

Audit, Pensions and Standards Committee

Agenda

Wednesday 14 March 2018

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

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

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Audit, Pensions and Standards Committee Agenda

14 March 2018

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1. MINUTES OF THE PREVIOUS MEETING	1 - 12
To approve the minutes of the previous meeting and to note the outstanding actions.	
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. EXTERNAL AUDIT PLAN 2017-18	13 - 33
This report contains the plan of the Council's external auditor, KPMG, for the audit of the 2017/18 Statement of Accounts.	
5. MEMBERS' CODE OF CONDUCT - MONITORING OFFICER'S UPDATE	34 - 54
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	This report summarises progress implementing the recommendations from the ‘External Audit Report 2016/17’ and the Annual Governance Statement.	

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee Minutes



Wednesday 6 December 2017

PRESENT

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

Officers: Peter Smith (Head of Policy and Strategy)
Louise Raisey (Strategic Head of Communications)
Kim Dero (Chief Executive)
Nick Austin (Lead Director for Environmental Services)
Richard Buckley (Head of Environmental Health)
Mike Boyle (Director for Strategic Commissioning and Enterprise)
Sarah Thomas (Director for Delivery and Value)
Steve Miley (Director for Children's Services)
Rachael Wright-Turner (Director for Public Service Reform)
Mark Grimley (Director for HR)
Michael Hainge (Commercial Director)
David McNulty (Programme Manager)
Graham Coupar (Consultant)
Hitesh Jolapara (Strategic Finance Director)
Peter Worth (interim Director of Treasury and Pensions)
Phil Triggs (newly appointed Director of Treasury and Pensions)
Emily Hill (Head of Corporate Finance)
Geoff Drake (Senior Audit Manager)
Mike Sloniowski (Principal Consultant – Risk Management)
Andrew Hyatt (Head of Fraud)
David Hughes (Director of Audit, Risk, Fraud and Insurance)
David Abbott (Scrutiny Manager)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED

The minutes of the meeting held on 20 September 2017 were approved and signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors David Morton and Donald Johnson.

Apologies for lateness were received from Councillor Guy Vincent.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. H&F COUNCIL'S EMERGENCY RESPONSE TO MAJOR INCIDENTS IN JUNE AND SEPTEMBER 2017

Peter Smith (Head of Policy and Strategy) introduced the draft report and noted that in 2017 there were two major incidents in and around Hammersmith & Fulham that required the authority to implement its emergency planning procedures – the fire at Grenfell Tower in June and an explosion on a tube train in Parsons Green in September. The report reviewed the Council's response to those incidents at both strategic and operational levels and considered the views of local businesses and community organisations that participated in a 'hackathon' event convened by the Council to examine the views of partners.

The report identified action taken to improve the Council's readiness and response to major incidents and made recommendations for additional action for further improvements. The Committee was invited to discuss the report's findings and consider the draft recommendations. Following the meeting, the Council's five Policy and Accountability Committees would also be consulted before the report was finalised for Cabinet agreement in February 2018.

Communications

The Chair asked about the Council's social media strategy in the face of a major incident. Louise Raisey (Strategic Head of Communications) said the focus for the Communications team was to get consistent messages out to reassure the public. There was a detailed plan in place for that which worked well during the Parsons Green incident.

Kim Dero (Chief Executive) added that the Council also recognised the importance of working with the community and partners to build community resilience. The Council was looking at using the community to get its messages out through the use of WhatsApp groups and dedicated websites. The Council was also providing training for community outreach responders so we could give key people in local communities the right information and they could spread it through their networks.

Councillor Vivienne Lukey asked if the Hammersmith & Fulham Nextdoor website could be used to communicate with residents. Louise Raisey said Nextdoor could be

used to feed in messages but because it was a closed local network it posed some challenges.

Councillor Nicholas Botterill commented that it was important to get clear, coherent messaging out as widely as possible – through as many channels as possible. Most people wouldn't think to go to a council's website in a time of emergency. He added that recent events had highlighted the need for the Council to have a strong communications department.

Councillor PJ Murphy suggested each committee consulted on the report should have sight of any previous discussions so points weren't repeated.

Councillor PJ Murphy asked what contingency was in place if the mobile phone network went down (3.7 in the report).

Councillor PJ Murphy said it was good that the website would be regularly updated (3.11) but did it have the necessary reach? What would the Council do to get the message out wider?

Councillor PJ Murphy asked how long before H&F communications staff were providing support to RBKC after the Grenfell incident (3.14 of the report).

Councillor Murphy recommended that there should be specific point people in the communications team to deal with questions from the public, press, and government.

Louise Raisey said capacity was an issue – councils had small communications teams so it was hard to mobilise to answer the vast quantity of requests that come through in an emergency situation. Kim Dero added that there were weekly orders lists which had named contacts and roles in each department in case of an emergency – including communications. The Council had also sought crisis communications advice and was looking into upskilling key officers in this area. Officers would consider Councillor Murphy's proposal for point people.

Councillor Mark Loveday questioned the balance of the report between the Grenfell fire and the Parsons Green attack. Peter Smith said that was due to the scale of the Grenfell incident and the lasting impacts – there were still over 40 Grenfell families residing in the borough and being supported by the Council.

Councillor Loveday also noted that when he arrived at the scene of the Parsons Green incident there wasn't a Council representative at the Kelvedon Road exclusion barrier. There were a number of very concerned parents whose children were in lockdown in local schools – but the senior police officer on the barrier wasn't able to provide them with the information they needed. He advised that there should be a pool of Council officers available who could be allocated to handle communications at exclusion barriers. Louise Raisey advised that the Police were responsible for on site communications in emergency situations but officers would consider the proposal.

Councillor Mark Loveday said he had asked a police officer on the scene what he could do to help as a local councillor and was asked to source a Council building for

a rest centre. He identified Lancaster Court but struggled to reach relevant Council officers. He suggested that in times of emergency the website and phones should switch to an emergency mode - with clear messages about who to contact for emergency enquiries.

Kim Dero said the work mentioned earlier about using community networks better should include councillors as community leaders. The Council was also reviewing training for members around crisis communications and emergency response.

Councillor Michael Adam highlighted the importance of effective crisis communications. He felt the Council should consider how to respond to more existential scenarios – e.g. a major safeguarding issue. The Council also needed to get the very best advice possible – top professionals had signalled that they were willing to help Councils in the wake of Grenfell and those offers should be taken up.

ACTION 1: Alistair Ayers / Louise Raisey

The Chair asked about the resilience of the mobile phone network as so many people relied on their smartphones for access to the internet now. He asked if officers knew where the phone masts in the borough were and what happened if some went down during a major incident. Nick Austin (Lead Director for Environmental Services) said there were lists of strategic assets in the borough that were regularly reviewed by the Police.

Councillor PJ Murphy asked for a timeline of when the Council offered help to RBKC following the Grenfell Tower fire and when that support was formally accepted. Kim Dero said there was still an ongoing public inquiry into the fire and she had worked with legal officers to ensure the report wouldn't prejudice that process. For that reason there were certain details that couldn't be released until the inquiry concluded. Nick Austin added that there were complications because of shared services. Staff were initially deployed to help through local work contacts rather than a formal agreement between organisations. Councillor Murphy wanted to know when the two organisations formally started talking to each other.

Kim Dero noted that the report did highlight that the shared arrangements complicated matters. She also fed back to London Councils, the LGA, and London Gold that neighbouring boroughs should be treated differently in coordinated efforts – proximity and shared services should be taken into account. Councillor Murphy asked for that element to be clarified in the report.

Councillor PJ Murphy asked about the Weekly Orders (2.11 of the report) – how was that communicated in an emergency and how often was it refreshed. Nick Austin said there was a rota for who leads but in an emergency it was updated hourly. Councillor Murphy asked how staff knew who was dealing with what. Nick Austin said the rota was sent out to all staff on the list. Councillor Murphy said it would be useful if all staff had access to it so they could signpost people.

Councillor Mark Loveday asked how many members of the Cabinet had emergency response and communications training. He suggested members of Cabinet should be given training and be given a defined role. Kim Dero said training was offered in

the past as part of their induction but the recommendation now was for training to be offered to all Councillors.

Councillor Vivienne Lukey asked what was meant by bystander management on page 34 of the report. Kim Dero said that referred to being a 'bystander' in local authority terms – i.e. H&F was treated as a bystander authority in relation to Grenfell despite our close relationship and support.

Councillor Mark Loveday noted that there had been some difficulties using the Lancaster Court facility as a rest centre on the day of the Parsons Green attack. Access to the building was a particular problem – he asked that consideration be given to how we can get access to facilities in emergency situations. Perhaps a list of key-holder contacts.

ACTION 2: Alistair Ayres

Housing

Councillor PJ Murphy asked for more detail on the people housed in H&F to be added to the report (final numbers, how many children, adults etc.).

Councillor Murphy also noted that the report said key-workers were with every family within 48 hours of the Grenfell fire – what could we do to shorten that?

Councillor Murphy noted that Grenfell families were afraid to take on temporary accommodation for fear of losing permanent housing in RBKC. Could the Council give a guarantee that a similar emergency situation wouldn't affect our residents' housing rights in future? Kim Dero said the Administration fully supported providing a guarantee and the Council could formalise that in a policy document.

Councillor Mark Loveday asked who was responsible for providing temporary housing for residents in private accommodation. Nick Austin said for people in private accommodation it would be their insurance arrangements but the Council would keep respite and rest centres open and would try to identify any vulnerable residents that needed extra support.

Note: Councillor Guy Vincent entered the meeting at 8.09pm

Councillor Loveday noted that after the Shepherd Court fire it was very difficult to find large numbers of hotel rooms to house people temporarily (5.6 of the report). Hotels wanted the Council to provide a credit card and book like anyone else but could we not make arrangements with them for these types of situations? Glendine Shepherd said we had a business account with Premier Inn but other hotels wouldn't allow that. Councillor Loveday said we should name and shame hotels who refused to provide emergency accommodation which the Council would pay for. He asked officers to go back to hotels to try to engage with them.

ACTION 3: Glendine Shepherd

Welfare

Councillor Vivienne Lukey noted that some people were unable to get the medication they required after the Parsons Green incident. She asked what the arrangements were in the NHS – could they free up a GP or pharmacist to fulfil these requests?

And what support did they provide for counselling after these events? Mike Boyle (Director for Strategic Commissioning and Enterprise) said the CCG was responsible and if that didn't happen at Parsons Green he would take it up with their Chief Executive. He added that the West London Mental Health Trust had plans to respond to people's support needs in terms of counselling etc. Sarah Thomas noted that health partners were invited to the hackathon and a local GP, some mental health professionals, and a pharmacist attended.

Councillor PJ Murphy asked that the second to last bullet point on page 39 was amended - if people volunteered, the Council should have the same duty of care as it did to its own staff.

Donations Management

Councillor PJ Murphy noted that there was no mention of how donations were distributed. Sarah Thomas (Director for Delivery and Value) said they were distributed through RBKC as they already had a network in place for their own donations. Perishables were sent to local foodbanks and some items were kept back for the families that were placed in our borough.

Councillor Guy Vincent asked about the process for financial donations. Kim Dero said the Council directed people to a JustGiving web-page that was set up by RBKC. There were some cash donations and officers developed a policy on this as this was a new area. It was a new experience for the Council, hundreds of people and thousands of items arrived in just a few days. Now we had clear guidelines on what to give and what not to give.

Training

The Committee felt training should be given to all Directors - not just some (8.2) - and all Councillors.

Mutual Aid

Councillor Michael Adam asked what the interface with Transport for London was like during the Parsons Green incident. Nick Austin said the Police and Transport Police took control of the cordon. Kim Dero added that she received a lot of intelligence through the London Gold group.

Councillor Michael Adam asked if the Council was liaising with the three major football clubs in the borough on these issues. Nick Austin said the Council was responsible for issuing the clubs with their safety certificates - they worked closely throughout the year, carrying out formal exercises, debriefs, Safety Advisory Group meetings etc. The Council had good working arrangements with all of the clubs.

Councillor Guy Vincent noted that an issue with Grenfell was that RBKC didn't seem to think they needed support. Was there an override in those cases? Kim Dero said London Gold and DCLG would take a leadership role if necessary.

Councillor Nicholas Botterill felt London required a pan-London disaster response set up on par with New York or other leading world cities. Kim Dero said there was a London Strategic Emergency Plan and London Gold sat underneath that. Councillor Guy Vincent agreed with Councillor Botterill - there needed to be an overarching support system that could take control in emergency situations. Kim Dero agreed that it needed to be considered, but she said that during Parsons Green she was in regular contact with London Gold and the fire, police and military services. They were very hands-on and she felt supported by the group.

Work with Communities and Businesses

Councillor Michael Adam asked what the implications of these incidents were on the Council's insurance programme. David Hughes (Director of Audit, Risk, Fraud and Insurance) responded that the Council was looking to increase its liability limit of indemnity from £50m to £175m per incident. Officers were also reviewing property insurance cover.

Councillor Michael Adam asked if that included the cost of providing temporary housing and associated costs or could those be reimbursed from Central Government. Emily Hill (Head of Corporate Finance) said the Government would reimburse additional emergency costs.

Councillor PJ Murphy said it would be important to regularly review this work every few years - it should be woven into the DNA of the Council.

The Chair thanked officers for their contributions to the report.

RESOLVED

That the Committee discussed the findings and recommendations of the report and made suggestions (above) for the Council to consider in its response.

5. UPDATE ON THE FIRE SAFETY PLUS PROGRAMME AND HOUSING COMPLIANCE

David McNulty (Programme Manager) and Graham Coupar (Project Manager) presented the report that provided an update on actions taken since the report to the Committee in September 2017 on the Fire Safety Plus programme and health and safety compliance in residential properties. David McNulty highlighted that all blocks requiring a fire risk assessment had them in place.

Councillor Mark Loveday commented that the Fire Enforcement Notice for Robert Gentry House had been outstanding for some time and the expected resolution date was February 2018 (8.1 of the report). David McNulty replied that the notice concerned the replacement of front doors and while they were in the process of being ordered and fitted it would be a lengthy process due to long waiting times for any quantity of fire doors since Grenfell.

Councillor PJ Murphy asked for a timeline for resolving this issue. Graham Coupar said ordering the doors could take three to four months then fitting them on site could take time as it was difficult to get access to certain properties.

Councillor Mark Loveday felt the Council wasn't treating this as an urgent issue. He asked for reassurances that the Council was making this a priority. Graham Coupar said work was progressing, officers had met the fire service on the site. All of the 'quick wins' had been completed and the longer works were in progress. There was no way to accelerate the delivery and fitting of the doors. Councillor Guy Vincent asked for a timeline of dates to be circulated to members.

ACTION 4: David McNulty

The Chair asked if Adult Social Care were engaged on this – working with vulnerable residents to ensure access to their properties for fitting the new doors. David McNulty said there were issues with access. Where the Council had information about vulnerable residents, solutions were put in place.

Councillor Nicholas Botterill noted that the portable appliance tests (PAT) (6.1.5 of the report) were not a very efficient way of testing electrical goods – they were only useful if everyone took part and if they were carried out regularly. He also expressed surprise that the Council would be replacing white goods free of charge if found to be faulty. David McNulty said the PATs were part of a package of testing and review where all elements of fire safety would be looked at including electrical appliances, smoke alarms, alterations, doors etc. As far as take up of the offer – officers were doing all they could to encourage take up.

Councillor Mark Loveday asked if there was a reason the asbestos register couldn't be made publicly available to residents (8.2 of the report). David McNulty said it wasn't currently public but there was no reason it couldn't be. Councillor Loveday asked if there was a programme for asbestos removals. David McNulty said it was risk based – each case was assessed as it came up.

Councillor Mark Loveday asked if the gas safety post-inspection checks had unearthed any further issues with the checking process (8.3 of the report). Graham Coupar said there hadn't been any significant failures in the QA process.

Councillor Mark Loveday asked for an update on the performance of electrical safety checks (8.4 of the report) as it has been a particular area of concern for the Committee in the past. Graham Coupar said the checks were broadly on track for the first six months and he hadn't been advised of any concerns about the quality of the work. Councillor Loveday asked for more detailed figures in this area.

ACTION 5: David McNulty

Councillor Guy Vincent asked whether the Council was actually going to put sprinklers in its tower blocks (5.5 of the report). Graham Coupar said there was a scoping strategy conducted by Colin Todd Associates. This was a high-level and detailed strategy identifying the most logical places to invest, alternative considerations and ongoing maintenance liabilities. Sprinklers were just one of a number of measures – they weren't the best option for every block. For the 10 storey

and above, block feasibilities were being undertaken at Edward Woods and Charecroft estates, which should conclude in February 18.

Councillor PJ Murphy asked when a final decision would be made on sprinklers. Graham Coupar said a feasibility study report would be available in February 2018 and following that, decisions would be made block by block.

RESOLVED

The Committee noted the contents of this report and the actions taken to date by officers.

6. CORPORATE HEALTH AND SAFETY UPDATE - APRIL TO OCTOBER 2017

Nick Austin (Lead Director for Environmental Services) presented the report which provided an overview of the performance of the organisation regarding compliance with its health and safety duties for the period April 2017 to October 2017.

Councillor Mark Loveday asked, in relation to 7.4 of the report, if the Council should be more proactive and going in and inspecting rather than just writing to owners. Nick Austin said the Council was still in an investigatory phase. Richard Buckley added only four landlords hadn't been in contact. Five have had samples of building materials sent off for testing. One had already reported back that they were safe.

Councillor Loveday said the report referred to private buildings with potential cladding issues but what about other fire safety issues in private buildings - what were the Council's responsibilities? Nick Austin said the fire brigade was responsible for any other issues. Councillor Loveday said the Council shouldn't be seen to be taking our eyes off our obligations to the private sector.

Councillor PJ Murphy asked what an acceptable compliance rate was for fire safety and when we would reach it. Nick Austin said for fire issues our target compliance rate was 100 percent and the Council had put in additional resources to reach this goal within four to five months.

Councillor Nicholas Botterill asked if the Council's facilities management had taken a backwards step in recent years. Nick Austin said, before the point of hand over to Amey (the contractor) there had been a lot of work across the estate – with complete asset registers that were regularly updated and readily accessible. The current position was that that didn't exist anymore. Contractual performance, reporting, and contract management were all sub-standard at present.

Councillor Vivienne Lukey pointed out a mistake in 8.1 of the report – there were four nursery schools in the borough.

RESOLVED

The Committee noted the report.

7. TREASURY MID-YEAR REVIEW 2017-18

Peter Worth (interim Director of Treasury and Pensions) and Phil Triggs (newly appointed Director of Treasury and Pensions) presented the report that updated the Committee on the delivery of the 2017-18 Treasury Management Strategy approved by Council on 22 February 2017.

Councillor Michael Adam asked why cash balances were increasing. Peter Worth said there was a peak in the middle of the year due to the collection of Council Tax and Business Rates.

Councillor Michael Adam, referring to 4.4 of the report, said while there had been some restructuring of the investment profile, it was still not moving to longer-term maturity investments to increase yield. This had been discussed for a while – when would the Council put this in place? Phil Triggs said this was a major priority and would start within the next month or so.

Councillor Michael Adam asked if officers were confident all the MiFiD compliance work would be completed by the January deadline. Peter Worth said he was reasonably confident – officers were chasing counter-parties this week. Phil Triggs added he would be making phone calls this week to ensure it was complete.

Councillor Nicholas Botterill, referring to Appendix 1 of the report, asked if there had been a change in policy allowing the Council to deposit money in foreign banks. Peter Worth said the current policy permitted overseas domiciled investments. Councillor Botterill asked if officers felt it was wise to have 15 percent of the Council's holdings with a single foreign bank. Phil Triggs said the investments were made with institutions on an approved counter-party list with very high set criteria. There were many good quality banks overseas, often with greater credit quality than UK banks. Hitesh Jolapara (Strategic Finance Director) said officers would carry out further due diligence and would make changes if there were any concerns raised.

RESOLVED

The Committee noted the Annual Treasury Strategy 2017-18 Mid-Year Review.

8. RISK MANAGEMENT UPDATE

David Hughes (Director of Audit, Risk, Fraud and Insurance) presented the report which updated the Committee on risk management within the Council and presented the Corporate Risk Register for consideration.

Councillor Mark Loveday asked for more information on Risk 21 – Coroners Office. Nick Austin said the senior coroner had been suspended pending disciplinary action, leading to a backlog in cases. There had also been general performance issues. To resolve this the Council had appointed a temporary senior coroner and would be appointing four assistant coroners. An action plan was in place to reduce the backlog and improve customer service and officers were meeting regularly to review with the MET Police and Chief Coroner.

The Committee asked officers to review Risk 23 – King Street Regeneration Programme following the recent consultation on the new development.

ACTION 6: Jo Rowlands/Michael Hainge

RESOLVED

That the Committee noted the report and reviewed the Corporate Risk Register.

9. CORPORATE ANTI-FRAUD SERVICE - HALF YEAR UPDATE REPORT - 1 APRIL 2017 TO 30 SEPTEMBER 2017

David Hughes (Director of Audit, Risk, Fraud and Insurance) presented the report that provided an account of fraud related activity undertaken by the Corporate Anti-Fraud Service between 1 April 2017 and 30 September 2017.

RESOLVED

The Committee noted the fraud work undertaken during the year to date for the period 1 April 2017 to 30 September 2017.

10. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JULY - 30 SEPTEMBER 2017

David Hughes (Director of Audit, Risk, Fraud and Insurance) presented the report that summarised internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2017 and the performance of the Internal Audit service. He noted that there were no outstanding recommendations and no outstanding reports awaiting a management response.

Councillor Guy Vincent asked how this had been achieved. David Hughes attributed this quarter's performance to the Committee's consistently strong challenge and Kim Dero's new approach to audit matters with the Senior Leadership Team.

RESOLVED

That the Committee noted the report.

11. FINAL AUDIT REPORT - ADULT SOCIAL CARE CONTRACT MANAGEMENT - CARERS HUB 2016-17

Mike Boyle (Director for Strategic Commissioning and Enterprise) presented the report and noted that the new Carers' Hub contract had incorporated all of the report's recommendations.

Councillor PJ Murphy asked what actions had been put in place to ensure this didn't happen again. Mike Boyle said there were monthly contract monitoring meetings with Carers Network and they also met quarterly with the Cabinet Member for Adult Social Care.

RESOLVED

That the Committee noted the report.

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

Geoff Drake (Senior Audit Manager) presented the report that summarised progress implementing recommendations arising from the 'External Audit Report 2016/17' and the Annual Governance Statement. He noted that three recommendations arising from the External Audit Report 2016/17 had now been reported as implemented.

RESOLVED

That the Committee noted the report.


13. DATES OF FUTURE MEETINGS

The next meeting was scheduled for 14 March 2018.

Meeting started: 7.00 pm
Meeting ended: 9.55 pm

Chair

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<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>14 March 2018</p>	
<p>EXTERNAL AUDIT PLAN 2017/18</p>	
<p>Report of the Strategic Finance Director</p>	
<p>Open Report</p>	
<p>Classification: For information Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Hitesh Jolapara, Strategic Finance Director</p>	
<p>Report Author: Emily Hill, Head of Corporate Finance</p>	<p>Contact Details: Tel: 0208 753 6440 emily.hill@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1 The Council's external auditor, KPMG, have provided their plan for the audit of the 2017/18 Statement of Accounts.
- 1.2 The plan (attached at Appendix 1) describes how the auditor will deliver the financial statements audit opinion and also sets out their approach to value for money (VFM) conclusion for 2017/18. The audit will substantially take place during June and July 2018 and the final accounts will be presented to the Committee in July 2018 to meet the earlier statutory deadline of 31 July 2018.
- 1.3 The planned audit fee for 2017/18 is £163,950 for the Authority and £21,000 for the Pension Fund in line with the previous year.

2. RECOMMENDATIONS

- 2.1 To note the 2017/18 Audit Plan as put forward by KPMG in Appendix 1.

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

None.



External Audit Plan 2017/18

London Borough of Hammersmith & Fulham
February 2018

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting (“the Code”) in 2017/18, which provides stability. Deadlines for producing and signing the accounts have advanced. Delivery of a July sign off in 2017/18 represents a significant change and needs careful management to ensure the new deadlines are met. To meet the revised deadlines it is essential that the draft financial statements and all ‘prepared by client’ documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Authority significant risks

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

- **Valuation of land and buildings:** While the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the methodology the Authority uses to ensure that those assets subject to a desktop valuation are materially accurate;
- **Pension liabilities:** The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes to ensure the accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation;
- **Managed Services:** As a result of significant outsourcing of service functions and known difficulties in implementation, there is a risk over the completeness and accuracy of balances in the Financial Statements. As in 2016/17, we would propose to test key controls operating at BT managed services;and
- **Faster Close:** The deadline for the sign off of the accounts is 31 July 2018. This represents a significant challenge for the Authority and one which we will work together to achieve.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as conditional grant income, NNDR appeals provision, payroll, cash, non pay expenditure and HRA Income & Expenditure.

Pension fund significant risks

- **Valuation of hard to price investments:** The pension fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available

quoted prices. We will verify a selection of investments to third party information.

Value for Money Audit

Our risk assessment regarding your arrangements to secure value for money has not, at this planning stage, identified any significant risks. However we have identified two areas of focus where we will review the arrangements in detail:

- **Financial resilience:** As a result of reductions in central government funding, and other pressures, the Authority is continuing to have to make savings. We will consider how the Authority identifies, approves, and monitors savings plans and how budgets are managed throughout the year.
- **Contract monitoring and Managed Services:** Contract monitoring continues to be a key control in ensuring the Authority, having gone through competitive tender processes, manages the contract and makes sure that services are delivered to the right quality and in line with agreed performance indicators. We will select a sample of contracts and review the monitoring arrangements against the contracts.

Other information

Logistics and team:

Our team is led by Andrew Sayers, Partner and Jenny Townsend, Senior Manager. Our key deliverables are this Audit Plan, progress reports to the Audit, Pensions and Standards Committee and a Report to Those Charged With Governance with our final findings from the audit.

Fees:

Our fee for the 17/18 audit is £163,950 (16/2017: £163,950) for the Authority and £21,000 (16/17: £21,000) for the Pension Fund, per the scale fees published by PSAA.

Acknowledgement:

We thank officers and Members for their continuing help and cooperation throughout our audit.

The contacts at KPMG in connection with this report are:

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Appendices

- 1: Key elements of our financial statements audit approach
- 2: Independence and objectivity requirements
- 3: Quality framework

This report is addressed to London Borough of Hammersmith and Fulham (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

1. Introduction

Background and statutory responsibilities

This plan supplements our 2017/18 audit fee letter dated 25 April 2017, which set out details of our appointment by PSAA.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the NAO's Code of Audit Practice and the PSAA Statement of Responsibilities.

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

- **Authority and Pension Fund Financial statements:** Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and
- **Use of resources:** Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Audit, Pensions and Standards Committee.

Financial statements audit

Our financial statements audit follows a four stage process:

- Financial statements audit planning
- Control evaluation
- Substantive procedures
- Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

Value for Money

Our Value for Money (VFM) arrangements work follows a five stage process:

- Risk assessment
- Links with other audit work
- Identification of significant VFM risks
- Review work (by ourselves and other bodies)
- Conclude
- Report

Page 11 provides more detail on these stages. This plan concentrates on explaining the VFM approach for 2017/18 and our response to it.

2. Financial statements audit planning

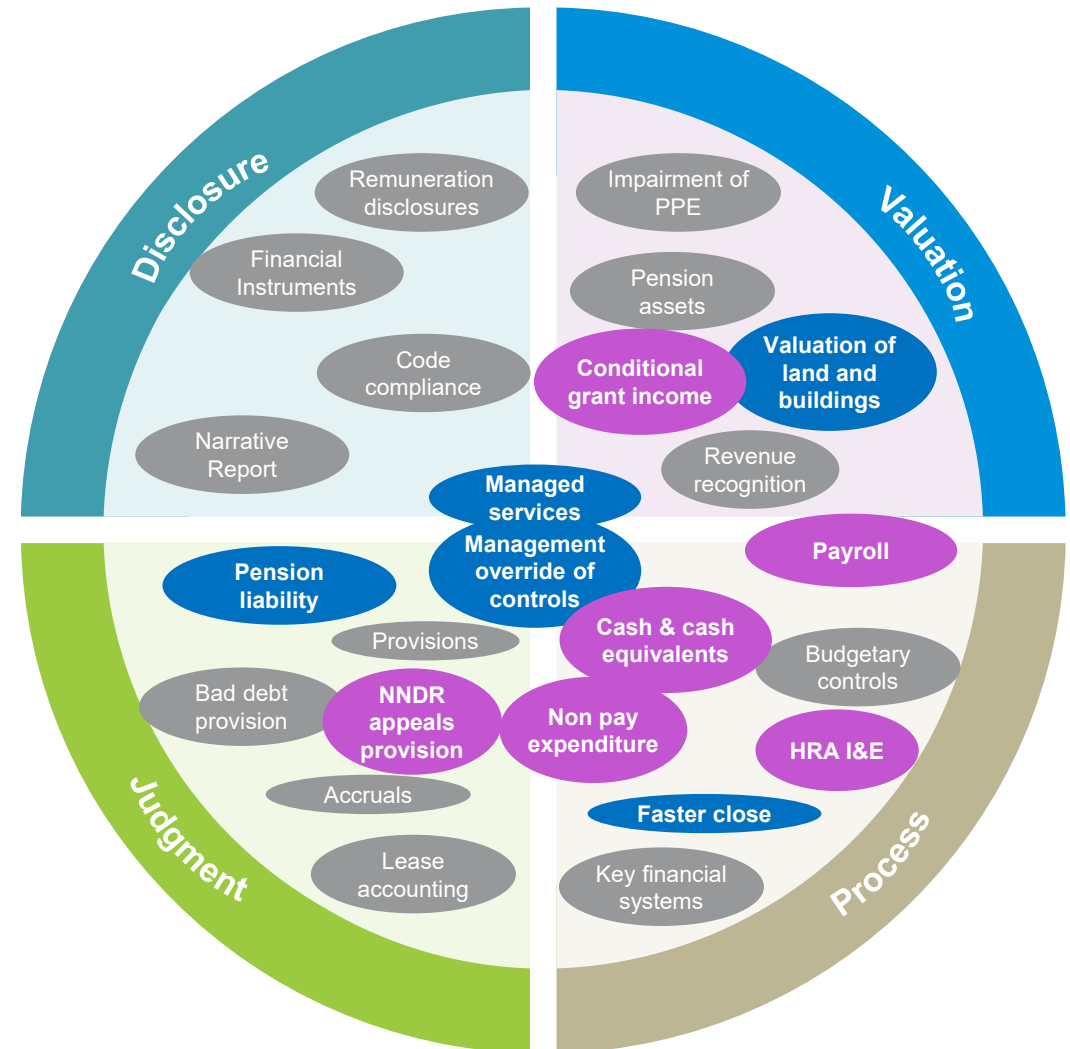
Financial statements audit planning

Our planning work takes place between January 2018 and February 2018 and involves: determining materiality; risk assessment; identification of significant risks; consideration of potential fraud risks; identification of key account balances and related assertions, estimates and disclosures; consideration of Management's use of experts; and issuing this plan to communicate our audit strategy.

Authority risk assessment

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

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



2. Financial statements audit planning

Authority significant audit risks

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

Valuation of land and buildings

Risk: The Authority held land and buildings with a value of £1,598 million at 31 March 2017. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle unless it is thought that the value may have changed materially where they are revalued more frequently. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will assess the risk of the valuation changing materially in year. We will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Pension liabilities

Risk: The net pension liability at 31 March 2017 of £692 million represents a material element of the Authority's balance sheet. The Authority is a scheduled body of the London Borough of Hammersmith and Fulham Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach: We will review controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will liaise with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will evaluate the competency, objectivity and independence of Barnett Waddingham LLP.

We will review the appropriateness of key assumptions in the valuation, compare them to expected ranges, and consider the need to make use of a KPMG actuary. We will review the methodology applied in the valuation by Barnett Waddingham LLP. In addition, we will review the overall actuarial valuation and consider the disclosure implications in the financial statements.

2. Financial statements audit planning (cont.)

Managed Services

Risk: In 2015 the Authority entered into a managed service partnership with BT to implement a new finance system and run a number of finance functions on behalf of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Council. Since 2015 there have been difficulties in implementation and day to day processing that represent a risk to the completeness and accuracy of the balances within the financial statements. Whilst we note that work has been done to rectify many issues and progress has been made, a risk remains in relation to the outsourced services.

Approach: In 2016-17 we conducted on site controls testing at BT managed services and given no significant issues were identified, we will update our understanding of the controls in place and test these as appropriate. We will undertake sample testing of controls to evaluate the design and implementation of the controls around the key financial systems and the general IT controls. We will assess whether these controls are operating effectively to prevent or detect material misstatements.

Faster Close

Risk: In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft financial statements by 31 May and final signed financial statements by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its accounts production timetable so that draft accounts were ready earlier. Progress was made in advancing the timetable applied in preceding years however further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.

To meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. There are logistical challenges that will need to be managed including:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries and subsidiaries) are aware of the revised deadlines and have made arrangements to provide the output of their work accordingly;
- Revising the closedown and accounts production timetable to ensure that all working papers and supporting documentation are available at the start of the audit;
- Ensuring that the Audit, Pensions and Standards Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit, Pensions and Standards Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline. There is an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not seen as a breach of deadlines.

Approach: We will continue to liaise with officers in preparation for our audit to understand the steps the Authority is taking to meet the revised deadlines. We will look to advance audit work into the interim visit to streamline the year end audit work. Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

2. Financial statements audit planning

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding. In comparison to 2016/17, we have removed: Disclosures associated with restatement of CIES, EFA and MiRS as an area of other focus and introduced conditional grant income, which was previously a significant risk.

NNDR appeals provision

- **Issue:** NNDR is material and has complexity in the translation from Collection Fund into Council prime statements and a high degree of subjectivity underlying the NNDR appeals provision.
- **Approach:** We will gain an understanding over controls related to business rates income and specifically the appeals process. We will review the methodology applied in determining the appeal provision and report as to whether this reflects a balanced, cautious or optimistic assessment.

Conditional grant income

- **Issue** The Council receives grants containing certain conditions. c£21M of grants were included within the balance sheet as at 31 March 2017 as unspent. Each grant is awarded on the basis that it will be drawn down at a service level once the specific conditions of the grant have been met. The grant cannot be credited to the comprehensive income & expenditure account until the conditions attached to the grant have been satisfied.
- **Approach:** In 2016/17 we included this area as a significant risk. No issues were identified. To reflect this, we have included this in 2017/18 as an area of focus. We will review the controls in place to ensure that grants are recognised only when there is reasonable assurance that the Authority will comply with any conditions attached to the grant and ensure that for a sample of grants, that they have been applied over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis;
- We will ensure that the accounting policy adopted for grants has been disclosed within the accounts.

Payroll

- **Issue:** Payroll represents a significant proportion of the Authority's annual expenditure. Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area.
- **Approach:** We will review and test reconciliations for gross pay and deductions (e.g. pensions, tax and national insurance); and complete substantive analytical review of payroll costs and test supporting system information used to compile the review.

Cash & cash equivalents

- **Issue:** Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements.
- **Approach:** We will review controls over bank reconciliations; and confirm balances with external third parties.

Non-Payroll Expenditure

- **Issue:** Non-payroll expenditure, specifically the accounts payable component, is an area of audit focus due to its pervasive impact on the financial statements and size.
- **Approach:** We will perform substantive tests of details to agree expenditure to third party documentation and cut-off testing of non-payroll expenditure to ensure costs are recorded in the correct period.

2. Financial statements audit planning

HRA Rental Income and Repairs and Maintenance and Management Expenditure

- **Issue:** HRA dwelling rental income is an area of audit focus due to the material size.
- **Approach:** We will gain an understanding over controls related to HRA rental income and expenditure; test the operating effectiveness of relevant controls; and complete substantive procedures over transactions.

2. Financial statements audit planning

Pension Fund risk assessment

Professional standards require us to consider two standard risks. We consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

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

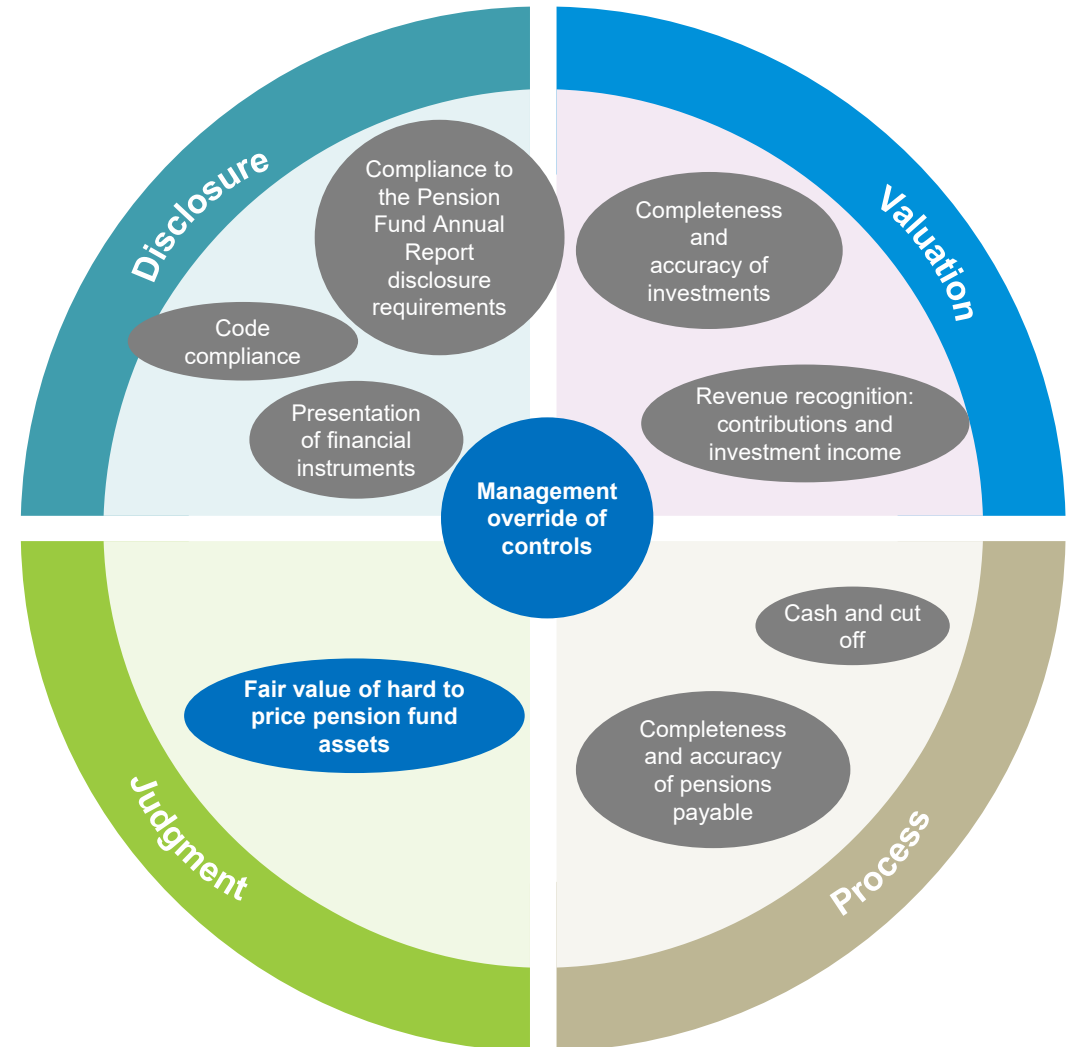
Pension Fund significant audit risks

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

Valuation of hard to price investments

Risk: The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may be susceptible to pricing variances given the assumptions underlying the valuation. In the prior year financial statements £677 million out of total financial investments of £995 million or 68%, were in these harder (level 2 or 3) to price categories.

Approach: We will independently verify a selection of investment asset prices to third party information and obtain independent confirmation on asset existence. We will test to what extent the Pension Fund has challenged the valuations reported by investment managers for harder to price investments and assumptions used in preparing those figures.



Key: ● Significant risk ● Other areas considered

2. Financial statements audit planning

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements. Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority materiality has been set at £12 million which equates to approximately 1.7% of 2016/17 gross expenditure. The threshold above which individual errors are reported to Audit, Pensions and Standards Committee is £600K.

For the Pension Fund materiality has been set at £17 million which equates to approximately 1.7% of the net assets at 31 March 2017.

Reporting to the Audit, Pensions and Standards Committee

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

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

ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority and the Pension Fund we propose that an individual difference could normally be considered to be clearly trivial if it is less than £600,000.

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

Liaising with internal audit

ISA (UK & Ireland) 610 (revised June 2013) defines how we can use the work of internal audit. Our approach ensures we comply with these requirements. We will liaise with internal audit and review the findings from their programme of work for 2017/18. We will also consider any significant control deficiencies identified by internal audit and ensure that we take this into account where relevant to determine the nature of our audit work to ensure the risk is appropriately addressed.

3. Value for money arrangements work

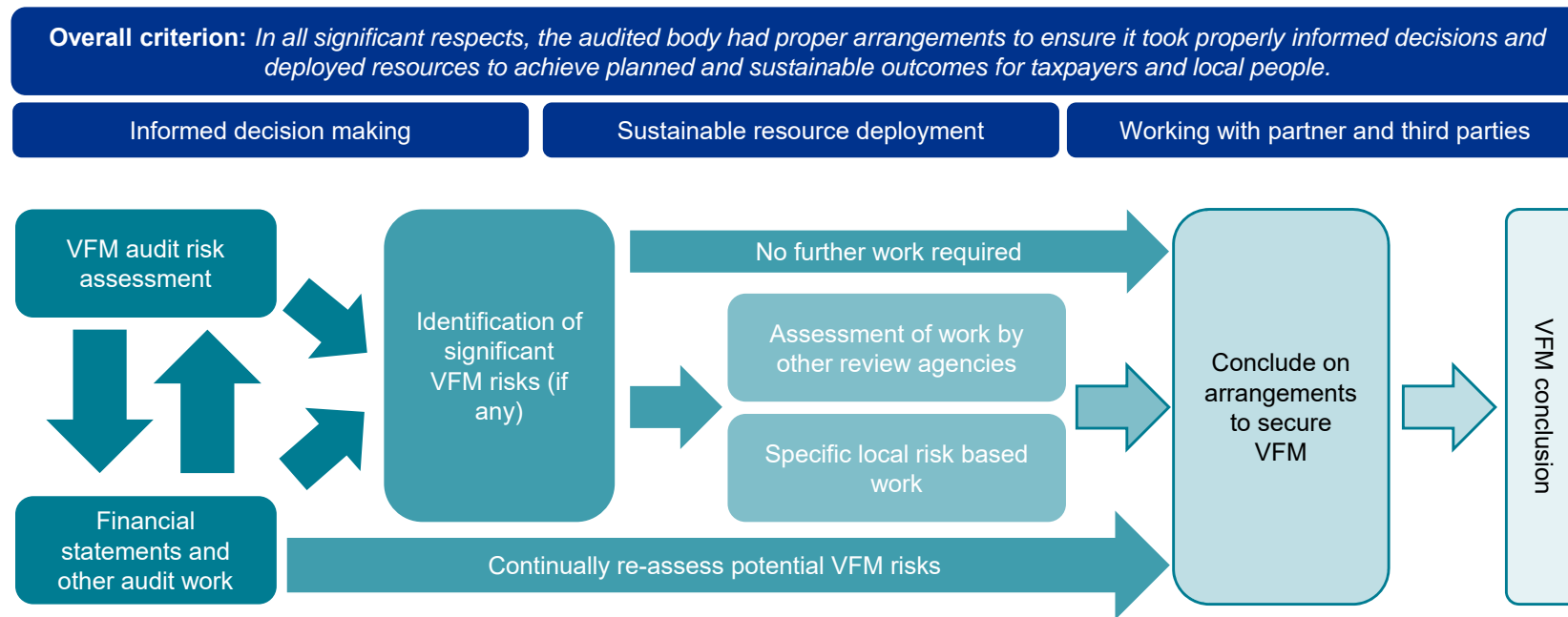
For our value for money conclusion we are required to work to the NAO Code of Audit Practice (issued in 2015 after the enactment of the Local Audit and Accountability Act 2014).

Our approach to VFM work follows the NAO's new guidance that was first introduced in 2015-16, is risk based and targets audit effort on the areas of greatest audit risk.

We have planned our audit to draw on our past experience of delivering this conclusion and have updated our approach as necessary. We will also consider reports from your regulators and review agencies.

The Local Audit and Accountability Act 2014 requires auditors to be satisfied that the organisation "has made proper arrangements for securing economy, efficiency and effectiveness in its Value for Money". This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to "take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements."

The VFM process is shown in the diagram below:



We have completed our initial planning Vfm risk assessment and have not identified any significant risks for the Vfm conclusion. However we have identified two areas of audit focus which are described overleaf. As we complete our risk assessment we will consider if there are further significant risks and if so report these to the Audit, Pensions and Standards Committee.

Overall criterion: *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

Informed decision making Sustainable resource deployment Working with partner and third parties

3. Value for money arrangements work

VFM other areas of focus

Those risks with less likelihood of giving rise to a significant VFM risk but which are nevertheless worthy of audit understanding.

Medium Term Financial Planning

Risk: In 2017/18 the Council had budgeted general fund expenditure of c.£622 million on services including: Adult Social Care, Children's Services, Housing, Environmental Services, Libraries and Public Health. As at month 6 was a gross overspend of £4.669m was forecast, a slight improvement of £0.218m since month 5. The largest forecast overspend is within Housing. Significant savings of £14.5m have been identified in the budget, with a further £15.4 million required in 2018/19. In addition to this, the Council is striving to deliver a challenging capital plan of £99 million.

Approach: We will review controls the Authority has in place to ensure financial resilience, including how the Authority identifies, approves, and monitors savings plans and how budgets are managed throughout the year. We will also review that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

VFM sub-criterion: This risk is related to the following Value For Money sub-criterion:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and third parties.

Contract monitoring and managed services

Risk: The Authority continues to work closely with partners and third parties, either through joint agreements or the more standard commercial contract with the third party providing the service. Having gone through competitive tendering processes in line with the Authority's regulations, it is vital that contract terms and agreed performance indicators are monitored closely to ensure that the Authority obtains maximum value for money from these contracts.

Approach: We will select a sample of contracts and obtain an understanding of the controls that are in place to monitor the contract, both from a financial viewpoint but also that the quality of the service provided meets the contract specification. We will then test that these controls are operating as expected. With regards to the Managed Services Contract we will also consider the ongoing controls surrounding the operation of the managed services, including the operation of the Intelligent Client Function (ICF), review and consideration of issue resolution actions, review of the Operational Framework Board (OFB) and Managed Services Sponsors meetings to track progress against targets.

VFM sub-criterion: This risk is related to the following Value For Money sub-criterion:

- Informed decision making; and
- Working with partners and third parties.

4. Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are: the right to inspect the accounts; the right to ask the auditor questions about the accounts; and the right to object to the accounts. As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece where we interview an officer and review evidence to form our decision to a more detailed piece where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. Costs incurred responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with PSAA's fee scales.

Our audit team

Your audit team has been drawn from our specialist public sector assurance department and is led by two key members of staff:

- **Andrew Sayers:** your Partner has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the Audit, Pensions and Standards Committee, the Chief Executive and Strategic Finance Director.
- **Jennifer Townsend:** your Senior Manager is responsible for delivery of all our audit work. He will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk, tax, clinical or information specialists as necessary to deliver the plan.

Reporting and communication

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

Independence and Objectivity

Auditors are required to be independent and objective. Appendix 2 provides more details of our confirmation of independence and objectivity.

4. Other matters

Audit fee

Our Audit Fee Letter 2017/2018 presented to you on 25 April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the Strategic Finance Director and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £163,950 for the Authority (2016/17: £163,950.) The planned audit fee for 2017/18 is £21,000 for the Pension Fund (2016/17: £21,000).

Grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements:

- Housing benefits grant claim: This audit is planned for September. Our fee for this work is £23,756;
- Pooling of housing capital receipts: This audit is planned for September. Our fee for this work is £3,500; and
- Teachers pension contribution return: This audit is planned for September. Our fee for this work is £3,750.

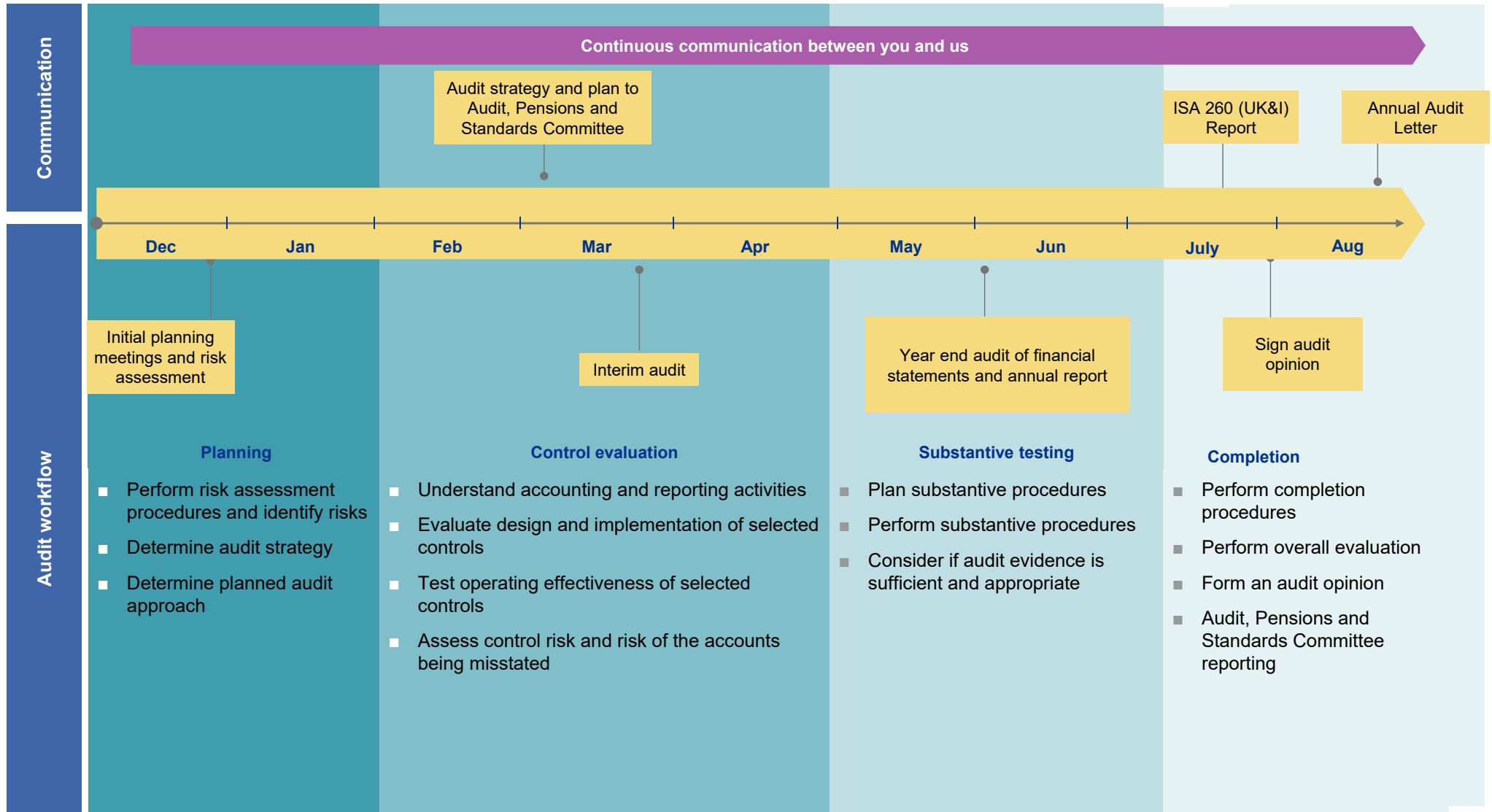
There was an additional non audit fee of £7,000 in 2016/17 in relation to our on-site visit to the managed services centre and the additional controls work carried out therein.

Public interest reporting

In auditing the accounts as your auditor we must consider whether, in the public interest, we should make a report on any matters coming to our notice in the course of our audit, in order for it to be considered by Members or brought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit.

At this stage there are no matters that we wish to report.

Appendix 1: Key elements of our financial statements audit approach



Appendix 2: Independence and objectivity requirements

Assessment of our objectivity and independence as auditor of London Borough of Hammersmith and Fulham

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: General procedures to safeguard independence and objectivity; Breaches of applicable ethical standards; Independence and objectivity considerations relating to the provision of non-audit services; and Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values; Communications; Internal accountability; Risk management; and Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 2: Independence and objectivity requirements

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its affiliates for professional services provided by us during the reporting period.

We confirm that all non-audit services have been included in this plan to be approved by the Audit, Pensions and Standards Committee .

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following.

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2018	Value of Services Committed but not yet delivered
				£	£
Assurance Report on the Teachers' Pension Return 2017/18	None	None	Estimate of time required to complete the tests set by the Teachers' Pension	-	3,750
Assurance Report on the Pooling of Housing Capital Receipts 2017/18	None	None	Estimate of time required to complete the tests set by the DCLG	-	3,500

Appropriate approvals would be obtained from PSAA for all non-audit services if they exceeded the relevant thresholds during the reporting period. This threshold has not been reached in providing the above services. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit, Pensions and Standards Committee .

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Andrew Sayers, the Partner and the audit staff is not impaired.

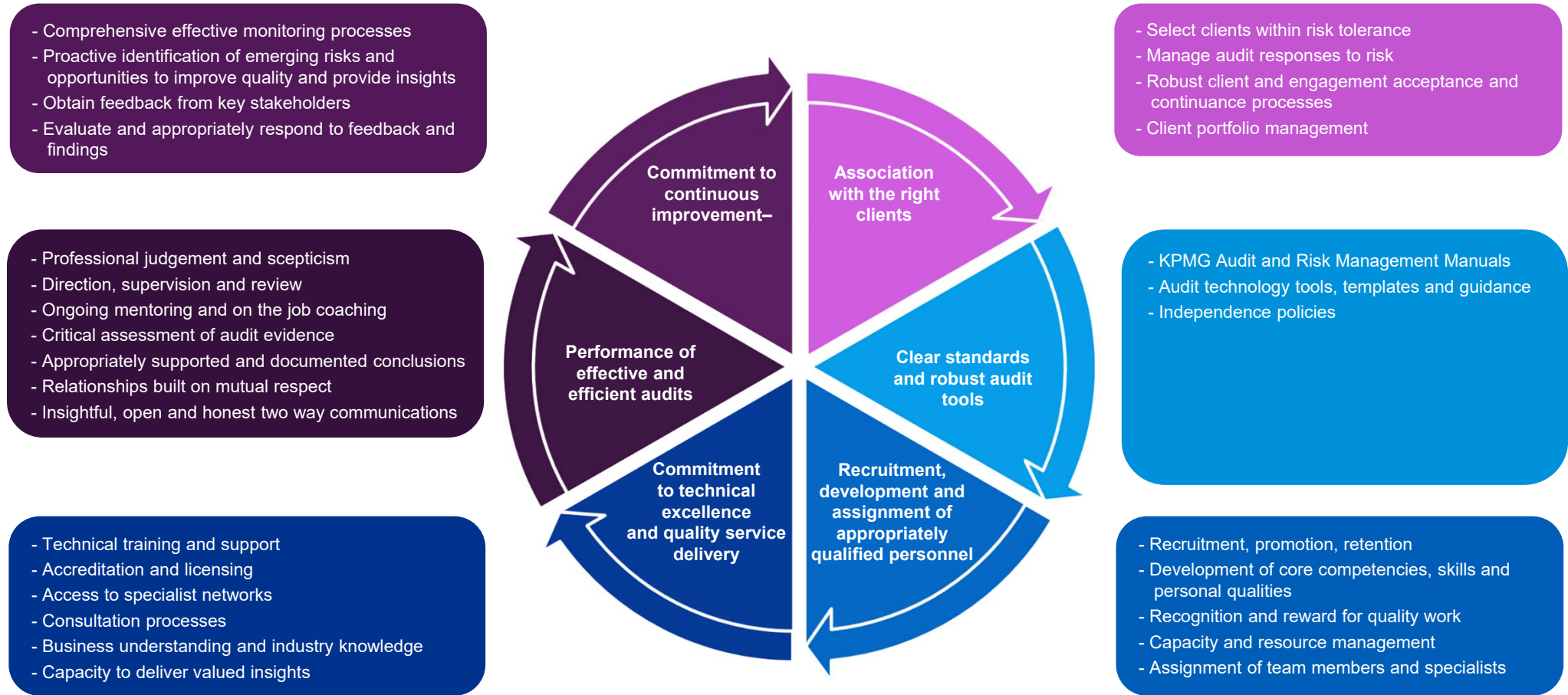
This report is intended solely for the information of the Audit, Pensions and Standards Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Appendix 3: Quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

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

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

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

Agenda Item 5

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT PENSIONS AND STANDARDS COMMITTEE</p> <p>14 MARCH 2018</p>	
MEMBERS' CODE OF CONDUCT - MONITORING OFFICER'S UPDATE	
Report of the Monitoring Officer – Rhian Davies	
Open Report	
Classification - For Noting	
Key Decision: No	
Consultation Not applicable	
Wards Affected: None	
Accountable Director: Hitesh Jolapara, Strategic Finance Director	
Report Author: Rhian Davies, Monitoring Officer	Contact Details: Tel: 020 7641 2729 E-mail: rhian.davies@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This report advises the Committee of complaints received since March 2017 and a consultation being undertaken by the Committee for Standards in Public Life as part of their review of ethical standards in local government.

2. RECOMMENDATIONS

- 2.1 To note this report.
- 2.2 To make any initial comments on the consultation document, agree that all Members be asked to contribute their views and that the Monitoring Officer respond to the consultation on behalf of the Council.

3. MEMBERS CODE OF CONDUCT

- 3.1 At its meeting on 4th July 2012 the Council adopted its local Members' Code of Conduct (the Code) following the implementation of the provisions of the

Localism Act 2011 and the abolition of the national Standards Board for England. The Council's Code was based on the template issued by the Local Government Association and used by the majority of Councils. The Code is part of the Council's Constitution and publicly available. In accordance with the Act, the Council has also adopted "Arrangements for dealing with complaints alleging a breach of the Members' Code of Conduct" (the Arrangements) which are on the Council's website. Copies of the Code and the Arrangements are attached at Appendix 1 and 2.

- 3.2 Under the Council's Constitution the Audit, Pensions and Standards Committee is responsible for advising the Council on the adoption and revision of the Code. The Monitoring Officer will bring a further report, seeking a review of the Members Code of Conduct, to this committee when the Committee on Standards in Public Life publishes their review of ethical standards in local government (referred to below).
- 3.3 Section 27 of the Localism Act 2011 places a duty on the Council to ensure that its members and co-opted members maintain high standards of conduct. Section 28 of the Act requires the Council to adopt a code consistent with the seven "Nolan" principles of standards in public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). The Code must also set out the rules that the Council wants to put in place with regards to requiring Members to register and declare disclosable pecuniary interests.

4. BREACH OF THE CODE

- 4.1 In accordance with the Act the Council has in place arrangements for dealing with alleged breaches of the Code. If the Monitoring Officer concludes that a complaint should be investigated and the conclusion of the investigation is that there is evidence that there has been a breach of the Code, the Council's Audit, Pensions and Standards Committee is responsible for considering the complaint, deciding whether there has been a breach and if so what, if any action, should be taken.
- 4.2 The Act does not provide any sanctions for breach of the Code so the Audit, Pensions and Standards Committee is limited to
- Censuring the Member;
 - Reporting its findings to a meeting of the Council for information;
 - Recommending to the Council that the Member be issued with a formal censure;
 - Recommending to the Member's Group Leader that he/she be removed from any or all Committees or Sub-Committees of the Council; or
 - Recommending to the Leader of the Council that the Member be removed from the Leadership Team, or removed from particular Portfolio responsibilities.

5. COMPLAINTS

- 5.1 Since March 2017 there have been 2 complaints made to the Monitoring Officer alleging a breach of the Code. The Monitoring Officer decided not to refer 1 of these complaints for investigation since the action taken by the Member in response to the complaint was such that, in her view, further investigation was not merited. In the remaining case the Monitoring Officer decided not to refer the complaint for investigation as there was no evidence of a breach.

6. REVIEW OF ETHICAL STANDARDS IN LOCAL GOVERNMENT

- 6.1 The Committee on Standards in Public Life is undertaking a review of ethical standards in local government and has launched a consultation (see link and attached at Appendix 3)
<https://www.gov.uk/government/consultations/local-government-ethical-standards-stakeholder-consultation>

The terms of reference for the review are to examine the structures, processes and practices in local government in England for:

- maintaining codes of conduct for local Councillors
- investigating alleged breaches fairly and with due process
- enforcing codes and imposing sanctions for misconduct
- declaring interests and managing conflicts of interest; and
- whistleblowing

And to:

- assess whether the existing structures, processes and practices are conducive to high standards of conduct in local government
- make any recommendations for how they can be improved
- note any evidence of intimidation of Councillors, and make recommendations for any measures that could be put in place to prevent and address such intimidation

- 6.2 The Monitoring Officer will write to all Members inviting them to comment. The Monitoring Officer will circulate a draft response to Audit, Pensions and Standards Committee seeking any comments in order that the council may submit their response before the closing date, 18 May 2018. The Independent Person, Johanna Holmes Janis Cammell OBE will also be asked to contribute her comments.
- 6.3 Once the Committee on Standards in Public Life has concluded its review and made recommendations the Audit, Pensions and Standards Committee will be asked to consider those recommendations and to propose any changes to the Code.

7. LEGAL IMPLICATIONS

- 7.1 The Legal implications are contained within the body of the report.

Implications completed by Rhian Davies, Monitoring Officer

8. FINANCIAL IMPLICATIONS

8.1 There are no financial implications arising from this report.

Implications completed by Rhian Davies, Monitoring Officer

9. EQUALITY IMPLICATIONS

9.1. There are no equalities implications arising from this report.

Implications completed by Rhian Davies, Monitoring Officer

10. IT IMPLICATIONS

10.1. *There are no IT implications contained within this proposal.*

Implications completed by Rhian Davies, Monitoring Officer

11. IMPLICATIONS FOR BUSINESS

11.1. There are no business implications contained within this proposal.

Implications completed by Rhian Davies, Monitoring Officer

12. COMMERCIAL IMPLICATIONS

12.1. There are no business implications contained within this proposal

Implications completed by Rhian Davies, Monitoring Officer

13. RISK MANAGEMENT

13.1. Details of any identified risk of the proposals in the report and the possible mitigation.

Implications completed by Rhian Davies, Monitoring Officer

Appendices

Appendix 1 – Members Code of Conduct

Appendix 2 – Arrangements for dealing with complaints alleging a breach of the Members' Code of Conduct (the Arrangements)

Appendix 3 - Review of Local Government Ethical Standards: Stakeholder Consultation

London Borough of Hammersmith and Fulham Members' Code of Conduct

As a Member or co-opted Member of the London Borough of Hammersmith and Fulham I have a responsibility to represent the community and work constructively with our staff and partner organisations to secure better social, economic and environmental outcomes for all.

In accordance with the Localism Act provisions, when acting in this capacity I am committed to behaving in a manner that is consistent with the following principles to achieve best value for our residents and maintain public confidence in this authority.

SELFLESSNESS: Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

INTEGRITY: Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

OBJECTIVITY: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

ACCOUNTABILITY: Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

OPENNESS: Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

HONESTY: Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

LEADERSHIP: Holders of public office should promote and support these principles by leadership and example.

As a Member of the London Borough of Hammersmith and Fulham my conduct will in particular address the statutory principles of the Code of Conduct by:

- Championing the needs of residents – the whole community and in a special way my constituents - including those who did not vote for me - and putting their interests first.

- Dealing with representations or enquiries from residents, members of our communities and visitors fairly, appropriately and impartially.
- Not allowing other pressures, including the financial interests of myself or others connected to me, to deter me from pursuing constituents' casework, the interests of the London Borough of Hammersmith and Fulham area or the good governance of the authority in a proper manner.
- Exercising independent judgement and not compromising my position by placing myself under obligations to outside individuals or organisations who might seek to influence the way I perform my duties as a member/co-opted member of this authority.
- Listening to the interests of all parties, including relevant advice from statutory and other professional officers, taking all relevant information into consideration, remaining objective and making decisions on merit.
- Being accountable for my decisions and co-operating when scrutinised internally and externally, including by local residents.
- Contributing to making this authority's decision-making processes as open and transparent as possible to enable residents to understand the reasoning behind those decisions and to be informed when holding me and other members to account, but restricting access to information when the wider public interest or the law requires it.
- Behaving in accordance with all our legal obligations, alongside any requirements contained within this authority's policies, protocols and procedures, including on the use of the Authority's resources.
- Valuing my colleagues and staff and engaging with them in an appropriate manner and one that underpins the mutual respect between us that is essential to good local government.
- Treating people with respect, including the organisations and public I engage with and those I work alongside.
- Providing leadership through behaving in accordance with these principles when championing the interests of the community with other organisations as well as within this authority.
- Complying with the Council's Information Security Policy and not misusing the Council's resources for unacceptable personal use.

The Act further provides for registration and disclosure of interests, and this will be done as follows:

Registration and disclosure of interests

Registration of Interests

1. From 28th July 2012, and thereafter within 28 days of your election or co-option, you must notify the Monitoring Officer of any 'disclosable pecuniary interests' which you have at that time.
2. Where you are re-elected or re-appointed, notification is only required of any new disclosable pecuniary interests within 28 days of your election or co-option.
3. You must keep your Register of Interests entry up to date by notifying the Monitoring Officer of any changes to your disclosable pecuniary interests within 28 days of the change occurring, or of you becoming aware of the change.
4. A 'disclosable pecuniary interest' is as prescribed by the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 and set out in Appendix A to the Code.
5. A pecuniary interest is a 'disclosable pecuniary interest' in relation to you if it is of a type described above, and either:
 - (a) it is an interest of yourself, or
 - (b) it is an interest of -
 - (i) your spouse or civil partner,
 - (ii) a person with whom you are living as husband and wife, or
 - (iii) a person with whom you are living as if they were civil partners, and you are aware that that other person has the interest.
6. You are also required to notify the Monitoring Officer of any gifts or hospitality with an estimated value of at least £50 which you receive in your role as a Member or co-opted Member of the Council.¹ You must inform the Monitoring Officer of any such gifts or hospitality within 28 days of receiving them so that the details can be entered into the Register of Interests.² All disclosable interests will be published on the Council's website.

Sensitive interests

7. If the nature of an interest is such that you and the Monitoring Officer consider that disclosure of the details of the interest could lead to you, or a person connected with you, being subject to violence or intimidation, the interest must not be included in any published version of the Register of Interests, or be entered into any copy of the Register that is made available for public

¹ This does not include civic gifts or hospitality received by the Mayor whilst acting in this capacity. Civic gifts are to be recorded in a separate register maintained by the Mayor's office.

² These details will be removed from the register two calendar years after they were added by the Monitoring Officer.

inspection. Instead the Register of Interests may state that the Member has an interest, the details of which are withheld under section 32(2) of the Localism Act 2011. If the Member is required to disclose such an interest in a meeting, the Member need not disclose the interest, but merely the fact that the Member has a disclosable pecuniary interest in the matter concerned.

Disclosure of disclosable pecuniary interests at meetings

8. The following provisions apply if you are present at a meeting of the authority the Cabinet or of any committee, sub-committee, joint committee or joint sub-committee of the authority or you are a Cabinet Member exercising an executive function and you are aware that you have a disclosable pecuniary interest in a matter to be considered, or being considered, at the meeting or which is the subject of the executive decision.
9. If the interest is not entered in the authority's Register of Interests, you must disclose the interest to the meeting (unless the interest is a sensitive interest).
10. If the interest is not entered in the authority's Register of Interests and is not the subject of a pending notification, you must notify the Monitoring Officer of the interest before the end of 28 days beginning with the date of the disclosure.
11. Where the interest does appear in the Register of Interests, you must bring the interest to the attention of the meeting (unless the interest is a sensitive interest).
12. You may not:
 - (a) participate, or participate further, in any discussion of the matter at the meeting or in the case of an executive decision you must not take any steps, or any further steps, in relation to the matter (except for the purpose of enabling the matter to be dealt with by someone else)
 - (b) participate in any vote, or further vote, taken on the matter at the meeting (unless you have requested and been granted a relevant dispensation by Audit, Pensions and Standards Committee), or
 - (c) remain in the room during the discussion or vote on the matter.
13. Where you have a disclosable pecuniary interest in a matter to be considered at a meeting, you may attend the meeting but only for the purposes of making representations, answering questions or giving evidence relating to the matter, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise. Once you have finished, or the meeting decides you have finished, you must leave the room and may not remain in the room during the discussion or vote on the matter.

Disclosure of other interests at meetings

14. Where you are present at a meeting of the authority, the Cabinet or of any committee, sub-committee, joint committee or joint sub-committee of the authority, or you are a Cabinet Member exercising an executive function, and

identify any other significant interests which you feel should be declared in the public interest, such interests should be declared to the meeting or, in the case of a Cabinet Member exercising an executive function, prior to taking a decision.

15. In such circumstances you must consider whether your continued participation in the matter relating to your interest would be reasonable in the circumstances, particularly if the interest may give rise to a perception of a conflict of interests in the matter under discussion. If so you should comply with the requirements of paragraphs 12 and 13 above.

Allegations of a Failure to Comply with Code of Conduct

All complaints alleging a failure to comply with this Code will be considered in accordance with a procedure agreed by full Council.

London Borough of Hammersmith and Fulham Arrangements for dealing with complaints alleging a breach of the Members' Code of Conduct

1. Context

- 1.1 Under Section 28 of the Localism Act 2011, the Council must have in place “arrangements”, under which allegations that a Member or co-opted Member of the Council, or of a Committee or Committee of the Council, has failed to comply with the Members' Code of Conduct can be investigated and decisions made on such allegations.
- 1.2 These “arrangements” set out how you may make a complaint that an elected or co-opted Member of the **London Borough of Hammersmith and Fulham** (“the Council”) has failed to comply with the Members' Code of Conduct (“the Code”) and sets out how the Council will deal with allegations of a failure to comply with the Code.
- 1.3 Such arrangements must provide for the Council to appoint at least one Independent Person, whose views must be sought by the Council before it takes a decision on an allegation which it has decided shall be investigated, and whose views can be sought by the Council at any other stage, or by a Member or co-opted Member against whom an allegation has been made.

2. The Code

- 2.1 The Code adopted by the Council is on the Council's website and paper copies can be requested from Governance and Scrutiny Team, Town Hall, King Street, London, W6 9JU.

3. Making a complaint

- 3.1 If you wish to make a complaint, please complete a copy of the complaint form, available on the Council's website or on request from Governance Services, and send or email it to:

The Monitoring Officer
Legal and Democratic Services
Town Hall
King Street
London W6 9JU

Email: rhian.davies@lbhf.gov.uk

- 3.2 The Monitoring Officer is a senior officer of the Council who has statutory responsibility for maintaining the Register of Members' Interests and who is responsible for administering these arrangements.
- 3.3 Please provide all the details requested on the complaint form. If you want to keep your name and address confidential, please indicate this in the space provided on the complaint form. The Monitoring Officer will consider your request but in the interests of fairness the presumption is that the Member concerned is entitled to know who has made the complaint. If, in exceptional circumstances, your request is granted we will not disclose your name and address to the Member against whom you make the complaint without your prior consent.
- 3.4 The Council will not investigate anonymous complaints unless the Monitoring Officer considers that there is a strong and clear public interest in doing so.
- 3.5 The Monitoring Officer will acknowledge receipt of your complaint within 5 working days of receiving it and will keep you informed of the progress of your complaint.

4. Will your complaint be investigated?

- 4.1 The Monitoring Officer will consider each complaint received and will decide, on the basis of the information set out in the complaint form or submitted with the complaint, whether it merits formal investigation. Whilst complainants must be confident that complaints are taken seriously and dealt with appropriately, investigating a complaint involves spending public money as well as the cost of officer and Member time. The Council, therefore, takes a proportionate approach to the issue of whether or not a complaint merits investigation bearing in mind the sanctions which can be imposed if a Member is found to be in breach of the Code, and the costs to the Council and, therefore, to the public of undertaking an investigation. The performance of Members in terms of how they represent those in their wards is ultimately a matter for the electorate if a Member seeks re-election.
- 4.2 A complaint will only be considered to merit formal investigation if it complies with all the criteria in paragraph 4.3 or one or more of the criteria in paragraph 4.4 below. The Monitoring Officer will consult the Independent Person before coming to a final decision as to whether or not a complaint which meets the relevant criteria should be investigated.
- 4.3 The relevant criteria are:
- a) The complaint raises matters which would be a breach of the Code;
 - b) The complaint is sufficiently serious to warrant investigation;
 - c) The complaint is not "tit-for-tat"; " i.e. the complaint has not been made by another Member only because he or she has been complained about by the Member the subject of the complaint;

- d) The complaint appears not to be politically motivated; (A complaint will not be adjudged to be politically motivated just because the complainant is from a different political group to the Member complained about);
 - e) It is about someone who is still a Member or co-opted Member of the Council;
 - f) The complaint has been received within 3 months of the alleged failure to comply with the Code unless there are exceptional circumstances for the delay and the delay does not mean that it would be difficult for a fair investigation to be carried out;
 - g) The same, or similar, complaint has not already been investigated;
 - h) It is not an anonymous complaint, unless it includes sufficient documentary evidence to show a significant breach of the Code;
 - i) The Member complained about has not already apologised and/or admitted making an error; and
 - j) If the complaint reveals a criminal offence and a complaint has been made to the Police, that the Police investigation and any proceedings have concluded or the Police have confirmed no proceedings will be issued.
- 4.4 a) The complaint reveals a continuing pattern of behaviour that is significantly and unreasonably disrupting the business of the Council and there is no other avenue left to deal with it other than by way of an investigation; or
- b) The complaint is made by the Chief Executive or the Monitoring Officer
- 4.5 This decision will normally be taken within 28 working days of receipt of your complaint. The Monitoring Officer will inform you of his/her decision and the reasons for that decision.
- 4.6 In appropriate cases, where the Monitoring Officer has decided in accordance with the criteria set out above that a complaint would merit investigation, the Monitoring Officer may seek to resolve the complaint informally, without the need for a formal investigation. Such informal resolution may involve the Member accepting that his/her conduct was in breach of the Code and offering an apology, or other remedial action such as correcting the Register of Interests. Where the Member makes a reasonable offer of informal resolution, but you are not willing to accept the offer, the Monitoring Officer will take account of this in deciding whether the complaint should be investigated.
- 4.7 In consultation with the Independent Persons and Chairman of the Audit, Pensions and Standards Committee, the Monitoring Officer will refer to the Police for investigation a complaint which falls under Section 34 of the Act

which makes it a criminal offence if a Member or co-opted Member fails, without reasonable excuse, to comply with requirements to register or declare disclosable pecuniary interests (but not other such interests as the Council may include in its Code), or takes part in Council business at meetings or when acting alone when prevented from doing so.

5 How is the investigation conducted?

5.1 If the Monitoring Officer decides that a complaint merits investigation, he/she may conduct the investigation but will normally appoint an investigating officer, who may be another senior officer of the Council, an officer of another Council or an external investigator (“the Investigating Officer”). The Investigating Officer will decide whether he/she needs to meet or speak to you to understand the detail of your complaint and so that you can explain your understanding of events and suggest what documents need to be seen and who needs to be interviewed.

5.2 The Investigating Officer will normally write to the Member against whom you have complained and provide him/her with a copy of your complaint, and ask the Member to provide his/her explanation of events, and to identify what documents he needs to see and who he needs to interview.

In exceptional cases, where the Monitoring Officer has decided to keep your identity confidential your name and address will be deleted from the papers given to the Member.

5.3 At the end of his/her investigation, the Investigating Officer will produce a draft report (“the Investigation Report”) and will send copies of that draft report, in confidence, to you and to the Member concerned, to give you both an opportunity to correct any factual inaccuracies.

5.4 Having received and taken account of any comments which you may make on the draft Investigation Report, the Investigating Officer will send his/her final report to the Monitoring Officer.

6 What happens if the Investigating Officer or Monitoring Officer concludes that there is no evidence of a failure to comply with the Code of Conduct?

6.1 The Monitoring Officer will review the Investigating Officer’s report and, if he/she is satisfied that the Investigating Officer’s report is sufficient, the Monitoring Officer will write to you and to the Member concerned notifying you that he/she is satisfied that no further action is required, and give you both a copy of the final Investigation Report. There is no right of appeal for you as complainant or for the Member against a decision of the Monitoring Officer.

7 What happens if the Investigating Officer or Monitoring Officer concludes that there is evidence of a failure to comply with the Code of Conduct?

- 7.1 If an Investigating Officer has been appointed the Monitoring Officer will review the Investigating Officer's report, seek the views of the Independent Person and will then arrange for the Audit, Pensions and Standards (Complaints) Sub Committee to consider the complaint. The Sub Committee will consider the Investigator's Report, the written opinion of the Independent Person and any written representations from the Member concerned before deciding whether the Member has failed to comply with the Code and, if so, whether to take any action in respect of the Member.
- 7.3 The meeting will be held in public so you may attend the meeting as can other members of the public. The Committee will usually consider the matters on the papers but, in exceptional cases, the Member may be permitted by the Committee to make representations on his or her own behalf, although he or she will not be entitled to be represented by a solicitor or other legal representative. . Whether or not the case in question is an "exceptional case" is a matter for the discretion of the Committee but might include, for example, cases where the Member's version of the relevant facts is significantly at odds with the conclusions reached in the Investigating Officer's report and as a consequence the Committee would like to hear from the Member
- 7.4 The Committee, with the benefit of any advice from the Independent Person, may conclude that the Member did not fail to comply with the Code, and dismiss the complaint. If the Committee concludes that the Member did fail to comply with the Code, the Chairman will inform those present at the meeting of this finding and the Committee will then consider what action, if any, the Committee should take as a result of the Member's failure to comply with the Code. In doing this, the Committee may give the Member an opportunity to make representations but will consider any written representations from the Member and take into account the views of the Independent Person, before deciding what action, if any, to take in respect of the matter.

8 What action can the Audit, Pensions and Standards Committee take where a Member has failed to comply with the Code of Conduct?

The Committee may:-

- 8.1.1 Censure the Member;
- 8.1.2 Report its findings to a meeting of the Council for information;
- 8.1.3 Recommend to the Council that the Member be issued with a formal censure;
- 8.1.4 Recommend to the Member's Group Leader that he/she be removed from any or all Committees or Sub-Committees of the Council; or
- 8.1.5 Recommend to the Leader of the Council that the Member be removed from the Cabinet, or removed from particular Portfolio responsibilities.

9 What happens at the end of the hearing?

- 9.1 At the end of the hearing, the Chairman will announce the decision of the Committee as to whether the Member failed to comply with the Code and as to any sanctions imposed.
- 9.2 As soon as reasonably practicable thereafter, the Monitoring Officer will write to you and the Member concerned confirming the decisions taken.

10. Appeals

- 10.1 Where a Member is dissatisfied with the decision of the Audit, Pensions and Standards (Complaints) Sub-Committee in respect of a complaint against him/her, he/she may appeal to an Audit, Pensions and Standards (Appeals) Sub-Committee comprising a different membership to the original Sub-Committee, to reconsider the decision. The Member will be required to set out in detail, within 14 days of the Committee meeting, the grounds upon which an appeal is sought.
- 10.2 Upon receipt of notification of appeal, the Monitoring Officer will consult an Independent Person for his/her views. The Monitoring Officer will forward a report detailing the allegations, views of the Independent Person and the findings of the investigation to the Audit, Pension and Standards (Appeals) Committee who will determine the appeal. The Appeals Sub-Committee can either endorse the previous decision or conclude that there is no breach and dismiss the complaint.

11 What are the responsibilities of the Audit, Pensions and Standards Committee?

- 11.1 The Audit, Pensions and Standards Committee is charged with considering those written complaints that a Member or co-opted Member has failed to comply with the Code referred to it following an investigation of the complaint. The Committee may decide to impose a sanction if it finds that the Member has failed to comply with the Code. The duty to consider complaints has been delegated to its Complaints Sub Committee.

12 Who is the Independent Person?

- 12.1 The Independent Person is a person who has applied for the post following advertisement of a vacancy for the post, and has been appointed by the Council. There are a number of statutory restrictions on who may be appointed. For example, a person cannot be appointed as an independent person if he or she is, or has been within the past 5 years, a Member, co-opted Member or officer of the Council.

12.2 The Independent Person may be invited to attend meetings of the Committee and his/her views are sought and taken into consideration before the Committee takes any decision on whether the Member's conduct constitutes a failure to comply with the Code and as to any action to be taken following a finding of failure to comply with the Code.

13 Revision of these arrangements

13.1 The Council may by resolution agree to amend these arrangements.

Review of Local Government Ethical Standards: Stakeholder Consultation

The Committee on Standards in Public Life is undertaking a review of local government ethical standards.

Robust standards arrangements are needed to safeguard local democracy, maintain high standards of conduct, and to protect ethical practice in local government.

As part of this review, the Committee is holding a public stakeholder consultation. The consultation is open from 12:00 on Monday 29 January 2018 and closes at 17:00 on Friday 18 May 2018.

Terms of reference

The terms of reference for the review are to:

1. Examine the structures, processes and practices in local government in England for:
 - a. Maintaining codes of conduct for local councillors;
 - b. Investigating alleged breaches fairly and with due process;
 - c. Enforcing codes and imposing sanctions for misconduct;
 - d. Declaring interests and managing conflicts of interest; and
 - e. Whistleblowing.
2. Assess whether the existing structures, processes and practices are conducive to high standards of conduct in local government;
3. Make any recommendations for how they can be improved; and
4. Note any evidence of intimidation of councillors, and make recommendations for any measures that could be put in place to prevent and address such intimidation.

The review will consider all levels of local government in England, including town and parish councils, principal authorities, combined authorities (including Metro Mayors) and the Greater London Authority (including the Mayor of London).

Local government ethical standards are a devolved issue. The Committee's remit does not enable it to consider ethical standards issues in devolved nations in the UK except with the agreement of the relevant devolved administrations. However, we welcome any evidence relating to local government ethical standards in the devolved nations of the UK, particularly examples of best practice, for comparative purposes.

Submissions will be published online alongside our final report, with any contact information (for example, email addresses) removed.

The Committee will publish anonymised submissions (where the name of the respondent and any references to named individuals or local authorities are removed) where a respondent makes a reasonable request to do so.

Consultation questions

The Committee invites responses to the following consultation questions.

Please note that not all questions will be relevant to all respondents and that submissions do not need to respond to every question. Respondents may wish to give evidence about only one local authority, several local authorities, or local government in England as a whole. Please do let us know whether your evidence is specific to one particular authority or is a more general comment on local government in England.

Whilst we understand submissions may be grounded in personal experience, please note that the review is not an opportunity to have specific grievances considered.

- a. Are the existing structures, processes and practices in place working to ensure high standards of conduct by local councillors? If not, please say why.
- b. What, if any, are the most significant gaps in the current ethical standards regime for local government?

Codes of conduct

- c. Are local authority adopted codes of conduct for councillors clear and easily understood? Do the codes cover an appropriate range of behaviours? What examples of good practice, including induction processes, exist?
- d. A local authority has a statutory duty to ensure that its adopted code of conduct for councillors is consistent with the Seven Principles of Public Life and that it includes appropriate provision (as decided by the local authority) for registering and declaring councillors' interests. Are these requirements appropriate as they stand? If not, please say why.

Investigations and decisions on allegations

- e. Are allegations of councillor misconduct investigated and decided fairly and with due process?
 - i. What processes do local authorities have in place for investigating and deciding upon allegations? Do these processes meet

- requirements for due process? Should any additional safeguards be put in place to ensure due process?
- ii. Is the current requirement that the views of an Independent Person must be sought and taken into account before deciding on an allegation sufficient to ensure the objectivity and fairness of the decision process? Should this requirement be strengthened? If so, how?
 - iii. Monitoring Officers are often involved in the process of investigating and deciding upon code breaches. Could Monitoring Officers be subject to conflicts of interest or undue pressure when doing so? How could Monitoring Officers be protected from this risk?

Sanctions

- f. Are existing sanctions for councillor misconduct sufficient?
 - i. What sanctions do local authorities use when councillors are found to have breached the code of conduct? Are these sanctions sufficient to deter breaches and, where relevant, to enforce compliance?
 - ii. Should local authorities be given the ability to use additional sanctions? If so, what should these be?

Declaring interests and conflicts of interest

- g. Are existing arrangements to declare councillors' interests and manage conflicts of interest satisfactory? If not please say why.
 - i. A local councillor is under a legal duty to register any pecuniary interests (or those of their spouse or partner), and cannot participate in discussion or votes that engage a disclosable pecuniary interest, nor take any further steps in relation to that matter, although local authorities can grant dispensations under certain circumstances. Are these statutory duties appropriate as they stand?
 - ii. What arrangements do local authorities have in place to declare councillors' interests, and manage conflicts of interest that go beyond the statutory requirements? Are these satisfactory? If not, please say why.

Whistleblowing

- h. What arrangements are in place for whistleblowing, by the public, councillors, and officials? Are these satisfactory?

Improving standards

- i. What steps could *local authorities* take to improve local government ethical standards?
- j. What steps could *central government* take to improve local government ethical standards?

Intimidation of local councillors

- k. What is the nature, scale, and extent of intimidation towards local councillors?
 - i. What measures could be put in place to prevent and address this intimidation?

Who can respond?

Anyone with an interest may make a submission. The Committee welcomes submissions from members of the public.

However, the consultation is aimed particularly at the following stakeholders, both individually and corporately:

- Local authorities and standards committees;
- Local authority members (for example, Parish Councillors, District Councillors);
- Local authority officials (for example, Monitoring Officers);
- Think tanks with an interest or expertise in local government;
- Academics with interest or expertise in local government; and
- Representative bodies or groups related to local government.

How to make a submission

Submissions can be sent either in electronic format or in hard copy.

Submissions must:

- State clearly who the submission is from, i.e. whether from yourself or sent on behalf of an organisation;
- Include a brief introduction about yourself/your organisation and your reason for submitting evidence;
- Be in doc, docx, rtf, txt, ooxml or odt format, not PDF;
- Be concise – we recommend no more than 2,000 words in length; and
- Contain a contact email address if you are submitting by email.

Submissions should:

- Have numbered paragraphs; and
- Comprise a single document. If there are any annexes or appendices, these should be included in the same document.

It would be helpful if your submission included any factual information you have to offer from which the Committee might be able to draw conclusions, and any recommendations for action which you would like the Committee to consider.


The Committee may choose not to accept a submission as evidence, or not to publish a submission even if it is accepted as evidence. This may occur where a submission is very long or contains material which is inappropriate.

Submissions sent to the Committee after the deadline of 17:00 on Friday 18 May 2018 may not be considered.

Submissions can be sent:

1. Via email to: public@public-standards.gov.uk
2. Via post to:
 - Review of Local Government Ethical Standards
 - Committee on Standards in Public Life
 - GC:07
 - 1 Horse Guards Road
 - London
 - SW1A 2HQ

If you have any questions, please contact the Committee's Secretariat by email (public@public-standards.gov.uk) or phone (0207 271 2948).

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>14 March 2018</p>	
<p>INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 OCTOBER – 31 DECEMBER 2017</p>	
<p>Report of the Director of Audit, Fraud, Risk and Insurance – David Hughes</p>	
<p>Open Report</p>	
<p>Classification: For Information Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: David Hughes, 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 October to 31 December 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 October to 31 December 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 9 audit reports were finalised in the third quarter of 2017/18 from 1 October to 31 December 2017, including 1 Substantial Assurance and 6 Satisfactory Assurance reports and 2 Limited Assurance reports.
- 4.1.3. The audit of Adult Social Care Accounts Receivable received Limited Assurance with 3 high priority, 4 medium priority and 1 low priority recommendation being raised. These recommendations were due for implementation in January 2017 and are yet to be reported as implemented.
- 4.1.4. The audit of Contractor Resilience also received Limited Assurance with 3 high priority, 4 medium priority and 1 low priority recommendation being raised. These recommendations are due for implementation between January and June 2018.
- 4.1.5. A summary of the limited assurance reports is set out in Appendix D.
- 4.1.6. Departments are given 10 working days for management agreement to be given to each report and for the responsible Director to sign it off so that it can then be finalised. There are no outstanding draft reports at the time of writing.

Outstanding audit recommendations

- 4.1.7. The Internal Audit service works with key departmental contacts to monitor the implementation of agreed recommendations.
- 4.1.8. There are now 6 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 0 outstanding as reported at the end of the previous quarter. We will continue to work with departments to reduce the number of outstanding issues.
- 4.1.9. The 6 outstanding recommendations relate to the following departments:
 - Environment Services – 5
 - Regeneration, Planning and Housing Services – 1

4.1.10. None 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

4.1.11. 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	Internal Audit Service
2015/16	253	253	
2016/17	208	202	
2017/18	38	38	

ce

4.1.12. Part 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 3 of the 2017/18 financial year. The targets are set on a straight line basis across the year rather than being profiled based on delivery history. It is expected that the audit plans will be delivered by year end.

Performance Indicators 2017/18

Ref	Performance Indicator	Target	At 31 Dec 2017	Variance	Comments
1	% of draft reports issued within 10 working days of exit meeting or end of fieldwork (whichever is later)	95%	100%	+5%	19 out of 19 draft reports issued within 10 working days of exit meeting or end of fieldwork.
2	% of final reports issued within 5 working days after agreement of management responses (this does not include reports which do not require director approval, e.g. follow up or other special deliverables)	100%	92%	-8%	12 out of 13 final reports issued within 5 working days after agreement of management responses.
3	% of plan complete based on deliverables (draft reports and Mgt letters)	71.3%	48%	-23.3%	28 deliverables issued out of a total plan of 68. Behind target as audit plan allocated to Mazars is profiled to deliver more work towards the end of the financial year and a number of audits have been delayed or deferred.
4	% of audit briefs issued 10 days before start of audit (Accounting for Exceptions)	95%	100%	+5%	9 out of 9 draft reports issued within 10 working days of exit meeting.
5	% of audit follow ups completed	100%	100%	0%	100% of audit follow ups completed

Audit Planning

4.1.13. Amendments to the 2017/18 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 October to 31 December 2017

Appendix B – Summary of Outstanding Audit Reports

Appendix C – Amendments to 2017/18 audit plan

Appendix D – Summary of Limited Assurance Reports

Appendix E – Outstanding Recommendations

APPENDIX A

Audit reports Issued 1 October to 31 December 2017

We have finalised a total of 9 audit reports for the period of 1 October to 31 December 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	Adult Social Care – Accounts Receivable	Rachel Wigley	Limited
2	2016/17	MITIE Repairs Walkthrough	Chris Culleton	Satisfactory
3	2017/18	Contractor Resilience	Michael Hainge Alistair Ayres	Limited
4	2017/18	Randolph Beresford Nursery School	Clare Chamberlain	Satisfactory
5	2017/18	Addison Primary School	Clare Chamberlain	Satisfactory
6	2017/18	Normand Croft Community School	Clare Chamberlain	Satisfactory
7	2017/18	St John's C of E Walham Green Primary School	Clare Chamberlain	Satisfactory
8	2017/18	Managed Services - Data & Information security	George Lepine Helen Rogers	Satisfactory
9	2017/18	Wormholt Park - Primary School	Clare Chamberlain	Substantial

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 no reports in issue more than two weeks at time of reporting.

Amendments to 2017/18 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Adult Social Care	Partnership Working with Health and CCGs	Removed	Removed due to extent of change within the department
2	Public Health	Health Intelligence and Joint Strategic Needs Assessment delivery	Removed	Removed due to duplication with recent audit coverage
3	Regeneration, Planning and Housing Services	Techforge project management module	Removed	System no longer being implemented
4	Corporate Services	Information Governance	Removed	Subsumed into GDPR audit
5	Adult Social Care	Emergency Duty Team	Removed	Deferred to 2018/19
6	Regeneration, Planning and Housing Services	Fixed Term Tenancies	Removed	Removed due to very limited use of Fixed Term Tenancies

Summary of Limited and Nil Assurance Reports

Ref	Audit and Scope	Details	Assurance/Risk
1	<p>Adult Social Care – Accounts Receivable</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; • Raising of Invoices; • Collection; • Credit Notes/Refunds; • Debt Recovery; • Write-offs; and • Management Information 	<p>Income can be a vulnerable asset and effective income collection systems are necessary to ensure that all income due is identified, collected and properly accounted for.</p> <p>As part of the migration to Managed Services, customer records were consolidated for all three councils. BT are responsible for raising invoices to customers following requests raised by council staff through the Agresso system which went live in April 2015.</p> <p>Whereas LBHF and RBKC have historically managed Adult Social Care (ASC) income recovery within the department this has previously been managed corporately in WCC. As part of the transfer to Managed Services, income recovery is now managed for all three boroughs by the ASC department with an in-house team consisting of 12 officers.</p> <p>Care packages and financial assessments are recorded on the Frameworki system and the data transferred onto Agresso via a monthly interface. Monthly statements are then sent to clients advising them of the balance due.</p> <p>Three high and four medium priority recommendations were raised as follows:</p> <ol style="list-style-type: none"> 1) The Council should liaise with BT to enable a report of all manual invoices raised to be produced to help ensure that manual invoices can be identified, are included in subsequent statements, and reviewed as necessary. Where this is not possible or requires a lead time to implement, an alternative method to record or flag manual invoices should be developed and ongoing assurance gained that manual invoices are being approved in line with the Scheme of Delegation. 2) The monthly reconciliation between the Agresso and Frameworki systems should be evidenced as reviewed by a second officer. 3) The Council should liaise with BT to resolve the issues preventing the Finance Assessment and Income Collection Team from reviewing the workflow for refunds on Agresso. In the absence of the refund workflow details, a manual record of refunds and their authorisation should be maintained. 4) The Finance Assessment and Income Collection Team should capture the information required to monitor the time taken to process refunds. This should be reported on a monthly basis for monitoring. 5) The Council should continue liaising with BT to resolve the issues preventing automatic reminders being sent to debtors. In the meantime, the Financial Assessment and Income Collection Team should continue to send reminder letters and ensure that this is done to a regular timetable. Monitoring should then take place to gain assurance that the action defined in the Debt Recovery Procedure is being complied with. 6) A report of debts where recovery action has been put on hold should be maintained and reviewed on a monthly basis to confirm that the account is still applicable to be on hold. 7) The debt recovery monitoring spreadsheets maintained by the Income Collection Officer should be reviewed for adequacy to help ensure debt recovery activity is recorded clearly and to allow other officers to identify what debt recovery action has taken place for each client. 	Limited

Ref	Audit and Scope	Details	Assurance/Risk
2	<p>Contractor Resilience</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"> • Strategy, Policy and Procedures; • Procurement; • Council's Response to Supplier Chain Failure; • On-going Assurance and Monitoring 	<p>The London Borough of Hammersmith & Fulham holds approximately 300 contracts run by over 125 different contractors, with a combined total lifetime value of just over £1 billion. These contractors provide a variety of services across all council departments, ranging from critical services, such as housing repairs through to less critical ones including printing services.</p> <p>Although the delivery mechanism for these services may be outsourced, responsibility for the service remains attached to the local authority. As a result of this, all contracts require adequate management and monitoring of the supplier, to ensure continuity and satisfactory performance of the services provided.</p> <p>The current economic climate and the continuation of reduced Council budgets will have significant implications across the entire supply chain. As the configuration of supply chains changes, Local Authorities must adapt their own capabilities, cultures and processes to reflect this. Local authorities must prepare for business critical supplier failure by identifying operational and strategic interdependencies and areas of reliance between parties.</p> <p>The importance of contingency planning is especially high where there is a direct link between suppliers and service or policy outcomes. The Council's Contract Standing Orders requires Chief Officers to undertake appropriate risk assessments that have considered service continuity both at the procurement stage and through the life of the project.</p> <p>Three high and four medium priority recommendations were raised as follows:</p> <ol style="list-style-type: none"> 1) Departments should be instructed that contract manager details should be kept up to date. As a further detective measure, records of the contract managers recorded on CapitalEsourcing should be circulated to departments periodically to confirm they are still correct. 2) Corporate guidance should be updated to clarify the checks and monitoring of continuity arrangements that should be undertaken where services are procured from a framework. This may be through requesting evidence and/or assurance from the framework provider rather than duplicating checks that have already been undertaken. 3) Contract Managers and Officers involved in procurement should be reminded that checks on contractor financial standing and business continuity plans must be undertaken as part of the procurement process, that these checks should be recorded and confirmed in the Decision report recommending the award of the contract. Compliance spot checks should be undertaken to confirm that this requirement is being complied with. 4) An assessment of supplier criticality should be undertaken to assign a priority to each supplier in accordance with corporate guidance. The assessment outcome and rationale for priority provided should be documented for each service assessed. The response to supplier resilience should then be proportionate to the priority rating. Sample checks should be undertaken to gain assurance that all suppliers have been accurately assessed. Consideration should also be given to reporting on key suppliers to SRG and SLT. 5) Resilience strategies and supply chain risk assessments should be developed for all suppliers considered critical to the Council's operations. Supplier continuity plans should also be subject to periodic testing. Sample checks should be undertaken to gain assurance that adequate resilience strategies are in place and that continuity plans are being tested. Assurance on the outcome of testing and sample checks should be reported to directorate management teams and SRG and / or SLT as appropriate. 6) Contract Managers should be reminded to maintain regular and open channels of communication with suppliers to allow them an opportunity to raise issues relating to resilience. 7) Sample checks should be undertaken to confirm that credit alerts are being acted on. The distribution list for credit alerts should be reviewed to confirm that recipients are appropriate. Consideration should be given to whether an officer, or officers, within each department should communicate alerts to contract managers or keep the distribution list manageable and up to date. 	<p>Limited</p>

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	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name/Title)	Status
Environment Services: Bridge Maintenance (2016/17 review) – Satisfactory Assurance					
1	A signed copy of the Structures Works and Maintenance contract with FM Conway Ltd should be obtained and retained by management.	2	31/10/2017	Mahmood Siddiqi - Bi-Borough Director, Transport, Highways, Parks & Leisure	Westminster have been contacted for the Signed Contract for Structures and they will be sending it over to us as this is their Framework. We have approval to move to the RBKC Framework for structures in LBHF so although we will keep a copy the Westminster Contract it is likely to be closed down in the next few months.
Environment Services: CCTV (2016/17 review) – Satisfactory Assurance					
2	The site inspection audits completed by Link should be expanded to provide assurance that cameras are being operated in accordance with the Council's Code of Practice. This should include checking: <ul style="list-style-type: none"> • The security of recorded footage; • How access to live footage is controlled; and • The process relating to the installation of any new cameras. 	2	31/10/2017	Mahmood Siddiqi - Bi-Borough Director, Transport, Highways, Parks & Leisure	No update received.
Environment Services: Spur Parking Application Audit (2016/17 review) – Satisfactory Assurance					
3	Management should obtain assurance for the adequacy of the current DR and continuity arrangements (including backups) from Spur Information Solutions. This could be in the form of annual DR test results, independent 3rd party assessment and for the backups, sight of the backup logs.	1	31/10/2017	Mahmood Siddiqi - Bi-Borough Director, Transport, Highways, Parks & Leisure	To request annual Disaster Recovery test results from Spur, as well as the third party back up logs. Original Disaster Recovery Plan was scanned as part of the contract and is on SharePoint. To request a 2018 version of this document and add it to the risk area on SharePoint. BCP testing schedule for key service providers has been created, and sampling of Spur's disaster recovery will take place in July and August this year.
4	Management should ensure that once operational, the SLA is monitored and reported. This should include but not limited to: <ul style="list-style-type: none"> • KPI monitoring and subsequent penalty breaches through monetary terms or service credits; 	2	31/10/2017	Mahmood Siddiqi - Bi-Borough Director, Transport, Highways, Parks &	As we are still not BAU, no monitoring has taken place. It may be beneficial to start monitoring performance regardless, if monthly reports can be provided by Spur. Performance discussion could also be added to the board meeting agenda and minuted. The

Ref	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name/Title)	Status
	<ul style="list-style-type: none"> • Monthly service review meetings and reports; and • User satisfaction surveys. Any actions or work in progress pertaining to the finalisation of SLA should be expedited.			Leisure	Business Development team will undertake this interim monitoring. Conduent sent a user satisfaction survey to all Parking users on 22 December 2017. We will clarify what they intend to do with this information in the next Spur board meeting (21/02/2018).
5	<p>Management should ensure that the outstanding incidents are escalated with a strong degree of insistence on the vendor on the need to resolve the outstanding issues before the system goes into a 'BAU' mode and the SLA formally signed.</p> <p>An action plan should be agreed with the vendor on the resolution of these issues and monitored for their implementation/action.</p>	2	31/10/2017	Mahmood Siddiqi - Bi-Borough Director, Transport, Highways, Parks & Leisure	Ongoing - The Parking Permits module was rolled out to LBHF in Autumn 2017. There have been a number of high level issues with this module which are still to be resolved. Additionally, there are still a small number of major issues with other modules which have stopped us moving to BAU. These issues are regularly discussed at board meetings and have been escalated to the highest level in Spur/Conduent, including higher management in the USA.
Regeneration, Planning & Housing Services: Planning Enforcement (2016/17 review) – Satisfactory Assurance					
6	<p>The Local Enforcement Plan should be presented to Cabinet for approval. When approved, the Plan should be published on the Council intranet / website as appropriate.</p> <p>The internal procedures should be reviewed, dated and made consistent with the Local Enforcement Plan.</p> <p>In general, the department should consider whether the procedure notes can be simplified or amalgamated, with flowcharts attached to each procedure.</p> <p>The procedures should set out definitions for terms used, including explanations / guidance on what is meant by 'expediency' and should also include the process relating to proactive monitoring and appeals. Frequency of review should be defined and the procedures should be reviewed in accordance with this.</p>	2	31/12/2017	Jo Rowlands - Lead Director of Regeneration, Planning and Housing Services	<p>The Local Enforcement Plan has been drafted, and will be presented to Cabinet for approval post May 2018. Once approved it will be published on the website.</p> <p>The Enforcement procedures are consistent with the draft Local Enforcement Plan. They are updated regularly following changes in legislation, and upgrades to online services and our database. Version control is now in place. The simplification and amalgamation of the procedure notes has been considered, and will be kept under review. Although complex, they provide important detailed guidance to officers at each stage of the enforcement investigation, particularly as various options for legal action may need to be considered. Flow charts have been produced for ease of reference in conjunction with the notes.</p> <p>The guidance is used alongside the legislation and where terminology is defined. Judgement is used in determining expediency based on an assessment against the development plan and relevant planning considerations. This professional judgement is subject to agreement by experienced senior officers.</p> <p>The review mechanism is included in the draft Enforcement Plan.</p>



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

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

Final Internal Audit Report

Adult Social Care - Accounts Receivable

November 2017



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1 Introduction

As part of the internal audit plan for 2016/17, agreed by the Audit Committees, we have undertaken an internal audit of Accounts Receivable with the Adult Social Care department in the London Borough of Hammersmith and Fulham, Royal Borough of Kensington and Chelsea and Westminster City Council.

Income can be a vulnerable asset and effective income collection systems are necessary to ensure that all income due is identified, collected and properly accounted for.

As part of the migration to Managed Services, customer records were consolidated for all three councils. BT are responsible for raising invoices to customers following requests raised by council staff through the Agresso system which went live in April 2015.

Whereas LBHF and RBKC have historically managed Adult Social Care (ASC) income recovery within the department this has previously been managed corporately in WCC. As part of the transfer to Managed Services, income recovery is now managed for all three boroughs by the ASC department with an in house team consisting of 12 officers.

Care packages and financial assessments are recorded on the Frameworki system and the data transferred onto Agresso via a monthly interface. Monthly statements are then sent to clients advising them of the balance due.

Reminder letters should be sent out after an agreed period if an invoice is not paid; however this is not currently not automated via Agresso.


Value of outstanding debts across the three boroughs in 2017

Month	Hammersmith and Fulham	Kensington and Chelsea	Westminster
January	£ 2,515,484.23	£ 2,906,233.66	£ 3,767,131.57
February	£ 2,258,989.15	£ 2,708,906.92	£ 3,225,706.77
March	£ 2,272,292.15	£ 2,831,062.69	£ 3,119,174.06
May	£ 2,727,016.20	£ 2,797,701.30	£ 3,744,868.30
June	£ 2,484,683.06	£ 2,723,720.40	£ 3,285,158.62

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.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Policies and Procedures			0	0	1
Raising of Invoices			1	0	0
Collection			0	1	0
Credit Notes/Refunds			1	1	0
Debt Recovery			1	2	0
Write-offs			0	0	0
Management Information			0	0	0
Total			3	4	1

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, **Limited Assurance** can be given to Members/Chief Executive(s) and other officers that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application.

The key findings and an assessment of controls are summarised below:

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

- Debt Collection, Debt Recovery, and Write-off procedures are in place to provide guidance on the income collection/recovery process for the Finance Assessment and Income Collection Team.
- The Debt Recovery procedures were last approved in April 2015; the Standard Operating Procedures on Debt Collection and Management were last reviewed in May 2015; and the Write-off Workflow procedures were last reviewed in February 2016. These documents are made available to staff members on the Councils' Intranet.
- A Scheme of Delegation is in place for each of the three boroughs on the approval limits for write-offs and refunds. Write-offs over £100,000 relating to London Borough of Hammersmith & Fulham, Royal Borough of Kensington and Chelsea and Westminster City Council require Cabinet member approval. Below this, approval is required by the relevant Director/Manager depending on the type of debt.
- The Frameworki system holds the billing information on service users, from which an interface file is produced for billing. Once automatically uploaded onto Agresso, the interface data is used to generate, print and send out invoices to service users.
- Manual invoices are raised if there are any specific adjustments for service prices or backdating of deferred payments. The justification for each manual invoice is documented on Frameworki by the Income Collection Officer and this is then presented to the Head of Financial Assessment and Income Collection for review.
- A report of manual invoices raised could not be provided. We were therefore unable to carry out testing to confirm if manual invoices had been approved in accordance with the Scheme of Delegation or whether they were included in statements subsequently sent to clients.
- A monthly reconciliation between the Agresso and Frameworki systems is completed by the Head of Financial Assessment and Income Collection; however, review of the reconciliations from January to March 2017 established that the reconciliations are not evidenced as checked by a second officer.
- Unallocated income is placed in the UNA suspense accounts. It is the responsibility of BT to clear the suspense account, with the Corporate Finance Team assisting BT with items they are unable to allocate.
- A report of all unallocated items in UNA suspense accounts for each of the three boroughs was obtained. These accounts are reviewed by Income Collection Officers if they are expecting payment for a standing order item or if customers have informed the team that they have paid for a debt that they are being chased for. The accounts are also reviewed and monitored monthly by the Head of Financial Assessment and Income Collection.
- Refunds can occur when the service user has paid both the Care Home and the Council for the services they have received. The refunds are raised by a member of the Finance Assessment and Income Collection Team which workflow for approval on Agresso to the Cost Centre Manager.

-
- Although we obtained a report of refunds processed since April 2016, we were not provided with evidence of local approval for the sample of refunds selected for testing. A total of 29 refunds valued at £30,920 had been issued in the 2016/17 financial year.
 - The Finance Assessment and Income Collection Team have a 14 day key performance indicator (KPI) set for refund processing; however, performance against this KPI is not monitored by the team.
 - Reminder letters should be sent to debtors where invoice payments are overdue. At the time of the audit, the dunning process was not automated due to issues with Agresso. Reminder letters are therefore sent manually by the Financial Assessment and Income Collection Team on an ad-hoc basis.
 - Testing of 10 debt items identified seven instances (totalling £ 29,495.02) where follow up action was required. In three of these cases, a reminder letter had been sent; however, in only one of these cases had the letter been sent within the last 12 months. In the remaining four cases, no debt recovery action was evidenced within the last 12 months.
 - Examination of the debt recovery monitoring spreadsheets (downloaded from Agresso) maintained by the Income Collection Officer for Royal Borough of Kensington and Chelsea established that these were difficult to follow and we were unable to test whether letters had been sent in promptly. This also results in only one officer understanding what action has been taken and a potential single point of failure.
 - Bulk write-offs are proposed by the Head of Financial Assessment and Income Collection and approved by Officers of the Authority in accordance with delegated authorities of the Authority. From a sample of 10 write-offs tested (Totalling £28,063.08), we confirmed that in all cases, the write-offs had been approved appropriately.
 - Monthly Aged Debt reports are reviewed by the Head of Financial Assessment and Income Collection. This was confirmed for January, February, March, May and June 2017. Examination of these reports did not identify any significant trends in the level and age of debts.
 - The Monthly Aged Debt reports are also sent to Senior Management for review and monitoring. This includes the various types of debts owed, the amount, and length of time the debts have been outstanding. A copy of the most recent email to senior management was provided and we were informed these are discussed at management meetings.
 - The RBKC Group Finance Manager provided a debt report to the ASC Scrutiny Committee in Kensington in March 2017 which included an action plan. Progress is due to be reported back to the Committee shortly. Action Plans are also being developed for WCC and LBHF. The responsible managers attend the ASC Finance Managers meeting on a regular basis to update on debt levels, progress of actions, proposed write-offs and client affairs debts – where actions to be completed are raised and monitored. This is carried out on an at least monthly basis.

Appendix 1: Management Action Plan

1. Policies and Procedures – Debt Recovery Procedures

Priority	Issue	Risk	Recommendation
Low	The Adult Social Care Debt Recovery Procedure document was last reviewed and approved in April 2015.	Where the Adult Social Care Debt Recovery Procedure is not reviewed and approved on an annual basis, there is a risk of inconsistent and inefficient working practices. This can lead to inefficiencies, potential errors being made or wasted resources to rectify errors.	The Adult Social Care Debt Recovery Procedure document should be reviewed and approved annually by Senior Management.
Management Response			
Agreed			
Responsible Officer			Deadline
Head of Financial Assessment and Income Collection			December 2017

2. Raising of Invoices – Report of Manual Invoices raised

Priority	Issue	Risk	Recommendation
High	The Finance Assessment and Income Collection Team were unable to provide a report of manual invoices raised since April 2016. As a result, we were unable to test whether invoices raised were valid and had been approved in accordance with the Scheme of Delegation.	Where a report of manual invoices raised is not available, there is a lack of audit trail which may result in the Council being unable to identify all manual invoices raised and unable to verify their completeness and accuracy.	The Council should liaise with BT to enable a report of all manual invoices raised to be produced to help ensure that manual invoices can be identified, are included in subsequent statements, and reviewed as necessary. Where this is not possible or requires a lead time to implement, an alternative method to record or flag manual invoices should be developed and ongoing assurance gained that manual invoices are being approved in line with the Scheme of Delegation.
Management Response			
<p>ASC has raised this issue with BT several times, However, we have been advised that Agresso is unable to distinguish between manually and automated uploaded invoices. This understanding will be checked again with BT.</p> <p>In the absence of a BT Generated report, ASC will seek an alternative mechanism to identify manually raised invoices.</p>			
Responsible Officer			Deadline
Head of Financial Assessment and Income Collection and Finance Officer			December 2017

3. Collection – Secondary check of reconciliations

Priority	Issue	Risk	Recommendation
Medium	A monthly reconciliation between the Agresso and Frameworki systems is completed by the Head of Financial Assessment and Income Collection; however, this is not checked by a second officer.	Where the monthly reconciliation between the Agresso and Frameworki systems is not checked by an independent officer, there is a risk that discrepancies may not be identified and rectified in a timely manner.	The monthly reconciliation between the Agresso and Frameworki systems should be evidenced as reviewed by a second officer. This could be evidenced via electronic signatures or email confirmation.
Management Response			
Agreed, this has now been implemented.			
Responsible Officer			Deadline
Head of Financial Assessment and Income Collection and Finance Officer			November 2017

4. Credit Notes/Refunds – Evidence of approval

Priority	Issue	Risk	Recommendation
High	<p>Examination of the refund report provided identified that a total of 29 refunds valued at £30,920 had been issued in the 2016/17 financial year. We were not provided with evidence of local approval for the sample of refunds selected for testing.</p> <p>The Head of Financial Assessment and Income Collection informed us that they are unable to review the workflow on Agresso to ensure that the right Cost Centre manager had approved the refund.</p>	Where approval of refunds cannot be evidenced in accordance with the Scheme of Delegation, there is a risk of inappropriate refunds being processed.	<p>The Council should liaise with BT to resolve the issues preventing the Finance Assessment and Income Collection Team from reviewing the workflow for refunds on Agresso.</p> <p>In the absence of the refund workflow details, a manual record of refunds and their authorisation should be maintained.</p>
Management Response			
Agreed			
Responsible Officer			Deadline
Head of Financial Assessment and Income Collection			December 2017

5. Credit Notes/Refunds – Monitoring of KPIs

Priority	Issue	Risk	Recommendation
Medium	The Finance Assessment and Income Collection Team have a 14 day key performance indicator (KPI) set for refund processing (from the date that the refund total is agreed to when the refund is issued); however, performance against this KPI is not monitored by the team.	Where the time taken to process refunds is not monitored, there is a risk that refunds are not processed in a timely manner and remedial action is not taken to prevent it becoming an ongoing issue.	The Finance Assessment and Income Collection Team should capture the information required to monitor the time taken to process refunds. This should be reported on a monthly basis for monitoring.
Management Response			
Agreed			
Responsible Officer			Deadline
Head of Financial Assessment and Income Collection			December 2017

6. Debt Recovery - Procedure should be set out on how manual reminder letters should be sent out

Priority	Issue	Risk	Recommendation
High	<p>Reminder letters should be sent to debtors where invoice payments are overdue. At the time of the audit, the dunning process was not automated due to issues with Agresso. Reminder letters were therefore sent manually by the Financial Assessment and Income Collection Team on an ad-hoc basis</p> <p>Testing of 10 debt items identified seven instances (Totalling £29,495.02) where follow up action was required. In three of these cases a reminder letter had been sent; however, in only one of these cases had the letter been within the last 12 months. In the remaining four cases, no debt recovery action was evident within the last 12 months.</p> <p>Discussions with the Head of Financial Assessment and Income Collection established that reminder letters for debt are sent out on an ad hoc basis, and that there is not a set procedure in place for sending reminder letters.</p>	<p>Where reminder letters are not sent to debtors, and where debts are not followed up in a timely manner, there is an increased risk that the debtor is unaware of the debt that is owed.</p> <p>Where procedures are not in place on how reminder letters are sent out, there is an increased risk that debts are chased inconsistently and ineffectively.</p> <p>These risks may lead to payments not being made and loss of income to the Council.</p>	<p>The Council should continue liaising with BT to resolve the issues preventing automatic reminders being sent to debtors.</p> <p>In the meantime, the Financial Assessment and Income Collection Team should continue to send reminder letters and ensure that this is done to a regular timetable.</p> <p>Monitoring should then take place to gain assurance that the action defined in the Debt Recovery Procedure is being complied with.</p>
Management Response			
<p>The absence of an automated dunning system has continued to be raised with BT over the last 2 years. This facility has always been expected to be available, however, the promised timescales have continued to slip as problems have been identified. At the current time, we have no firm commitment regarding this roll out. As a result, we have had to implement a local system whereby locally generated letters are being sent to residents.</p>			

Responsible Officer	Deadline
Head of Financial Assessment and Income Collection	December 2017

7. Debt Recovery - Suspended Debts

Priority	Issue	Risk	Recommendation
Medium	<p>Debt recovery can be suspended by Income Collection Officers placing an item on hold. Approval should be sought from Senior Management before debt recovery is suspended.</p> <p>The Finance Assessment and Income Collection Team do not maintain a report of debt items for which there was suspended debt collection. As a result, we were unable to confirm that adequate controls are in place to ensure these debt items have been approved and are regularly reviewed by senior members of staff. The review of suspended debts will become increasingly important once the automated dunning process is in place.</p>	Where a report of accounts, where debt recovery action has been put on hold, is not regularly reviewed, there is a risk that recoverable debts are not pursued which could lead to a loss of income to the Council.	A report of debts where recovery action has been put on hold should be maintained and reviewed on a monthly basis to confirm that the account is still applicable to be on hold.

Management Response

Agreed




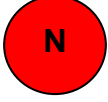
Responsible Officer	Deadline
Head of Financial Assessment and Income Collection	December 2017

8. Debt Recovery – Record keeping

Priority	Issue	Risk	Recommendation
Medium	<p>The Income Collection Officer assigned to recover outstanding debt for RBKC downloads a spreadsheet from Agresso, on which the Officer updates what debt recovery action has been taken. The debt recovery is carried out via phone calls to clients.</p> <p>Examination of the monitoring spreadsheets maintained by the Income Collection Officer established that these were unclear and it would not be possible for other officers to identify what debt collection activities had taken place for each client. This results in a single point of failure should this person not be available.</p>	<p>Where there is a single point of failure, there is a risk that if the individual is unavailable, staff will be unable to identify what debt recovery activities that have taken place. This may result in the inefficient recovery of debts.</p>	<p>The debt recovery monitoring spreadsheets maintained by the Income Collection Officer should be reviewed for adequacy to help ensure debt recovery activity is recorded clearly and to allow other officers to identify what debt recovery action has taken place for each client.</p>
Management Response			
Agreed			
Responsible Officer			Deadline
Head of Financial Assessment and Income Collection			December 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 & Inherent Risks

This audit was a full risk based review of the arrangements for Adult Social Care Accounts Receivable and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
1	Policies and Procedures	<p>Staff are aware of, and act in compliance with documented policies and procedures that reflect management and regulatory requirements.</p> <p>The administration of the accounts receivable functions is conducted in compliance with policies and procedures.</p>
2	Raising of Invoices	<p>The interface from Frameworki completely and accurately transfers billing data onto Agresso. Invoices/statement are raised accurately, completely and in a timely manner.</p> <p>Workflow processes operate as per agreed design principles within Agresso.</p>
3	Collection	<p>All income due is collected, and allocated to the correct debtors account promptly and in full.</p> <p>Items held in the suspense account are reviewed and correctly allocated in a timely manner.</p>
4	Credit Notes/Refunds	<p>Credit notes and refunds are only issued in valid circumstances where invoices have been raised incorrectly or overpayments have been made.</p> <p>Manual credit notes and refunds are authorised at the appropriate management level, and are accurately and validly paid, allocated and recorded in a timely manner.</p>
5	Debt Recovery	<p>Debts are recorded, identified, collected and monitored effectively to allow for the collection of debts in a timely manner.</p> <p>Debt recovery action is taken in accordance with procedures in order to recover long term outstanding debts.</p> <p>The overall departmental debt position is reported on a regular and timely basis to senior management.</p>
6	Write-offs	<p>Write-offs are actioned only after all reasonable courses of action have been exhausted and it is deemed that the debt is irrecoverable in accordance with the Council's Financial Regulations.</p> <p>Approved write offs are promptly effected to ensure an accurate record of Debtors.</p>

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
7	Management Information	<p>Management information produced is accurate and complete on invoices raised, outstanding debts and write offs.</p> <p>There is effective monitoring of the current debtor position and decision making.</p> <p>Agresso provides the appropriate level of reporting functionality to enable officers to undertake their duties in relation to managing sundry debtor accounts.</p>

Limitations to the Scope of the Audit

The following limitations to the scope of the audit were agreed when planning the audit:

- The audit work undertaken used a risk based approach and testing was on a sample basis to verify compliance;
- The records maintained by third parties to the Council was not reviewed and was outside of the scope of this audit; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.
- The scope of this audit work does not include controls relating to financial assessments and care packages.

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.

Inherent Risks

The risks listed below are potential inherent risks which are common for any system/organisation of this type:

- Income collected by the department is not maximised;
- Long standing debts that become increasingly difficult to recover;
- Unauthorised write off of debts;
- Inadequate segregation of duties between debtors processing and recovery of arrears; and
- Management information not provided to enable for effective decision making.

Appendix 4: Timetable and Distribution List

Stage	Date
End of Fieldwork	18/08/2017
Draft Report Issued	20/09/2017
Responses Received	20/11/2017
Final Report Issued	20/11/2017

Audit Team

Client Engagement Manager:

Auditor:

Auditee

Head of Financial Assessment and income Collection

Income Collection Manager

Client Sponsor

Interim Director of Finance, Adult Social Care

Report Distribution List

Interim Director of Finance, Adult Social Care

Head of Financial Assessment and income Collection

Copy Recipients of Report

Income Collection Manager

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.



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

Contractor Resilience

December 2017



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1 Introduction

As part of the internal audit plan for 2017/18, agreed by the Audit Pensions and Standards Committee, we have undertaken an internal audit of Contractor Resilience for the London Borough of Hammersmith & Fulham (LBHF).

The London Borough of Hammersmith & Fulham holds approximately 300 contracts run by over 125 different contractors, with a combined total lifetime value of just over £1 billion. These contractors provide a variety of services across all council departments, ranging from critical services, such as housing repairs through to less critical ones including printing services.

Although the delivery mechanism for these services may be outsourced, responsibility for the service remains attached to the local authority. As a result of this, all contracts require adequate management and monitoring of the supplier, to ensure continuity and satisfactory performance of the services provided.


The current economic climate and the continuation of reduced Council budgets will have significant implications across the entire supply chain. As the configuration of supply chains changes, Local Authorities must adapt their own capabilities, cultures and processes to reflect this. Local authorities must prepare for business critical supplier failure by identifying operational and strategic interdependencies and areas of reliance between parties.

They must also understand the likelihood of supplier failure through market analysis, credit rating data and intelligence through less formal networks such as supplier forums. This work should be supported by a monitoring process that provides early warning of supplier stress and establishes agreed processes for operating in the event of supplier withdrawal or failure.

The importance of contingency planning is especially high where there is a direct link between suppliers and service or policy outcomes. The Council's Contract Standing Orders requires Chief Officers to undertake appropriate risk assessments that have considered service continuity both at the procurement stage and through the life of the project.

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 the agreed management actions to implement them.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Strategy, Policy, and Procedures			0	2	1
Procurement			1	0	0
Council's Response to Supply Chain Failure			2	0	0
On-going Assurance and Monitoring			0	2	0
Total			3	4	1

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, **Limited 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.

The controls and procedures in place with regards to resilience were found to be satisfactory; however a significant degree of non-compliance with these procedures was identified. Procurement and managing supplier resilience in the Council is decentralised to a large extent and consideration should be given to whether greater assurance should be obtained that departments are complying with the Council's requirements with regards to contractor resilience.

A summary of the results of our testing can be found in Appendix 2.

The key findings and an assessment of controls are summarised below.

Application of and compliance with controls to address the key risks, identified:

- The Council's Contract Standing Orders define roles, responsibilities and minimum requirements in the acquisition of goods, works and services - from identification of need (commissioning), through to the end of a service contract. The document makes reference to the requirement to consider service continuity.
- A Guide Pack to Building Resilience in the Supply Chain has been developed which sets out the intended approach to Supply Chain Resilience, Risk Management, Procurement and Service Operations. It has been compiled to respond to risks within the Supply Chain, which could impact on the delivery of both strategic and operational objectives. The guide was recently developed and is currently in draft awaiting approval by Business Delivery Team (BDT).
- Guidance was confirmed to be available to staff either on the intranet or Council SharePoint site. We were also advised that service continuity and supplier resilience guidance was sent to all departments (contract managers, heads of services and directors) by email. This guide has recently been revised and, at the time of writing, is due to be submitted to BDT for approval.
- There is a Service Resilience Group (SRG) who oversee service resilience at corporate level in LBHF. SRG reps from each department attend. Agenda items include how contract managers have dealt with resilience challenges, and disseminating any updates to departments via the reps.
- Copies of agendas, meeting minutes and action plans were available for SRG meetings in the last twelve months. Through discussion with Business Continuity Manager and examination of meeting minutes, it was confirmed that not all SRG reps attend the meetings regularly.
- A sample of ten contracts was selected for testing compliance throughout this audit. The sample selected consisted of mostly high value contracts, excluding Children's Services, Public Health and Adult Social Care contracts as these had either recently been audited or were planned to be audited in 2017/18. However, testing could only be undertaken on eight contracts as in two cases the listed contract manager was incorrect and we were unable to identify the current contract manager or obtain documentation during the

fieldwork (Mitie and A2Dominion). The contract managers have since been identified and information is awaited at the time of writing.

- Financial checks should be performed on potential suppliers prior to the supplier being awarded a contract, in line with the Council's Contract Standing Orders. If necessary, the supplier's own supply chain should also be understood where this plays a significant role in the service.
- For the sample of eight the contracts tested:
 - Contract managers stated that either they, Corporate Procurement or Hammersmith and Fulham Bridge Partnership (the Council's former IT partner) had undertaken financial checks on the supplier prior to appointment all cases; however, no evidence of financial checks could be provided. We were also later advised by Corporate Procurement that they are not responsible for undertaking financial checks and it is the department's responsibility to request the financial status of the relative supplier via Corporate Finance.
 - One of the contracts was procured from a framework, and the framework providers were assumed to have conducted the checks. However, no assurance was gained that these checks had taken place.
- As no evidence of checks was retained, we could not determine whether the check was conducted on the correct supplier or whether further investigation was necessary due to negative result.
- The sample of eight contracts were tested to confirm that supplier business continuity plans had been checked prior to appointment:
 - In one case, the plan had been checked.
 - In one case, a check of business continuity plans was not required but a risk assessment had taken place.
 - In one case, we were advised the plan was checked but evidence of this was not retained.
 - In one case, the services were provided via a framework and it was assumed that the framework provider had undertaken this check.
 - In four cases, we were advised that there was no need to check plan due to them being low risk contracts. However, this assessment of risk was not recorded (see below).
- Services should be assessed and categorised to identify critical services. Services are ranked from P4 (low priority) to P1 (high priority). The Business Continuity Manager reviews all assessments to ensure the evaluation is correct and appropriate rating assigned. Services should also assess their suppliers to identify any that are considered critical. Further guidance on assessing suppliers will be provided in the new guidance mentioned above and SRG reps will take on increased responsibility for quality checking assessments.
- From the sample of eight contracts tested, supporting evidence showing a priority (P) rating for the service and an assessment of supplier criticality was only provided in one case. In seven cases, this assessment could not be provided. Not being able to establish the priority rating impacted on our ability to test further whether action taken on supplier resilience was proportionate.
- For all critical suppliers, a resilience strategy must be documented. These resilience strategies should include reviewing the supplier's BC plans annually, testing their BC

plans every two years and acting upon the findings, and ensuring the supplier undertakes a risk assessment of their own supply chain and communicates the results to the council. Due to the varying nature of contracts and the impact of supplier failure there is no one format for resilience strategies. The guidance does however define what is required for precautionary / mandatory resilience measures.

- Although we were unable to confirm which were critical suppliers, of the eight contracts tested:
 - Only one contract manager provided a service continuity plan that would constitute a resilience strategy. However, the plan was dated 2014. As suppliers have not been assessed, we were unable to confirm whether a strategy was required in the remaining seven cases.
 - Service business continuity plans or evidence of review of plans could not be provided in six cases.
- Contract managers should maintain regular dialogue with suppliers in order to properly monitor the supplier performance provide the supplier an opportunity to raise any issues. From the eight contracts tested, all advised that they were in regular communication with the supplier but evidence of this could not be provided in three cases.
- Credit alerts are sent to contract managers via Credit Safe. Contracts are assigned to a portfolio (for example Adult Social Care). Each portfolio has a number of recipients allocated including the Corporate Procurement lead, Business Continuity Manager, SRG rep and contract manager. Anyone assigned to that portfolio will be notified of any deterioration in credit rating. Contract managers should review this alert, and assess how significant the alert is in relation to the criticality of the service. Appropriate action should then be taken and the SRG rep, Business Continuity Manager, and Corporate Procurement rep informed. Guidance on how to interpret the alert, how to assess the significance, and what actions to take are explained in a Credit Safe Toolkit.
- From a sample of 10 credit alerts selected between April 2016 - May 2017:
 - In two cases, we could not confirm that the contract manager had acted upon the alert; and,
 - In eight cases, the contact manager had received the alert and had taken appropriate action. In four of these cases individuals that were not directly related to the contract had received the alerts. However, these alerts had been investigated.

4 Acknowledgements

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

- Ian Cairns – Business Continuity Manager
- Joanna Angelides – Procurement Consultant
- Alan Parry – Head of Procurement

Appendix 1: Management Action Plan

1. Strategy, Policy, and Procedures – Service Resilience Group Meetings

Priority	Issue	Risk	Recommendation
Low	Through discussion with Business Continuity Manager and examination of meeting minutes, it was confirmed that not all SRG reps attend regularly.	Where representatives do not regularly attend SRG sufficiently regularly, there is a risk that they may not learn of matters arising relating to supplier and service resilience and then disseminate these to their teams. This may impact on the ability of the Council to deal with a service or supplier interruption.	SRG departmental reps and any other key attendees should be encouraged to attend. Where meetings are repeatedly missed, departments should be asked to nominate alternative reps.
Management Response			
Agreed: Contact will be made with all Services Management Teams reminding them of the importance, role and responsibilities of attending SRG meetings.			
Responsible Officer			Deadline
Business Continuity Manager			31/12/2017

2. Strategy, Policy, and Procedures – Records of Contract Managers

Priority	Issue	Risk	Recommendation
Medium	A sample of ten contracts was selected for testing compliance throughout this audit. In two cases, the listed contract manager was incorrect (Mitie and A2Dominion). A number of enquiries were required to identify the current contract manager and, at the time of writing, information is still to be provided.	Where the contract managers recorded against contracts are incorrect or out of date, there is a risk that the contract is not allocated to an officer and therefore the contract is not being effectively managed or that other officers may not be able to identify and contact the manager when required.	Departments should be instructed that contract manager details should be kept up to date. As a further detective measure, records of the contract managers recorded on CapitalESourcing should be circulated to departments periodically to confirm they are still correct.
Management Response			
<p>Agreed: Contact will be made with all Service Management Teams reminding them of the importance of keeping details on CapitalESourcing up to date, a list will be circulated annually to Services as a prompt for them to update.</p> <p>H&F Contract Standing Order state at 25.1 that “Chief Officers and/or Heads of Service in sponsoring departments are to name contract managers for all new contracts. All contracts must have a named Council contract manager for the entirety of the contract.”</p> <p>Departments should nominate an officer to co-ordinate the maintenance of the contract register to ensure that information contained on it is accurate and current. Procurement can then supply a list of named contract managers to the nominated departmental contact for confirmation or amendment. Where a contract manager is no longer employed by H&F, amendments will have to be made by the senior responsible officer of the capitalE sourcing currently Westminster City Council.</p>			
Responsible Officer			Deadline
Business Continuity Manager			31/12/2017

3. Strategy Policy and Procedures – Requirements for Framework Agreements+

Priority	Issue	Risk	Recommendation
Medium	<p>From the sample of eight contracts tested, one related to services that the Council has purchased from a framework agreement (Pertemps Recruitment Partnership Ltd).</p> <p>Our testing identified instances where checks and monitoring of this supplier's continuity arrangements were not undertaken as it was assumed that the framework operator would undertake these checks.</p>	<p>Where there is not sufficient clarity on the checking and monitoring of continuity arrangements of services provided via a framework, there is a risk that checks may not be undertaken in line with the requirements of the Council. Any weaknesses in continuity arrangements may not be identified and addressed.</p>	<p>Corporate guidance should be updated to clarify the checks and monitoring of continuity arrangements that should be undertaken where services are procured from a framework.</p> <p>This may be through requesting evidence and/or assurance from the framework provider rather than duplicating checks that have already been undertaken.</p>
Management Response			
<p>Agreed: The Commissioning and Procuring Officers will be given additional advice on Expectations for Business Continuity where frameworks are used and a sample set each year will be reviewed through SRG to provide additional assurance on controls.'</p> <p>A dip-sampling programme will be introduced to sample 4 Critical Contracts per month. This will seek evidence, where appropriate, that the service has implemented "<i>The Guide to Supply Chain Resilience</i>" – to be presented to BDT on 07/12/2017.</p> <p>(Business Continuity Manager and Head of Commercial Management)</p> <p>(Irrespective of how we procure P1 or P2 critical services (whether it is via a framework or not) service departments must be assuring themselves that they have considered service continuity and undertake checks and monitoring of continuity arrangements).</p> <p>(Head of Commercial Management)</p>			
Responsible Officer			Deadline
Business Continuity Manager			Commencing 01/01/2018, ongoing thereafter.

4. Procurement - Retaining Evidence of Financial Checks Prior to Contract Award

Priority	Issue	Risk	Recommendation
High	<p>For the sample of eight contracts tested:</p> <ul style="list-style-type: none"> Contract managers stated they, Corporate Procurement or Hammersmith and Fulham Bridge Partnership had undertaken financial checks on the supplier prior to appointment in all cases; however, no evidence of financial checks could be provided. As no evidence of checks was retained, we could not determine whether the check was conducted on the correct supplier or whether further investigation was necessary due to a negative result. In three cases, evidence of review of supplier’s business continuity plans was not retained. In a further three cases, we were advised that there was no need to check plans due to them being low risk contracts. However, this assessment of risk was recorded (see recommendation 5). 	<p>Where the Council does not review the supplier’s business continuity arrangements and financial standing as part of the procurement process, or this is not recorded, there is an increased risk that a contract may be awarded to a financially unstable supplier or one with inadequate continuity arrangements.</p> <p>Where the Council cannot demonstrate that checks have taken place, it may suffer reputational loss or increased costs in the event of supplier failure.</p>	<p>Contract Managers and Officers involved in procurement should be reminded that checks on contractor financial standing and business continuity plans must be undertaken as part of the procurement process, that these checks should be recorded and confirmed in the Decision report recommending the award of the contract.</p> <p>Compliance spot checks should be undertaken to confirm that this requirement is being complied with.</p>

Management Response

Agreed: Departments are advised to request a financial check to Corporate Finance, which they process, and provide feedback to the requesting commissioner(s). The commissioning group are to ensure the financial feedback is entered and held on CapitaleSourcing and the findings detailed in all award reports.

Departmental SRG reps will be requested to ensure that a significant dip sample is carried out on an annual basis, and that evidence of this being carried out can be sought and reported back at future SRG meetings annually.

Responsible Officer	Deadline
Business Continuity Manager Head of Commercial Management	Commencing 01/01/2018, ongoing thereafter.

5. Council's Response to Supply Chain Failure – Assessing Supplier Criticality

Priority	Issue	Risk	Recommendation
High	<p>From the sample of eight contracts tested, supporting evidence showing the related service's priority (P) rating could not be provided in seven cases. In these seven cases, an assessment to identify and assess critical suppliers had also not been documented in six cases.</p> <p>As a result, we were unable to confirm that the Council's response to supplier resilience was proportionate.</p>	<p>Where an assessment of service criticality/priority and response plan are not formally documented, there is an increased risk that criticality of all services may not be correctly assessed or that staff may not have a consistent or appropriate understanding of what should happen in the event of supplier failure.</p>	<p>An assessment of supplier criticality should be undertaken to assign a priority to each supplier in accordance with corporate guidance. The assessment outcome and rationale for priority provided should be documented for each service assessed.</p> <p>The response to supplier resilience should then be proportionate to the priority rating.</p> <p>Sample checks should be undertaken to gain assurance that all suppliers have been accurately assessed.</p> <p>Consideration should also be given to reporting on key suppliers to SRG and SLT including determining:</p> <ul style="list-style-type: none"> • Which contracts should be reported (for example, all critical contracts) • What information is needed to assist with oversight, assurance and risk management of these contracts.
Management Response			

Agreed: The list, previously supplied to SRG members to review will be updated to incorporate rationale and the assessment will be a regular item on the SRG Agenda.

On approval of the “*The Guide to Supply Chain Resilience*” – to be presented to BDT on 07/12/2017, the SRG meeting on 13/12/2017 will have an agenda item that departments must follow the guide, plus, the date (tbc 31/01/2018) that all critical suppliers must be identified. The guide will be presented to contract officers, plus forthcoming CoCo boards. Thereafter, the list of critical suppliers will be assessed to ensure they have been correctly categorised against the service priorities. Service Continuity Plans will need to be updated accordingly. Future SRG agenda’s will request that supplier issues are presented and what actions have / are to be taken.

Responsible Officer	Deadline
Business Continuity Manager	31/03/2018, thereafter, ongoing.

6. Council's Response to Supply Chain Failure – Resilience Strategies

Priority	Issue	Risk	Recommendation
High	<p>For all critical suppliers, a resilience strategy must be documented. These resilience strategies should include reviewing the supplier's BC plans annually, testing their BC plans every two years and acting upon the findings, and ensuring the supplier undertakes a risk assessment of their own supply chain and communicates the results to the Council.</p> <p>Of the eight contracts tested, only one contract manager provided a service continuity plan that would constitute a supplier resilience strategy; however, the plan was dated 2014. As suppliers have not been assessed for criticality, we were unable to confirm whether a strategy was required in the remaining seven cases.</p> <p>Furthermore, service business continuity plans and evidence of review and testing plans could not be provided in six cases and supply chain risk assessments were available in only one case tested (Laser Energy).</p>	<p>Where an assessment of service criticality and response plan are not formally documented, there is an increased risk that criticality of all services may not be correctly assessed or that staff may not have a consistent or appropriate understanding of what should happen in the event of supplier failure.</p> <p>Where plans are in place but are not tested periodically, there is a risk that they will not be effective in practice and key services may not be delivered.</p>	<p>Resilience strategies and supply chain risk assessments should be developed for all suppliers considered critical to the Council's operations.</p> <p>Supplier continuity plans should also be subject to periodic testing.</p> <p>Sample checks should be undertaken to gain assurance that adequate resilience strategies are in place and that continuity plans are being tested.</p> <p>Assurance on the outcome of testing and sample checks should be reported to directorate management teams and SRG and / or SLT as appropriate.</p>

Management Response

Agreed: A simple ‘vulnerability’ score will be added to the existing output from CapitalEsourcing to help flag highly critical, highly vulnerable contracts.’ This new measure will be co-designed collaboratively with SRG.

All service’s are to identify their critical Suppliers by 31/01/2018. P1 / P2 service continuity plans (SCP) are to ensure their critical suppliers are included in the SCP, along with a clear strategy for dealing with a supplier failure. Contract officers of critical suppliers are to follow “*The Guide to Supply Chain Resilience*”. All P1 / P2 SCPs are to be self tested in any one rolling year. SRG reps are to report “*supplier concerns*” at SRG meetings, and to senior management as appropriate. A dip-sampling programme will be introduced to seek evidence, that the service is adhering to these requirements. (This will be explained at the SRG meeting on 13/12/2017, contact officers workshops and future CoCo boards (Where appropriate).

Responsible Officer	Deadline
Business Continuity Manager	31/03/2018, thereafter, ongoing.

7. Ongoing Monitoring and Assurance – Maintaining Regular Dialogue with Suppliers

Priority	Issue	Risk	Recommendation
Medium	From the eight contracts tests, all advised that they were in regular communication with the supplier, but evidence of this could not be provided in three cases.	Maintaining regular dialogue with suppliers helps provide oversight of operations and provides the supplier an opportunity to raise any issues.	Contract Managers should be reminded to maintain regular and open channels of communication with suppliers to allow them an opportunity to raise issues relating to resilience.
Management Response			
<p>Agreed: We will hold an event with key suppliers at a special SRG to raise issues about resilience in the Supply Chain.</p> <p>A dip-sampling programme will be introduced to sample 4 Critical Contracts per month. This will seek evidence, where appropriate, that the service has implemented “<i>The Guide to Supply Chain Resilience</i>” – to be presented to BDT on 07/12/2017, and that Service Continuity Plans are updated accordingly.</p>			
Responsible Officer			Deadline
Business Continuity Manager			Commencing 01/01/2018.

8. On-going Assurance and Monitoring - Credit Alerts

Priority	Issue	Risk	Recommendation
Medium	<p>From a sample of ten credit alerts selected between April 2016 - May 2017:</p> <ul style="list-style-type: none"> In two cases, we could not confirm that the contract manager had acted upon the alert. One of these cases was a credit rating of 47 (sterling press Ltd); and, In four cases, individuals that were not directly related to the contract had received the alerts. However, these alerts had been investigated by recipients of the alert. 	<p>Where contract managers do not effectively deal with credit alerts, there is a risk that the financial stability of a supplier may worsen and this not be promptly identified and acted upon.</p> <p>Where credit alerts are not sent to the correct officers, there is a risk that they will not be acted on. Other recipients may assume that action is already being taken.</p>	<p>Sample checks should be undertaken to confirm that alerts are being acted on.</p> <p>The distribution list for credit alerts should be reviewed to confirm that recipients are appropriate. Consideration should be given to whether an officer, or officers, within each department should communicate alerts to contract managers or keep the distribution list manageable and up to date.</p>
Management Response			
<p>Agreed: SRG will review credit alert actions at future meetings to provide additional assurance on actions taken.</p> <p>A dip-sampling programme will be introduced to sample 4 key creditsafe alerts per month. This will seek evidence, where appropriate, that the service has implemented "<i>The Guide to Supply Chain Resilience</i>". (See recommendation 3).</p>			
Responsible Officer			Deadline
Business Continuity Manager			01/01/2018 and thereafter.




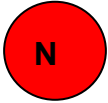
Appendix 2: Summary of Test Results

Contractor	Department	Record Retained of Financial Stability Check	Record Retained of BC plan check	Criticality Assessment	Supplier Resilience Strategy or Equivalent	Business Continuity Plans Periodically Checked and Tested	Evidence Provided of Regular Contact With Contractor
W.D.M. Limited	Environment Services	No	No	No	No	No	No
Spikes Cavell Analytic Ltd	Corporate Services	No	No*	No	No	No*	No
Pertemps Recruitment Partnership Ltd	Human Resources	No	No	No	No	No	Yes
Laser Energy	Environment Services	No	Yes	Yes	No	Yes	Yes
Broadway Homelessness and Support	Regeneration, Planning & Housing Services	No	No	No	No	No*	Yes
Mitie Property Services (UK) Ltd	Regeneration, Planning & Housing Services	-	-	-	-	-	-
A2Dominion	Regeneration, Planning & Housing Services	-	-	-	-	-	-
Quadron Services Ltd	Environment Services	No	Yes	Yes	Yes	Yes	Yes
Excitech Technology for Design	ICT	No	No*	No	No	No*	No
CT Plus	Environment Services	No	No*	No	No	No*	Yes

* Advised not required due to contract not being high risk, but no formal assessment of risk/criticality of contract undertaken.

Appendix 3: 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
 Su	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.
 Sa	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.
 L	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.
 N	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 4: Audit Scope, Limitations and Inherent Risks

This audit was a full risk based review of the arrangements for Contractor Resilience and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
01	Strategy, Policy and Procedures	The Council has agreed a consistent and coordinated approach to contractor resilience that is communicated to staff and staff act in compliance with management requirements.
02	Procurement	The risk of supply chain failure is considered when procuring suppliers through methods such as: <ul style="list-style-type: none"> • Assessing the criticality of the service to the council; • Checking the financial stability of suppliers in their supply chain; • Confirming suppliers have adequate business continuity arrangements in place; and • Including contractual provisions with regards to service continuity.
03	Council's Response to Supply Chain Failure	The impact of supplier/provider failure is accurately assessed, and effective continuity and recovery plans proportionate to the risks involved are in place (for both the Council and the supplier).
04	On-going Assurance and Monitoring	Assurance is gained on a periodic basis that contractors, and the supply chain as a whole, will continue to operate for the foreseeable future through methods such as testing plans, periodic credit checking and market analysis.

Limitations to the Scope of the Audit

The following limitations to the scope of the audit were agreed when planning the audit:

- The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance;
- The records maintained by third parties to the Council will not be reviewed and are outside of the scope of this audit; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

- Due to recent audits in Adult Social Care and Public Health on Supplier Resilience and an upcoming audit in Children's Services, the sample of contracts selected in this audit focussed on contracts in other departments.

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.

Key Risks

The risks listed below are potential inherent risks which are common for any system of this type:

- Failure to identify emerging risks for Service providers that the Council is dependent on;
- The Council are unable to effectively transition to alternative suppliers or delivery methods;
- Services are negatively impacted for a prolonged period of time.

Appendix 5: Timetable and Distribution List

Stage	Date
End of Fieldwork	06/10/2017
Draft Report Issued	18/10/2017
Responses Received	07/12/2017
Final Report Issued	15/12/2017

Audit Team
Client Engagement Manager:
Auditors:
Auditee
Business Continuity Manager
Client Sponsor
Commercial Director
Head of Emergency Services

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 Committee 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 9

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT PENSIONS AND STANDARDS COMMITTEE</p> <p>Date 14 March 2018</p>	
RISK MANAGEMENT UPDATE REPORT	
Report of the Director for Audit, Risk, Fraud and Insurance – David Hughes	
Open Report	
Classification: For review and comment Key Decision: No	
Consultation: <i>All service departments were consulted as part of the quarterly review.</i>	
Wards Affected: None	
Accountable Director: David Hughes, Director for Audit, Risk, Fraud and Insurance	
Report Author: Michael Sloniowski, Risk Manager	Contact Details: Tel: 020 8753 2587 Michael.sloniowski@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to provide members of the Audit, Pensions and Standards Committee with an update on risk management within the Authority, and presents them with the Corporate Risk Register for consideration.

2. RECOMMENDATIONS

- 2.1. The Members of the Audit, Pensions and Standards Committee are requested to:
- a) note the contents of this report;
 - b) review and consider the contents of the Corporate Risk Register.

3. REASONS FOR DECISION

- 3.1. The Accounts and Audit Regulations 2015 states that the Council must ensure that it has a sound system of internal control which includes effective

arrangements for the management of risk. It is paramount that all risks are clearly identified, managed and reported through the relevant channel. Risks can never be entirely eliminated but proportionate and targeted action can be taken to reduce risks to an acceptable level. It is essential that managers and their teams manage risks to:

- achieve council priorities to put residents first;
- ensure robust financial management;
- protect staff and residents;
- protect valuable assets;
- maintain and promote the council's reputation.

4. PROPOSAL AND ISSUES

4.1. Risk is the uncertainty of an event occurring that could have an impact on the achievement of objectives, and is measured in terms of impact and likelihood. For the London Borough of Hammersmith and Fulham, risk management is the process whereby the council methodically addresses these risks to achieving its vision, corporate and operational objectives.

4.2. The Strategic Leadership Team and Chief Executive needs a full understanding of the Council's risks to fulfil its fiduciary duty. Managing risk is therefore part of everyday business for the Council and is a process that involves the early identification of risks, assessing their potential consequences and determining the most effective way to reduce the likelihood and/or impact of the risk.

4.3. The Council's approach to risk management requires Directors, managers and staff, through their Senior Management Teams, to:

- identify risks;
- assess the risk;
- agree and take action to manage the risk;
- monitor and review risks.

4.4. This report provides the Committee with an update on corporate risks following recommendations by the Audit, Pensions and Standards Committee to undertake a fundamental review of their presentation. The review was led by the Director of Audit, Risk, Fraud and Insurance and steered by the Strategic Leadership Team with input from Directors. Expectations have increased internally and by the public on how risks are perceived, identified, measured, and mitigated. This has resulted in a higher level of scrutiny of risk management and it is anticipated that this focus will continue for the foreseeable future.

The Corporate Risks are summarised in Appendix 1, based on the latest feedback from Directors. There are currently 21 corporate risks represented in the following Heat Maps (see Charts 1 and 2), showing the direction of travel for all risks, which are expected, over time and through the implementation of appropriate mitigating actions, to come within risk appetite (or tolerance).

4.5. In the last period, (Chart 1) ,14 risks were rated as high (black), 4 as medium (dark grey) and 3 as low (light grey). All corporate risks have been reviewed in the last period, also now subject to more rigorous internal Officer challenge and updated where appropriate. This has resulted in an improved position, and direction of travel reflected in the current period, Chart 2, shows 8 are rated as high, 6 are rated as medium and 7 as low risk. It is noted that no corporate risks have deteriorated since the last report.

OVERVIEW RISK HEAT MAPS

Chart 1: Last Quarter - Period: November 17 to January 18

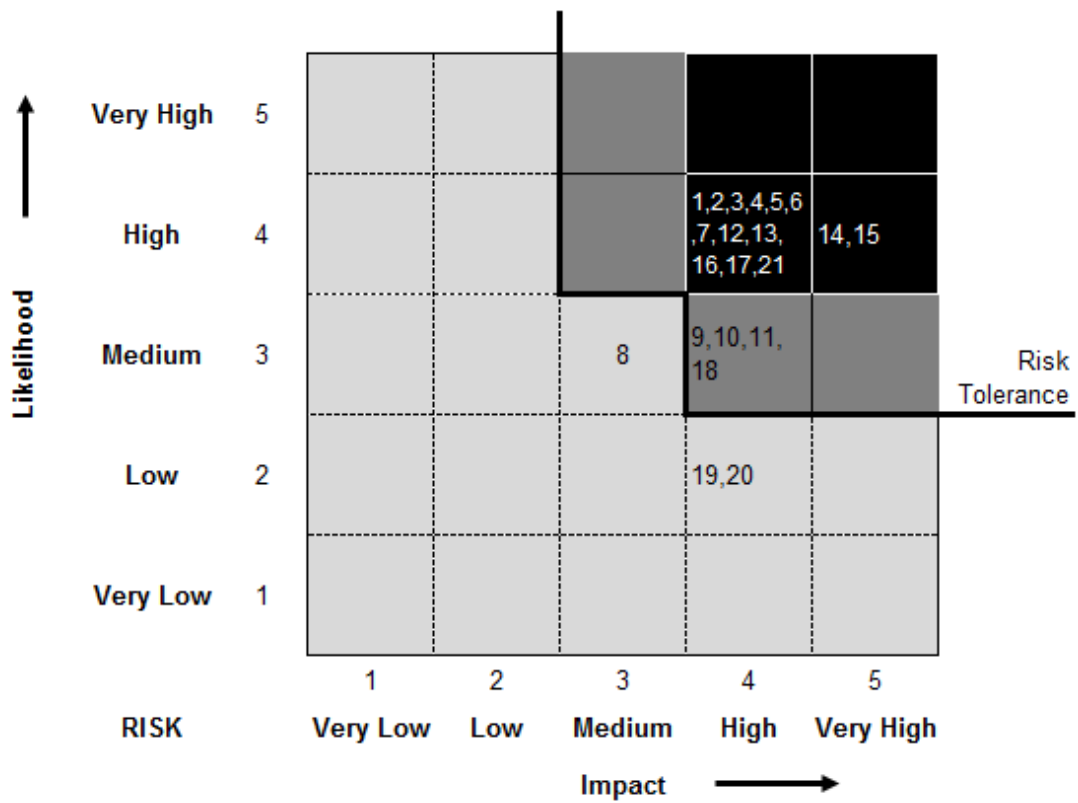
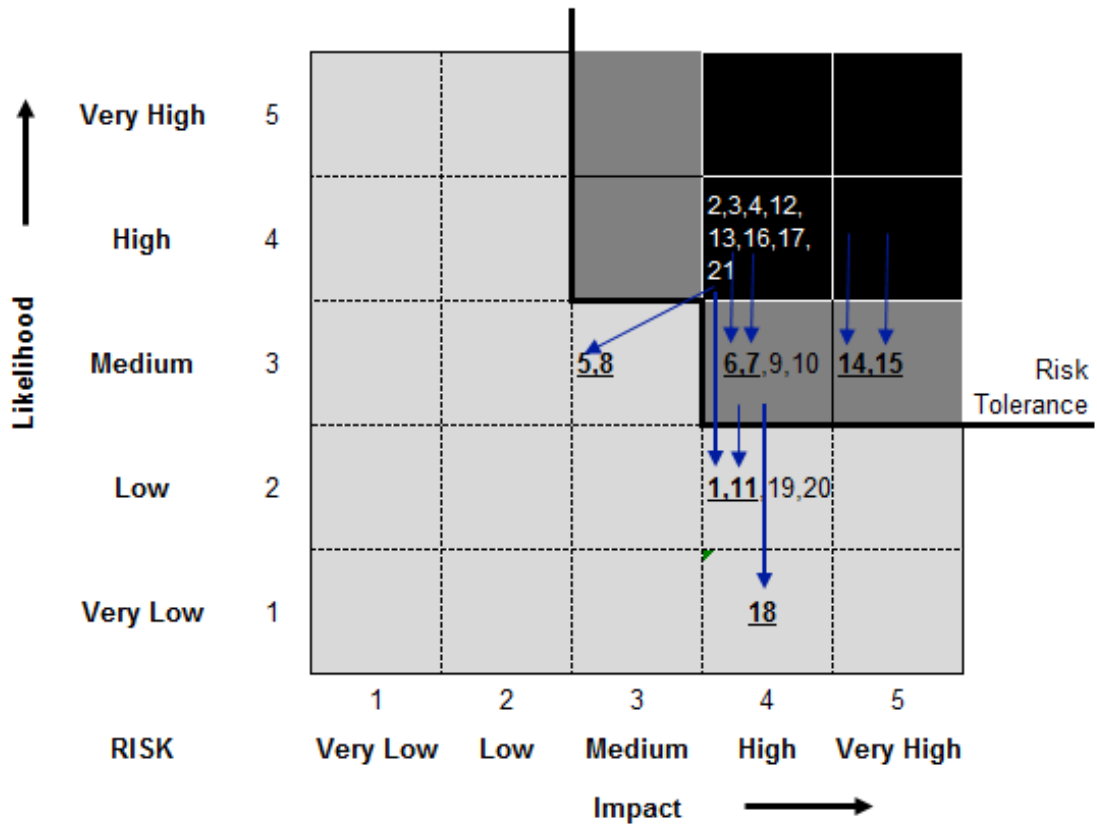


Chart 2: Current Quarter to March 2018



Amendments to the Risk Register:

4.6. As confirmed at the last Audit, Pensions and Standards Committee the Corporate Risks have been re-numbered and positive movements on risk are noted below, based on responses received from Directors.

4.6.1. Corp. 1: **Financial Management in year budget 2017/2018 and Medium Term Planning**

Revised corporate risk noting details of actions to manage financial risks that are contained with context in appendices 1-10 of Corporate Revenue Monitoring reports.

4.6.2. Corp. 5: **Business Resilience**

A new Director led Service Resilience Group has been established with Business Continuity champions nominated by Services. All plans are being refreshed and updated and an exercise held in March at a Strategic Level to test plans. Drop-in sessions have taken place to meet the Business Continuity Manager to discuss Business Continuity Planning and Supply Chain Resilience. New Office 365 sites have been set up enabling greater access to information on Business Resilience Issues. Fire Safety.

Next steps

The Council's Business Continuity Manager is to review progress made on the procurement of software to improve efficiency in the management and administration of Business Continuity events.

4.6.3. Corp. 6: **Information Management and digital continuity**

Updates to Management Controls and Actions following service re-organisations and the work in progress to meet the incoming Data Protection Regulations mean this risk has improved, however lower than desired take up by employees of Information Management and Data Protection Training remains a risk. Mitigation on this aspect of risk is being addressed through the Council's Corporate Information Management Board.

Corp 7: **Managing Statutory Duties:**

Risk registers are in place for management of people, systems and property Health and Safety risk. Regular Health and Safety performance reports are provided to the Strategic Leadership Team and an Audit Plan has been compiled. A Civic Property Fire Plans Group Office 365 site has now been established. Fire Plans have been reviewed and have been populated on the site. A Fire Evacuation Officers Group Office 365 site has been established. Fire Plans have been published on this site and made available to the Business Continuity Officer (risk 5).

4.6.4. Corp. 11: **Decision making and maintaining reputation and service standards**

Updates provided to reflect improvements in governance by the introduction of mandatory Risk Management comments in Committee reporting templates. The Council has also responded well considering the number of Business Continuity issues over the period including the response to the local flooding due to water mains bursts and the severe cold weather at the end of February and March. The Vision document has been published on the Council's Intranet and in hard copy form following the publication of the H&F Business Plan. Additional Strategic Leadership Team focus on assurance holding monthly SLT Assurance meetings.

4.6.5. Corp. 14: **Compliance with Statutory Duties to undertake inspection regimes.**

This risk was expanded from its original focus on Housing to include wider consideration of corporate buildings and property management statutory compliance risks, management controls and actions. An update on the next steps from Housing associated with this entry is provided below:

Action taken

There has been continual progress to meet statutory requirements. Fire Plans for the Council's main Civic Properties have all been reviewed and have been made available to Fire Evacuation Officers and

Premises Managers through a shared Office 365 site. Monitoring and reporting is in place for compliance across all areas of Housing. Fortnightly compliance meetings are held with Corporate Health and Safety to monitor progress and provide independent assurance.

Next steps

To commence a new water hygiene contract for April 2018. To commence lighting inspections contract also for April 2018. Complete the asbestos action plan by end of March 2018. To implement all Housing compliance records on Geometra by end of 2018.

4.6.6. Corp 18: **Moving On (shared service disaggregation)**

This risk has been updated following the recent reorganisation proposals and agreed management structures controls and actions.

4.6.7. Corp 21: **King Street Regeneration Programme**

Actions taken

A strategy has been developed for delivery of alternative of office facilities, with cabinet approval for commercial heads of terms intended for March 2018. An Options appraisal on delivery routes and clear legal advice on the process has been secured. Regular monitoring will occur at the programme board.

Next stage

Detailed financial and commercial advice on legal agreements as part of business case process and ahead of future cabinet approval will be conducted. Appropriate professional advice being procured for this purpose. Completion of best consideration exercises.

5. CONSULTATION

- 5.1. Consultation has taken place with the Strategic Leadership Team, Service Department Risk Representatives and Subject Matter Experts in Business Continuity, Insurances, Health and Safety, Commercial and Procurement, Internal Audit and Information Management.

6. EQUALITY IMPLICATIONS

- 6.1. There are no direct Equality implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

7. LEGAL IMPLICATIONS

- 7.1. There are no direct Equality implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

8. FINANCIAL IMPLICATIONS

8.1. There are no direct Finance implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

9. IMPLICATIONS FOR BUSINESS

9.1. There are no direct implications for business associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

10. COMMERCIAL IMPLICATIONS

10.1. There are no direct implications for business associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

11. IT IMPLICATIONS

11.1. There are no direct implications for Information Technology associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

12. OTHER IMPLICATION PARAGRAPHS

12.1. A list of Corporate Risks is required in the narrative of the Council's Statement of Accounts. Risk Management is a statutory responsibility under the Accounts and Audit Regulations 2015. A relevant authority, the Council, must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk.

12.2. *Implications completed by Michael Sloniowski, Risk Manager, telephone 020 8753 2587.*

13. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name and contact details of responsible officer	Department/ Location
	Risk registers	Michael Sloniowski, Risk Manager, telephone 020 8753 2587	Internal Audit, Risk, Fraud and Insurance

LIST OF APPENDICES

Appendix 1 - List of Corporate Risks

Appendix 1, Corporate Risks as at March 2018

Key

High risk - immediate management action required.


Medium risk, review controls.

Low risk, monitor and if the risk escalates check controls.



Risk	No.	Quarter 2		Quarter 3		Movement	Exposure	Officer
		Likelihood	Impact	Likelihood	Impact			
Financial Management in year budget 2017/2018 and Medium-Term Planning	1	4	4	2	4	Improved	L	HJ
Adult Social Care Multiple risks to achieving a balanced budget in 2017/2018 and over the medium term.	2	4	4	4	4	Stable	H	LR
Commercial Contract Management and Procurement	3	4	4	4	4	Stable	H	MH
Public Health Budgets	4	4	4	4	4	Stable	H	LR
Business resilience.	5	4	4	3	4	Improved	M	NA
Information management and digital continuity.	6	4	4	3	4	Improved	M	VB
Managing statutory duties.	7	4	4	3	4	Improved	M	KD
Standards and delivery of care.	8	3	3	3	3	Stable	L	LR/SM
Failure of partnerships and major contracts.	9	3	4	3	4	Stable	M	KD
Increase in complexity of working with partners.	10	3	4	3	4	Stable	M	KD

Risk	No.	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
Decision making and maintaining reputation and service standards.	11	3	4	2	4	Improved	L	KD
Failure to identify and address internal and external fraud.	12	4	4	4	4	Stable	H	HJ/DH
Managed Services	13	4	4	4	4	Stable	H	KD
Compliance with the statutory duties to undertake inspection regimes covering Management of Asbestos, Electrical Testing, Fire Risk, Plant and Equipment, Water/Legionella.	14	4	5	3	5	Improved	M	ND/JR/MMcDK
Co-ordination and response to calls on the Council for Mutual Aid in a crisis	15	4	5	4	5	Improved	H	NA
Change Readiness	16	4	4	4	4	Stable	H	MG
Recruitment and retention	17	4	4	4	4	Stable	H	MG
Moving on Programme	18	3	4	1	4	Improved	L	ST
Coroner's Office	19	2	4	2	4	Stable	L	NA
Procurement of replacement HR, Payroll and Finance Services	20	2	4	2	4	Stable	L	MG
King Street Regeneration Programme	21	4	4	4	4	Stable	H	JR

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>14 March 2018</p>	
<p>INTERNAL AUDIT PLAN 2018/19</p>	
<p>Report of the Director of Audit, Fraud, Risk and Insurance</p>	
<p>Open Report</p>	
<p>Classification: For Information Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: David Hughes, 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 provides the Internal Audits planned to be undertaken in the 2018/19 year. The Audit Plan includes sufficient audit coverage to enable us to provide an overall opinion on the Council's control framework and is sufficiently flexible to allow for changes in coverage should where support and/or advice may be required.

2. RECOMMENDATIONS

- 2.1. To note the contents of the Internal Audit plan for the 2018/19 year and consider whether the plan covers the organisation's key risks as they are recognised by the Members of the Audit Pensions & Standards Committee, and whether the plan reflects the areas that the Members of the Audit Pensions & Standards Committee believe should be covered as priority.

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. PROPOSAL AND ISSUES

- 4.1. The Council's shared internal audit service is provided by a service managed by the Royal Borough of Kensington & Chelsea (RBKC). Internal Audit is required to provide the S151 Officer, the Senior Leadership Team and the Audit, Pensions and Standards Committee with an opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control arrangements. This opinion is predominantly based on the outcomes from the audit work undertaken each year. This in turn will help to support the Annual Governance Statement that forms part of the council's annual accounts.
- 4.2. The Internal Audit plan for 2018/18 have been developed using the council risk registers, the Internal Audit universe which identifies when each area was last audited and the audit assurance provided at that time, and Internal Audit knowledge of the council and current activities. The initial draft plan was then discussed with management in each department with the plan updated as a consequence of those meetings. The resulting plan is provided at Appendix 1. This represents the current version of the audit plans, these are subject to change at any time taking into account changing risk within the council, changes in council activities, etc. Any changes to the plan will be reported to the Committee in the quarterly internal audit reports.
- 4.3. The implementation of a new solution for the provision of payroll, HR and finance services during 2018/19 in partnership with Hampshire County Council is a significant change for the Council and the Audit Plan includes time to provide support and assurance, before, during and after the change in service provision.
- 4.4. The 'Moving On' programme has introduced significant change to the organisation. The plan includes coverage of new processes that are developing from this re-organisation such as the sovereign activities in Adult Social Care and in Public Sector Reform.
- 4.5. Procurement continues to be of significant interest to Internal Audit (both tendering and contract management) given the scale of contracted services, including the role of the centre. Related audits in the plan include 'Contract management/ monitoring', Supplier resilience, Procurement and contract management: Community equipment, Procurement: Integrity, Facilities Management contract, Grounds Maintenance: contract retender, commissioning audits, and Joint Commissioning.
- 4.6. There is also coverage of major capital schemes and projects such as the King Street and the Earls Court regeneration projects, Housing Capital programme, GDPR implementation, and the finance/HR systems replacement project (already mentioned above).
- 4.7. Known issues and concerns have been included in the plan such as Health & Safety, plus IT security. Changes in the council's risks are also incorporated including new areas such as new partnerships/limited companies, plus the

development of Commercial Services. Changes in priorities include moving away from auditing all schools on rolling programme to selecting schools on an individual risk basis.

4.8. The table below shows an estimate of the audit resources allocation to fulfil the Council's Audit Plan for the 2018/19 financial year.

5. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix A - Internal Audit Plan 2018/19 year


Appendix A – Internal Audit Plan 2018/19

Where appropriate a link to the Council’s Corporate Risk Register has been made (as reported to the March 2018 APSC Committee)

No.	Audit Title	Potential Scope	Corporate Risk Register entry
Corporate/cross cutting			
1	New HR, Payroll & Finance solution	Assurance to the Board - gap analysis and alternative delivery solutions, programme assurance (including attendance at appropriate boards), review of end to end process	13, 16, 20
2	New HR, Payroll & Finance solution	Data reliability, data cleanse, data cut off and data migration and additional work required to complement assurances available through the new provider (HCC)	13, 16, 20
3	New financial management system	Transfer of balances – Agresso to SAP, support assurances plus external auditors avoiding duplication of work undertaken in other areas	7, 9, 12, 13, 22
4	Accounts Payable, Accounts receivable, General Ledger	Audit work on assurances to be discussed with the new provider – potentially through continuous audit.	7, 9, 13, 20
5	Budgetary Control	Review of budgetary control arrangements following implementation of the new financial management system	1, 12, 13, 20
6	Savings management	To review the council’s strategy and plans for identifying and achieving savings	1
7	Corporate Governance	Following significant corporate restructuring the audit will consider governance structures across the organisation.	11
8	GDPR (General Data Protection Regulation) Compliance	Review of compliance with new GDPR requirements (effective May 2018) and adoption of best practice by services in relation to data management protection and governance. (Separate audit reviews of compliance in key areas including contracts, schools etc. are planned in separately and do not form part of the IT Audit Plan).	6
9	Supplier resilience	Consider central strategic policy/ processes/ guidance to monitor health of companies, identify high priority/value contracts, develop arrangements to ensure continuity of service e.g. escalation plans, continuity plans, central monitoring and reporting of compliance with these arrangements etc.	3, 5, 6, 9
10	Capital Programme	Review of contract management arrangements on a sample of capital schemes	1, 3, 9
11	Pensions Admin	Consideration of new managed service provider and integration with the service provided by Surrey CC	20
12	Risk Management	Compliance review of existing arrangements. In depth review of a department’s processes and register	All
Corporate Services – HR			
13	Learning & Development Tools	Dependent on solution and if 2017/18 audit work undertaken	17, 18
14	Payroll	Scope of audit to be determined following discussion with new service provider	7, 12, 13, 20
Corporate Services: Residents and Business Satisfaction			
15	Council Tax, HB and NNDR	Cyclical review of key financial controls on core financial systems	7, 12
16	Members & MPs enquiries; FOI and SARs	Policies and processes including legislative compliance; receipt and recording of requests; allocation to officer(s); monitoring timely delivery of responses, review and issue of responses; performance monitoring and reporting	7, 11
17	Revenues & Benefits	New processes: A deep dive review has been undertaken for this and for debt management. Audit can look at implementation of recommendations and revised processes to ensure control is maintained.	7, 12
Corporate Services: Finance			
18	Corporate debt management	Policies, strategy and processes; identification and consolidation of debt by individual/company; invoicing and reminder; receipts and accounting; allocation of debt to collector (bailliff, contractor), monitoring their recovery and performance; management performance monitoring	1, 3, 9
Corporate Services: IT			
19	Cyber Security	Includes councils approach to Cyber Security, emerging threats, compliance with best practice across related areas including remote access, VPNs, operating systems, email security, multifactor authentication and incident management.	6
20	PSN (Public Sector Network) Compliance	Review of arrangements in place within the Council for obtaining external assessment of PSN compliance and for ensuring any recommendations or mitigations in place to address key address key PSN risks have been implemented.	6
21	BT and Agilisys Contract Monitoring Arrangements	Review of contract monitoring arrangements including key performance indicators for BT (desktop services) and Agilisys (helpdesk) service contracts. To include: Contract Governance, supplier delivery, commercials, GDPR compliance etc.	3, 6

No.	Audit Title	Potential Scope	Corporate Risk Register entry
22	MSP transfer to new solution	Placeholder (exact coverage not yet known): Review of key ICT related risks arising from transfer to new integrated Finance, HR and Payroll solution from Agresso. Includes data transfer, system interfaces, system administration, business continuity and disaster recovery arrangements	6, 20
Adult Social Care			
23	Day Centres	Establishment audits covering: Policies, Procedures & Legislation; Referrals and Assessments; Risk Assessments; Staffing; Procurement; Income; Client Monies Probity	2, 8
24	Community Independence Service (CIS)	The tri-borough contribution is £5million of a total cost of £18 million. These are managed under S75 contracts which are now due for renewal. The arrangements will be reviewed in 2018/19, any audit would need to coordinate with the review.	2, 7, 8, 9, 10
25	Mental Health	Strategy Policies and Procedures; Services Provided; Assessment and Eligibility Criteria; Charges and Charging Policy; Resource Management; Management Information	2, 7, 8, 9, 10
26	Procurement and contract management: Community equipment	Identification of contract need, approval to procure, procurement governance arrangements, tendering and procurement in line with standing orders and council policy. Contract formalities; Contract variations and Service Improvements; Contract Monitoring and Performance Management	3, 9
Children's Services			
27	Looked After Children	To review the arrangements in place for Looked After Children	7, 8
28	Family Support & Safeguarding	Review requested by Director of CHS	7, 8
29	GDPR compliance	A review of the department's approach to compliance in their dealings with schools and other external agencies.	6, 7, 16
30	SEN - 6 months in	Review of compliance with requirements for the implementation of Educational Health Care Plans	7, 8, 11
31	Early Help 6-9 months (incl. YOT, Troubled Families)	New 'trading' organisation with new external CEO, but covers Youth and other support services – effectiveness of arrangements in place (within 9 months of set up)	7, 8, 9, 10
32	Exclusions and Tri-Boor Alternative provision - (TBAP)	Contract with externalised Council service now part of Academy chain and operating nationally – review of contract monitoring and management arrangements.	7, 8, 9, 10
33	Caldicott Guardian	Review of arrangements in light of Moving on and GDPR	6, 7, 8, 11
34	Emergency Duty Team	Review of arrangements of service hosted by CHS, carried forward from 2017/18	8, 11
35	Business Continuity	Review whether local level arrangements are sufficiently robust to provide services	5, 11
36	Troubled Families	Provide formal audit certification on periodic TF Grant submissions	8
37	Schools: thematic reviews	Thematic reviews across the school population to review compliance (e.g. recruitment & IR 35, procurement, GDPR, IT security, Health & Safety)	7, 12
38	Schools: targeted reviews	Revised audit programme to focus on schools previously receiving limited assurance or identified with issues (e.g. licenced deficit, Ofsted inspection)	7, 12
Commercial Services			
39	Joint Ventures	Council oversight and challenge of all council limited companies (SPVs, joint ventures etc.); set up arrangements including type of company (LLP, limited company), controls managing (financial) risk to the council; governance arrangements for this company; business plans and benefits delivery, oversight and monitoring, oversight of benefits to the council	3, 9, 10
40	Commercial services	Governance; Strategy and plans for delivering savings/ benefits; oversight and monitoring of benefits delivery; officers skills management, strategy and plans; market management and service delivery model reviews, selection of projects to test	3, 9, 10
41	Procurement: Integrity	Sample of procurements: Compliance with council requirements for reporting declarations of interest/ Bribery Act/ Gifts and Hospitality e.g. risk assessments, understanding of ethical standards etc.	9, 12
42	FM contract	Managing transition, procurement and intermediate steps, data quality, KPIs, budget management	7, 9, 14
Delivery & Value			
43	Residents Commissions	Commissions reporting and recommendations approvals; objectives and outcomes to be delivered, delivery plans, integration into council plan and processes, monitoring and oversight.	7, 11
Environment Services			
44	Grounds Maintenance: contract retender	Identification of contract need, approval to procure, procurement governance arrangements, tendering and procurement in line with standing orders and council policy.	3, 9

No.	Audit Title	Potential Scope	Corporate Risk Register entry
45	Enforcement: Energy Performance of Building Directive	To review the processes in place for ensuring that appropriate arrangements are in place from 2019 for enforcing the Directive in respect of non-Council owned properties in the Borough affected by the legislation	7
46	On-Street parking	Siting of bays and machines; collections and reconciliations; repairs and maintenance of machines; parking enforcement officer routes and shift patterns; Issue of Penalty Charge Notices; PCN Income and Banking; Appeals, Challenges, Refunds and Cancellations; Debt Recovery; removal of vehicles; operation of car pound	3, 9
47	Coroners service	Objectives, strategy, plans and processes; court management; management of cases; management monitoring of performance; council oversight	19
48	Emergency Planning	Review of revised arrangements implemented following external review	15
49	Community safety	Objectives, policies and legislation; delivery and benefits plans and projects; management and oversight of delivery of work, benefits and outcomes; budget management; performance monitoring	7
50	Cemeteries & Crematoria	Service Objectives and Procedures; Health and Safety Risk Management; Recording of Burials and Cremations and Security of Records; pre-purchase of plots including record keeping; Charging and Income Collection; Debt Recovery; Performance Management and Budgetary Control	7
Regeneration Planning & Housing Services			
51	Housing Health and Safety Checks	Roles, Responsibilities and Governance; Policies, Procedures and Training; Identification of Properties Requiring Safety Checks; Completion of statutory checks and TBRs;; Performance Management and Assurance	7, 14
52	Geomtra	Could include implementation review, data quality, use of management information to support/demonstrate compliance	7, 14
53	Housing capital programme	Capital programme & budget setting; capital upload; capital transactions & records; programme alterations and virements; capital receipts; capital monitoring & performance management reporting.	1
54	Housing Rents	Review of processes for rent collection, accounting and debt management.	11, 12
55	Estate parking	Objectives, policy and processes; identification of need & available spaces & plans to manage; parking applications, assessment & decisions, issuing & control of permits; policing parking spaces including abandoned vehicles; renewals, complaints handling; budgetary control, performance monitoring & reporting.	
56	Caretaking	Review of contract monitoring arrangements.	3
57	Regeneration: King Street	Review of programme/project assurance arrangements for a sample of key programmes projects being monitored by SLT.	9, 21
58	Regeneration: Earls Court	Review of programme/project assurance arrangements for a sample of key programmes projects being monitored by SLT.	9
59	Implementation of the Homelessness Reduction Act	Housing options (recently re-tendered service). New prevention model, single front door. Temporary accommodation and discharge of homelessness duty.	7
60	Building Control	Post-Hackitt review, consider service review, managing expectations, mitigating loss of fee paying work	7
Public Services Reform			
61	Health Intelligence and Joint Strategic Needs Assessment	Strategy and plans; priorities, objectives and expected outcomes; delivery monitoring and reporting; review and challenge, outcomes reporting and feed into future plans.	4, 7
62	Partnership working with Health & CCGs	Memorandum of Understanding and Governance; Development of Core Offer; Resource Planning and Management; Outcome Monitoring	4, 9, 10
63	Commissioning: Procurement and market management	Procurement governance; procurement strategy and plans; business transition reviews and action plus resource plans; selection of contracts to test; (market management)	2, 3, 4, 7, 9, 10
64	Commissioning: Contract Management	Contract formalities; Schedule of works; Contract variations and Service Improvements; Contract Monitoring and Performance Management; Payments; Budget Monitoring; Value for money	3, 7, 9, 10
65	Community Investment	Alignment with council objectives & priorities; award criteria; approvals process; conditions of grant and signing of grant; management and oversight of grants including delivery of benefits; recovery of funds where necessary.	7, 10, 11

<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;">14 March 2018</p>	
<p style="text-align: center;">ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT</p>	
<p style="text-align: center;">Report of the Director of Audit, Fraud, Risk and Insurance – David Hughes</p>	
<p>Open Report</p>	
<p>Classification: For Information Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: David Hughes, 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 Progress on implementing recommendations arising from the 'External Audit Report 2016/17' 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 2017 the Council's External Auditors (KPMG) issued their 'External Audit Report 2016/17'. The report contained five recommendations for implementation by management and two recommendations from the 2015/16 report that were not fully implemented.

- 4.2. The Council's 2016/17 Annual Governance Statement (AGS) also contained one issue carried over from the previous year 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. One further recommendation arising from the External Audit Report 2016/17' have now been reported as implemented.
- 5.1.2. Progress in implementing the remaining recommendations can be found in Appendix A.
- 5.1.3. 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 B shows the progress reported by the responsible managers in implementing recommendation carried forward into the 2016/17 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.

6. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix A – External Audit Recommendations Update

Appendix B – Annual Governance Statement Update

External Audit Recommendations Update

Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
<p>R2 - Accruals identification/calculation - (Priority 2)</p> <p>During our testing of creditor accruals, we identified two accruals which had been made even though the expense had not yet been incurred by the Authority. The values in question were not material to the financial statements</p> <p>Moreover, the backing for accruals submitted by the services was not always accompanied by detailed supporting evidence of working, making obtaining audit evidence together with the internal scrutiny of the corporate finance team, challenging.</p> <p>Recommendation: Detailed guidance should be issued to the services regarding what expenditure should be accrued and the level of evidence required to support these accruals.</p>	<p>Agreed</p> <p>Existing guidance for raising accruals will be reviewed, updated as necessary and re-issued to the services. This guidance will specify the level of evidence required to support accruals. Corporate Finance will monitor compliance by the services with this guidance</p> <p>By when: December 2017</p>	<p>Strategic Finance Director</p>	<p>IN PROGRESS – ON TRACK</p> <p>Corporate Finance are currently finalising the closing timetable and guidance for 2017/18. The revised guidance will include detailed guidance on accruals.</p>
<p>R4 - IT Control Deficiency- Change Documentation (Priority 3)</p> <p>During our testing of changes to the IT environment, we identified that there was one instance where the relevant change request and approval minutes could not be located. The reason for this is that the change was relatively old and the contractor who processed it had left BT's employment.</p> <p>Whilst a description of the change did not indicate that the change to the IT environment was inappropriate, there is a risk that the council cannot gain comfort over the appropriateness of its change control procedure if sufficient documentation is not held.</p> <p>Recommendation: Storage of change documents related to IT change requests should be reinforced to key officers.</p>	<p>Agreed</p> <p>The shortfall in required practices will be notified to BT and supported by the issue of the appropriate contract warning notices. The Council will work with BT to increase the performance monitoring in this area, and will introduce checks and controls to confirm resolution by BT.</p> <p>By when: March 2018</p>	<p>Strategic Finance Director</p>	<p>IN PROGRESS – ON TRACK</p> <p>This matter has been raised with BT who have requested further information to investigate the instance reported by KPMG. Corporate Finance have requested this information from KPMG and will subsequently provide this to BT to complete their investigation.</p>

Recommendations not yet fully implemented from the 2015/16 audit

Recommendation/Areas of Improvement	Original response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
<p>Recommendation 2 (Priority 1)</p> <p>Once the cleansing of membership data is complete and all parties are agreed that this is the case, LBH&F should ensure that a detailed assurance exercise is undertaken. This exercise will need to be more detailed than an audit and could be externally procured or completed by Internal Audit.</p> <p>LBH&F should also ensure that it is able to routinely reconcile appropriate information between BT managed services systems and SCCs pensions administration systems. This would provide assurance throughout the year that all contributions are being collected by LBH&F and passed to the Pension Fund.</p> <p>Ongoing</p> <p>The data cleanse process of information inherited from Surrey County Council is still ongoing and is expected to be completed in September 2017.</p> <p>There are still delays in receiving timely information from BT, including a delay in receiving the membership data for the year end accounts which has still not been received. Management at Surrey County Council are continuing to work with BT to develop a live interface between the Altair System used at Surrey and Agresso but the live interface is not yet fully operational.</p>	<p>The Council will ensure that a detailed assurance exercise is put in place to tackle the historical casework backlog inherited from Capita as well as the proposals for cleansing inherited data on the pensions administration system where required. The aim will be to complete the work within a one year period starting on 1 October 2016, although it is recognised that some aspects could take longer if any complicating factors arise.</p> <p>The Council agrees that the reconciliation of pension contributions between BT Managed Services and the Pension Fund needs to be more robust and transparent. The Pensions and Treasury Service is leading on the review of the current processes and will put satisfactory arrangements in place before the end of the current financial year.</p> <p>The Council will commence a reconciliation of appropriate scheme member information between BT Managed Services and Surrey County Council before the end of the current financial year.</p> <p>By when: Reconciliation processes will be place by 31 March 2017 with the majority of the casework to be cleared by 30 September 2017"</p>	<p>Bi-Borough Director of HR</p>	<p>COMPLETED.</p>

2016/17 Annual Governance Statement Action Plan

Entry	Responsible Officer	Action Plan	Progress To date
<p>BT Managed Services Contract Delivery</p> <p>The Managed Services Framework Agreement 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, each under their own contract. The programme overran its original delivery date of 1 April 2014 but commenced provision of a limited number of activities in April 2015. Since this point BT have continued to deliver some staged improvements to their solution, however they are yet to deliver to the required contracted standard. It is therefore the focus to ensure that BT deliver an acceptable level of service to enable finance, HR and payroll to function effectively.</p> <p>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.</p> <p>Work is on-going with BT to address the issues raised in this statement and additional resources are being applied by the Council to resolve the issues as soon as possible.</p>	<p>Interim Director HR and OD</p>	<p>This progress report deals with the resolution of the challenges that have arisen with respect to the delivery of the Managed Services Programme since go-live on 1st April 2015. The decision to go live with the system was taken in the knowledge that the SERCO contract with Westminster could not be extended and there was no resource available to update the H&F and RBKC systems such that they could be relied on after March 2015. It was recognised that this was not an ideal position and it has given rise to significant problems. A programme stabilisation plan has been created around the work streams and the programme governance arrangements that existed before go live including risks and issues management and stage gate reviews. Programme reporting and programme assurance have been strengthened. A summary of the deliverables for each work stream is given below is given below.</p> <ol style="list-style-type: none"> 1. Finance – this work stream is tasked with ensuring that the all finance processes and core data are fully operational and stable (Purchase to Pay; Record to Report, Order to Cash, Fixed Assets, Income Manager, Access and Authorisations, Planning and Forecasting). 2. Organisation structure – a corrected organisation structure supported by appropriate online forms, standard operating procedures and establishment reporting. 3. Human Resources – This work stream is tasked with the delivery of stable HR processes, the resolution of system configuration issues and enabling reporting and alerts. 4. Payroll – Key deliverables for this work stream are stabilisation of pay impacting incidents, improving self-service accuracy, rationalisation of payroll codes, resolution of pension issues and 3rd party pension provider access, enabling effective reporting for both councils and schools, resolving payroll deductions and overpayments and complete payroll reconciliation. 5. Organisation readiness – this work stream is responsible for the analysis of training needs, the delivery of training programmes, e-learning and reference materials and supporting the transition of council personnel to self-sufficiency, including communication of progress to all staff. 6. Schools and academies – delivering self-service access to Agresso for key personnel in schools, providing accurate and stable payroll processes, ensuring effective management of starters and leavers and providing accurate and timely reports and management 	<p>Subject to the exit plan for BT and implementation of an alternative system.</p>

Entry	Responsible Officer	Action Plan	Progress To date
		<p>information.</p> <ol style="list-style-type: none"> 7. Service management and governance – this work stream is responsible for the management of the contract and implementation of all contractual service management deliverables, reporting and management information, oversight of the BT Shared Service Centre improvement and incident recovery plan and on-going quality assurance and performance monitoring as well as supporting the transition to business as usual and putting in place the Intelligent Client Function 8. Solution and environment assurance – this work stream is focussed on ensuring effective environment, system and data control, confirmation that what has been delivered is what was specified, reconciliation and integrity assurance, improving system performance, documentation and the simplification of the access and authorisations model. 9. Interfaces – is tasked with developing and implementing mechanisms to send and receive data files from source systems to target systems (so that key council service areas can exchange data with Agresso), including the creation of translation tables, transformation rules and secure transport protocols. 	