viability of the organisation. Materialisation of such risks can have many consequences, for example they could significantly affect the reputation of the Council, present significant financial costs or be affected by significant tests of its resilience as most recently seen in the terrorist attacks at Westminster and Manchester.

Corporate Risks

4.9. ***Resilience – High Risk (Appendix 2, Business Continuity Risks)***

The National Health Service Cyber Security attack – WannaCry.

- 4.10. The WannaCry ransomware attack affected businesses around the world, mostly Asia and Europe were worst hit. On the 12th May the National Health Service IT systems were impacted by a major incident because of a Cyber-attack. The incident, which is described as ransomware, encrypts data, and then prompts for payment to unencrypt. It is likely that such an incident was caused by opening of an attachment containing a zero-day virus from an email received into the NHS. Our service providers protect our network by keeping security patches up to date, and where an infected email is detected by scanning the email system and deleting those.
- 4.11. A zero-day vulnerability refers to a hole in software that is, at the time unknown. Hackers then exploit this security hole before IT and Security providers become aware and can fix it. This exploit is called a zero-day attack. In response a message to all staff was placed on the Council's Intranet page providing advice on handling suspicious e-mail traffic and to remain vigilant whilst the IT service updated protection. Whilst the size of the ransom was small, between \$300 to \$600 the reports of disruption to the operations within the NHS and affected companies while the clean up to affected systems took place was significant.
- 4.12. On the 15th May the Council's Business Continuity and Information Management Teams jointly promoted Business Continuity Awareness Week helping make LBHF a resilient organisation by keeping information and systems secure, providing advice on;

- countering cyber threats;
 - the tips published by the Business Continuity Institute on the Business Continuity Awareness Week (15-19 May) posters displayed in the Town Hall;
 - the LBHF information security policy and supporting codes of practice;
 - completing the mandatory information security and data protection induction online training courses.
- 4.13. A meeting of the Council's Service Resilience Group (SRG), representing all Services, took place on the 16th May to discuss the progress of Business Continuity Planning. The Council has Business Continuity Plans in place, currently being refreshed. These are administered on Word and Excel systems stored in the Council's IT folders. SRG considered if Service Continuity plans should be transferred to an on-line electronic, hosted and more dynamic solution so that they operate if the Council's systems are not available for a significant period. Through technology, plans could be made available to Members and Officers on a variety of devices, smart phones, Notebooks/Laptops, Tablets etc. The Business Continuity Service will review the options available to the Council and make proposals to Officers on the Business Delivery Team.
- 4.14. On the 22nd May the City of Manchester was hit by a terror attack. The venue, Manchester Arena was being used for a concert at the time. Following the Manchester incident the Council's Service Resilience Group, chaired by the Head of Emergency Planning met to assess the local situation. Following the meeting actions were immediately implemented that included the work of the local Prevent Team Members, who have been monitoring the ongoing situation, contacting schools providing advice and re-advertising the Workshops to Raise Awareness of the Prevent scheme. The Group also reviewed security and access arrangements to Council buildings, Council Officers were recommended to review the appropriateness of Business Continuity plans and re-assuring communications issued to staff. The Head of Emergency Services maintains an ongoing review of the Council's response here.
- 4.15. **Information and Digital Continuity – Modified Risk**
General Data Protection Regulations.
- 4.16. The General Data Protection Regulations (GDPR) will apply in the United Kingdom from 25 May 2018. The government has confirmed that the UK's decision to leave the European Union will not affect the commencement of the GDPR. The Information Commissioners Office is committed to assisting businesses and public bodies to prepare to meet the requirements of the GDPR ahead of May 2018 and beyond.

The GDPR applies to 'controllers' and 'processors'. The definitions are broadly the same as under the Data Protection Act – i.e. the controller says how and why personal data is processed and the processor acts on the controller's behalf. The Council is subject to the Data Protection Act, and is subject to the Regulations.

- 4.17. For the Council keeping Human Resources records, customer lists, or contact details etc., the change to the definition should make little practical difference. The Council holds information that falls within the scope of the Data Protection Act, it will also fall within the scope of the GDPR. Under the GDPR, the data protection principles set out the main responsibilities for organisations. The principles are like those in the Data Protection Act, with added detail at certain points and a new accountability requirement. The most significant addition is the accountability principle. The GDPR requires the Council to show how it complies with the principles – for example by documenting the decisions taken about a processing activity.
- 4.18. The Interim Chief Information Officer met with Council Officers on the 24th May 2017 to discuss the risks and solutions. Several actions, outlined below, were agreed and are to be taken forward by a Project Team with a lead sponsoring Officer on the Council's Business Delivery Team.
- Review the data protection policy and make it ready for GDPR, including recommendations of the voluntary Information Commissioner's Office audit.
 - The General Data Protection Regulations will be incorporated into the refresh of the LBHF IT technology.
 - A working group to progress actions will be established.
 - The Council's Legal Services will review and check wording correct for all new contracts.
 - The Project Team will review other work that the Information Governance for London and London Chief Information Officers are doing to ensure consistency and minimise effort.
 - Identify a Senior Responsible Officer for this project.

4.19. ***Partnerships – New Risk***

- 4.20. Ending of Shared Services, Adults Social Care and Children's Services. A report on the change to Service Provision in these areas has been issued separately to the Audit, Pensions and Standards Committee following the notice to terminate the existing Section 113 agreement by Westminster City Council and the Royal Borough of Kensington and Chelsea. The Project known as Moving On will be led by Members of the Strategic Leadership Team.

4.21. ***Managed Services – High Risk***

The following principal (high) risks remain as identified by the Intelligent Client Function;

- Resources, both from BT and Council resources with the requisite knowledge and experience to deliver remaining activity;
- Remaining activity (as referred to above) will not deliver a solution that meets the business needs;
- The emergence of divergent priorities from the Councils;
- BT does not want to take up the option to extend the contract beyond May 2019;

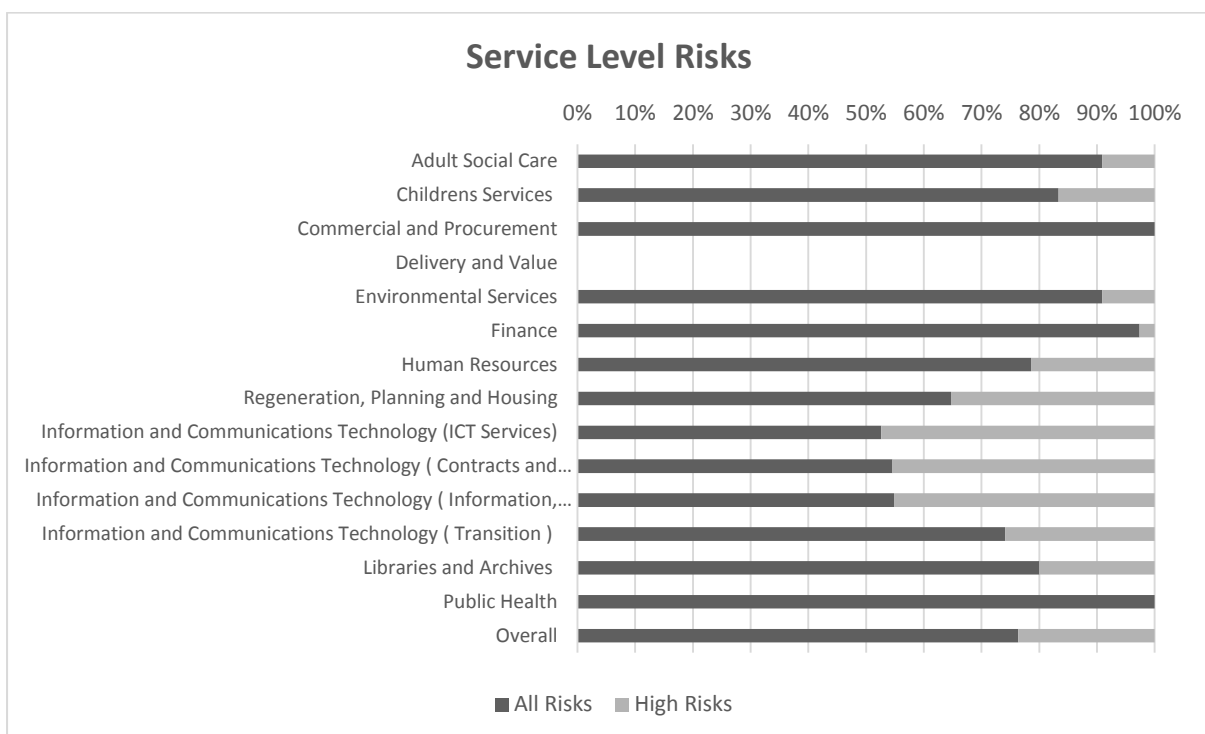
- BT removal of access to programme resources;
- Resolution of commercial discussions.

Other Corporate Risks are unchanged.

4.22. Service Risks (Appendix 1, Services High Risks Extract Dashboard)

4.23. At the end of May there were 184 identified active risks on the Council’s Service Level risk registers. To ensure risk management process remains effective and aligned to organisational objectives, these are reviewed quarterly by the Service Management teams. The Service Level High Risk Extract Dashboard accompanies this report and is attached as Appendix 1.

Chart 1 Illustrates the percentage of high risks by service.



A process is in place to aid all Services to capture key risks and assess their significance. The methodology adopted by the authority is used to assess and prioritise key risks and to focus attention on those risks that require attention. Significant risks are examined at Service level and any risk that remains significant after existing controls are taken into account (residual risk) are reported quarterly to the Strategic Leadership Team so that they can be considered further.

5. OPTIONS AND ANALYSIS OF OPTIONS

5.1. The report is brought quarterly to provide the Committee with an oversight of the authority’s processes to facilitate the identification and management of its significant business risks.

6. CONSULTATION

- 6.1. The Council's risk management process is implemented across Services, Business Units, and Projects. On a quarterly basis each Service Management Team reviews and updates the risks captured on their risk registers and adds any new or emerging risks.
- 6.2. New risks and key changes to current risks are discussed and challenged at Service and Corporate Management Team meetings. Annually each service is encouraged to undertake a full risk review in support of the submission of a Management Assurance Statement.
- 6.3. Key risks are included within relevant Service or Thematic Risk Registers and are also reported to Audit, Pensions, and Standards Committee. This reporting format ensures that the Council's risk management framework remains embedded and the reporting of risks remains "live" across the organisation.

7. EQUALITY IMPLICATIONS

- 7.1. There are no equality or diversity issues arising from this report.

8. LEGAL IMPLICATIONS

- 8.1. The Council has a responsibility for financial management under the Accounts and Audit Regulations (2015) which requires the Council to have a sound system of internal control, which includes arrangements for the management of risk. The Council is also required to conduct a review at least once a year of its systems of internal control. This report and the enclosed documents assist the Council's compliance with this requirement.

9. FINANCIAL IMPLICATIONS

- 9.1. There are no direct financial implications arising from this report.

10. IMPLICATIONS FOR BUSINESS

- 10.1. There are no direct implications for business arising from this report.

11. OTHER IMPLICATION PARAGRAPHS

RISK MANAGEMENT

- 11.1. The expectations of CIPFA/SOLACE and the Financial Reporting Council are that the systems of risk management and internal control should include: risk assessment; management or mitigation of risks, including the use of control processes; information and communication systems; and processes for monitoring and reviewing their continuing effectiveness.
- 11.2. The risk management and internal control systems should also be embedded in the operations of the council and can respond quickly to evolving business

risks, whether they arise from factors within the council or from changes in the business environment. These systems should not be a periodic compliance exercise, but instead as an integral part of the council's day to day business processes.

12. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

NOTE: The following appendices can be found in the exempt agenda

Appendix 1, Services High Level Risk Extract Dashboard

Appendix 2, Business Continuity High Level Risk Extract Dashboard