

Audit, Pensions and Standards Committee

Agenda

Tuesday 24 September 2019 at 7.00 pm
Meeting Room 1 (2nd Floor) - 3 Shortlands, Hammersmith, W6 8DA

MEMBERSHIP

Administration	Opposition
Councillor Iain Cassidy (Chair) Councillor Jonathan Caleb-Landy Councillor Rebecca Harvey Councillor PJ Murphy	Councillor Alex Karmel Councillor Matt Thorley



Shortlands

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 **Closest Underground Station**
Hammersmith

 **Closest Bus Stop**
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Members of the public are welcome to attend and the building has disabled access.

Date Issued: 16 September 2019

Audit, Pensions and Standards Committee Agenda

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1. MINUTES OF THE PREVIOUS MEETING To approve the minutes of the previous meeting and note any outstanding actions.	4 - 11
2. APOLOGIES FOR ABSENCE	
3. DECLARATIONS OF INTEREST <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	
4. ANNUAL AUDIT LETTER 2018/19 This item presents the annual audit letter and audit fee variation letter from Grant Thornton, the Council's external auditors.	12 - 33
5. CYBER SECURITY UPDATE This report gives an overview of the actions undertaken by the Council's IT team and its suppliers to protect its network and communication channels.	34 - 41

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| 6. | RISK MANAGEMENT UPDATE | 42 - 60 |
| | <p>This report provides an update on risk management within the Council and presents a revised sovereign strategy and corporate risk register for consideration.</p> | |
| 7. | INTERNAL AUDIT QUARTERLY UPDATE | 61 - 65 |
| | <p>This report summarises internal audit activity up to 13 August 2019.</p> | |
| 8. | INTERNAL AUDIT CHARTER 2019 | 66 - 77 |
| | <p>In accordance with the requirements of the Public Sector Internal Audit Standards, the Council has an Internal Audit Charter. The Charter is reviewed annually. The Committee is asked to consider the Council's compliance with its own and other published standards and controls.</p> | |
| 9. | DATES OF FUTURE MEETINGS | |
| | <p>Dates of future scheduled meetings:</p> <ul style="list-style-type: none">• 9 Dec 2019• 11 Mar 2020 | |

Agenda Item 1

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee Minutes



Tuesday 23 July 2019

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Jonathan Caleb-Landy, Rebecca Harvey, PJ Murphy, Alex Karmel and Matt Thorley

Officers:

Andy Hyatt (Head of Fraud)
Mathew Dawson (Treasury and Pensions)
Phil Triggs (Director of Treasury and Pensions)
Chris Harris (Chief Accountant)
Kim Smith (Chief Executive)
Hitesh Jolapara (Strategic Director of Finance and Governance)
Emily Hill (Assistant Director of Corporate Finance)
David Hughes (Director for Audit, Fraud, Risk and Insurance)
Mike Sloniowski (Risk Manager)
David Abbott (Scrutiny Manager)

External: Andrew Smith (External Auditor from Grant Thornton)

1. MINUTES OF THE PREVIOUS MEETINGS

RESOLVED

The minutes of the meetings held on 12 March 2019 and 9 July 2019 were agreed as accurate records and were signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor Alex Karmel (who entered the meeting at 7.04pm).

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND ACCOUNTS FOR 2018-19

NOTE: Officers tabled a sheet of errata for the report which is attached to these minutes as Appendix 1.

Hitesh Jolapara, Strategic Director of Finance and Governance, introduced the report that presented the Council's 2018/19 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

He noted that the accounts had been closed on two systems as the Council had migrated its finance systems from BT Agresso to the Hampshire SAP system.

Andrew Smith, External Auditor from Grant Thornton, attended to talk through the accounts and answer questions from the Committee. He highlighted the following points:

- Grant Thornton anticipated issuing an unqualified audit opinion and an unqualified 'value for money' opinion which was very positive for the Council.
- No significant risks were found during the audit.
- The transition of data from BT Agresso to Hampshire SAP was complete and there were no issues to report.
- There were no significant issues related to the Pension Fund's investments.

There was a significant finding around the Dedicated Schools Grant and the cumulative overspend of £13.6m as of 31 March 2019. The auditor had asked officers to change how this was presented in the accounts so it didn't show as a negative reserve.

Following benchmarking looking at reserve levels, H&F was found to be below average as result of the Council using reserves to fund services. The auditor recommended rebuilding reserve levels over time.

Andrew Smith drew the Committee's attention to the action plan and recommendations on page 182 of the agenda pack and noted that Grant Thornton would be bringing a proposal back to address the actions, that may incur additional fees.

[Councillor Alex Karmel entered the meeting]

Councillor Caleb-Landy noted that there had recently been stories in the press about Grant Thornton being fined by the Financial Reporting Council over audits of other organisations. He asked for the auditor to provide reassurance over the robustness of their audits for the Council.

Andrew Smith informed members that, to provide reassurance, the auditor had introduced an additional independent layer of review before they reached their conclusion. He added that every firm had been put under the spotlight. Audit fees had come down significantly over the past ten years, but the Financial Reporting Council had raised the bar for audits.

Andrew Smith noted that Grant Thornton had agreed an action plan with the Financial Reporting Council to address their concerns and they were content with the plan. They had also commissioned an independent firm to review their audit practice.

Councillor Caleb-Landy asked if the auditors had gone into primary material to make sure they lined up with the accounts. Andrew Smith said that the audit involved a sample going back to source evidence – e.g. looking at invoices from third-parties and checking the related cash transactions.

Hitesh Jolapara noted that on the ground there were Council finance teams supporting the audit process and the auditors had weekly check-ins with his team. He had noticed more enquiries and more detailed enquiries from the auditors than in previous years.

Councillor PJ Murphy asked if the reserve level benchmarking referred to page 176 of the pack were absolute levels – or did they take into account the relative size of the Council. Andrew Smith said they were absolute levels but he believed the reserve levels would still be below average taking into account the relative size of the authority. Councillor Murphy said this was something he would like the Finance Policy and Accountability Committee to look at.

ACTION: David Abbott

Councillor PJ Murphy welcomed the information on the gender distribution of the workforce but asked that it be broken down further in future reports. He wanted to see the distribution by department and seniority. Hitesh Jolapara said that information could be added – the supporting information was there to do it.

ACTION: Hitesh Jolapara

RESOLVED

1. The Committee noted the content of the external auditor's 'Audit Findings Report' (ISA260), including the auditor's findings, recommendations and the Council's response to those recommendations (Appendix 2)
2. The Committee approved the 2018/19 Annual Governance Statement which is included in the Statement of Accounts (Appendix 1).
3. The Committee approved the 2018/19 management representation letter (Appendix 3).
4. The Committee approved the Statement of Accounts for 2018/19, including the Pension Fund Accounts (Appendix 1).
5. The Committee approved the Pension Fund Annual Report 2018/19 (Appendix 4).
6. The Committee noted that the accounts remained 'unaudited' until final sign-off by the external auditor and delegated to the Chair of the Audit, Pensions and Standard's Committee, in consultation with the Strategic Director, Finance and Governance, the authority to approve any further adjustments required as part of the completion of audit work.

Government Consultation on Pension Fund Valuation Period

Councillor PJ Murphy asked officers for an update on the Government's consultation on moving from a triennial valuation to a quadrennial valuation for the pension fund.

Phil Triggs explained that the Government wanted to move to a quadrennial valuation period to align the Local Government Pensions Scheme with other public sector pension schemes. However, officers felt four years was too long as contribution rates quickly became out of date and funding levels could change quickly. Officers anticipate a four year period would mean Councils having to do an interim valuation after two years which would increase costs. Councillors agreed with officers – three years was the right balance.

The Committee recommended that valuation period should remain as three years.

5. TREASURY OUTTURN REPORT 2018-19

Phil Triggs, Director of Treasury and Pensions, presented the Council's annual Treasury Management Outturn report for 2018/19 and noted it was a regulatory requirement for the outturn report to be presented to the Council by the 30th of September each year. He highlighted the following key points:

- Total borrowing at year end (March 2019) was £212.84m with an average interest rate of 4.77% (as compared with £217.41m and 4.89% last year).
- Total cash invested was £326.4m.
- The strategy for 2018-19 was to keep investments short-term and high quality – a prudent approach with reduced risk but a lower return.
- There was no new borrowing over the period. The Council had used its own cash reserves to fund borrowing internally.

Councillor PJ Murphy, referencing 4.8 of the report, noted that the Council had paid off £3.8m over the last year – and asked if the strategy was now to pay down loans as they matured. Phil Triggs said a number of previous loans were taken out at quite high rates and so as they were repaid the Council had the opportunity to refinance those loans at much lower rates of around 2 percent, bringing repayment costs down. Recently the Council had managed to contain borrowing rather than take out new loans.

Councillor Murphy asked which loans were maturing this year. Phil Triggs said loans of £10m would be maturing in the current year, rising to £12m the following year.

Councillor Alex Karmel asked if it was possible to have a breakdown of loan maturity dates and the interest being paid on them.

ACTION: Phil Triggs

Councillor Matt Thorley confirmed with officers that the loans were all maturity loans then asked what the arrangement fee was. Phil Triggs noted it was three and a half basis points (0.035%).

Hitesh Jolapara added that when making decisions about loans and repayments – the Council took a broader view – considering the best time to borrow and how to spread risk.

Councillor Matt Thorley noted that in 4.12 there was mention of the HRA borrowing from the general fund and asked if that would mean charging interest. Phil Triggs confirmed that interest would have to be charged at the commercial rate. A policy would be finalised and included in next year's Treasury Management Strategy.

Councillor Matt Thorley asked for officers' thoughts about widening the Council's investment parameters. Phil Triggs noted that the Council had looked at asset backed securities, which could produce a return of 35 basis points on top of the current yield, but the Committee chose not to take that step due to the uncertain political and financial climate.

RESOLVED

The Committee noted the report.

6. CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT 2018-19

Andy Hyatt, Head of Fraud, presented the report which provided an account of fraud related activity undertaken by the Corporate Anti-Fraud Service from 1 April 2018 to 31 March 2019. He drew the Committee's attention to the table at 1.6 of the report listing 146 positive case outcomes for the service. Cases involving tenancy fraud resulted in the Council getting 39 properties back to be used for social housing.

The Chair recommended that Councillors be notified of the anti-fraud work going on in their wards.

ACTION: Andy Hyatt

The Chair asked what had caused the large drop in proven 'Right to Buy' fraud (52 in 2017/18 to 16 in 2018/19). Andy Hyatt said that reflected a lower numbers of applications coming through. Even with the discount many properties were prohibitively expensive.

Councillor Jonathan Caleb-Landy asked why tenancy fraud had increased in 2018/19. Andy Hyatt said the levels varied from year to year – the figures reflected the referrals that came in to the team.

Councillor Caleb-Landy said it was difficult to see broader trends. Andy Hyatt explained that towards the end of the financial year there would be a national data matching exercise as part of the National Fraud Initiative – so officers would be able to present a fuller picture around March.

Councillor Rebecca Harvey asked what the acronym 'NHHD' stood for. Officers explained that it stood for Notting Hill Housing Group – the Council had an agreement with them where repossessions (or an equivalent property) came back to the Council.

Councillor Alex Karmel noted that some departments didn't seem to be informing the Corporate Anti-Fraud team of potential areas of significant recovery (making reference to some large illegal HMOs that had been in the press). He felt the Council needed to tighten up its internal metrics so the team was made aware of these properties sooner so a judgement could be made.

Andy Hyatt said the team had considered hiring another financial investigator but it wasn't deemed viable at present. Councillor Karmel urged the team to keep it under review.

Councillor PJ Murphy asked if the Council ever recovered the money made from illegal sub-letting. Andy Hyatt said there were two routes to recovery, depending on the case the Council could use the powers in the Proceeds of Crime Act or 'unlawful profit orders' from the Preventions of Social Housing Fraud Act 2013.

Councillor Murphy asked officers to let tenants associations know of any housing and tenancy fraud successes. It would be good for them to know and might encourage more people to come forward. He then asked if there was anything the Council could do to encourage reporting – e.g. offering some benefit for the housing association. Andy Hyatt said he would speak to the housing department about that. He added that an investigator from the team held a surgery once a week on housing estates.

ACTION: Andy Hyatt

RESOLVED

The Committee noted the report.

7. RISK MANAGEMENT UPDATE

Mike Sloniowski, Risk Manager, presented the report that provided an update on risk management within the Council and the revised sovereign strategy and corporate risk register.

The Chair asked officers to pick out the key issues. Mike Sloniowski said the biggest issue on the horizon was the potential for a 'no deal' Brexit – due to the change in Government that scenario had become more likely in October. However, the Council had robust resilience plans in place and officers were confident that the Council had a lot of support from services, and from its contractor base. The other major area of risk was the ongoing reduction of the Government's funding to local government.

Councillor PJ Murphy recommended the Committee look in more detail at the Council's major regeneration schemes – i.e. West King Street and White City.

ACTION: Mike Sloniowski

Officers noted that cyber risks were also high-risk and would be coming to the next meeting. The Committee asked that the report included the Council's social media and front facing IT / communications technology.

ACTION: Mike Sloniowski

RESOLVED

The Committee noted the contents of the report, the updated sovereign strategy, and the corporate risk register.

8. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2018-19

David Hughes, Director of Audit, Fraud, Risk and Insurance, presented the report that summarised the work of Internal Audit in 2018/19 and provided the opinion of the Director on the adequacy and effectiveness of the Council's framework of governance, risk management and control. He noted that there had been continuing improvement in the number of positive audits (88% positive) and a very high rate of implementation – it was a testament to the Chief Executive's robust approach to audit and assurance and the Committee holding officers to account. Kim Smith, Chief Executive, added that a lot of the improvement coincided with David Hughes' leadership as Director of Audit, Fraud, Risk and Insurance and thanked him for his hard work.

The Chair asked what further improvements could be made. David Hughes said he was working on getting the message out to all managers and services.

Councillor PJ Murphy noted that, having been on the Committee in previous years, coming back he had seen a 'step change' (illustrated by the chart under 4.6 of the report).

RESOLVED

The Committee noted the report.

9. LIMITED ASSURANCE REPORT - SECTION 106 AGREEMENTS

David Hughes introduced the final internal audit report on Section 106 Agreements. He noted that officers had addressed all of the issues raised.

Joanne Woodward, Chief Planning Officer, presented the report and made the following points:

- In response to concerns about a lack of corporate oversight officers had introduced a monthly board that reviewed all bids for draw down. There was an agreed protocol so all officers knew what's required.
- A lot of work had been done on financial reconciliation and there was now a shared database with finance officers, giving greater transparency.
- Planning had been through a restructure and it was now clearer who was responsible for managing the programme.
- Officers had been the Council's public Finance, Commercial Revenue and Contracts Policy and Accountability Committee several times to give an overview of the programme.

Councillor Alex Karmel noted that Section 106 Agreements were becoming less important with the introduction of the Community Infrastructure Levy and asked for assurance that the Council had the same processes for both. Joanne Woodward confirmed that the same processes and governance were in place for both.

Councillor Jonathan Caleb-Landy noted the risk around non-financial obligations and a lack of monitoring. He asked if there was any time limit on older obligations – could the Council still go back to developers and claim them? Joanne Woodward said there was no time limit. Officers had been issuing more demand notices where payments had been missed and could go back and seek restitution where there had been underpayments.

Councillor Alex Karmel asked if these processes covered Section 278 agreements. Joanne Woodward said they were separately monitored by the Highways department.

David Hughes informed members that the recommendations were on track to be completed by November. Following that, officers would carry out follow-up work and would report back to the Committee at the end of year to give assurance.

Councillor PJ Murphy noted that the Finance, Commercial Revenue and Contracts Policy and Accountability Committee had been looking at Section 106 Agreements and were now much more satisfied with the arrangements. He requested a breakdown of agreements split between financial and non-financial contributions.

ACTION: Joanne Woodward

10. DATES OF FUTURE MEETINGS

Future meetings were scheduled for:


- 17 Sep 2019
- 9 Dec 2019
- 11 Mar 2020

Meeting started: 7.00 pm
Meeting ended: 8.40 pm

Chair

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Agenda Item 4

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 24 September 2019		 hammersmith & fulham
ANNUAL AUDIT LETTER 2018/19		
Report of the Strategic Director for Finance and Governance		
Open Report		
Classification: For Information Key Decision: No		
Wards Affected: None		
Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance		
Report Author: Christopher Harris, Chief Accountant		Contact Details: christopher.harris@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. The Council's external auditor – Grant Thornton - have issued their Annual Audit Letter. The letter summarises the key findings arising from the work that they have carried out at Hammersmith and Fulham Council and the Pension fund for the year ended 31 March 2019. The letter is attached as Appendix 1.
- 1.2. Grant Thornton have also provided a fee variation letter that seeks agreement from the Strategic Director of Finance and Governance to increase the external audit fee for additional work performed in connection with the 2018-19 statutory audits of the Council and the Pension Fund. The fee variation letter is attached as Appendix 2.

2. RECOMMENDATIONS

- 2.1. To note the contents of auditor's letters.

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix 1 – Annual Audit Letter 2018/19
Appendix 2 – Fee Variation Letter

The Annual Audit Letter for Hammersmith and Fulham Council and Pension Fund.

Year ended 31 March 2019



Contents



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Appendices

A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Hammersmith and Fulham Council and the Pension fund (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Pensions and Standards Committee as those charged with governance in our Audit Findings Report on 23 July 2019

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act).

Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Page 1 Our work

Materiality	We determined materiality for the audit of the : <ul style="list-style-type: none">• Council's financial statements to be £13,000,000, which is approximately 1.8% of the Council's gross revenue expenditure• Pension Fund's financial statements to be £18,000,000 which is approximately 1.8% of the Fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council and the Pension Fund's financial statements on 31 July 2019.
Whole of Government Accounts (WGA)	At the date of issuing our Annual Audit Letter, our work on the Council's Whole of Government Accounts Return is ongoing, however it will be completed by the mid-September deadline.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by the end of November 2019. We will report the results of this work to the Audit, Pensions and Standards Committee separately.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Hammersmith and Fulham Council until we complete our work on the WGA Return, as mentioned on the previous page.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements before the deadline, releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We also delivered a bespoke piece of work as part of our value for money conclusion to give you a more detailed insight into your financial standing.
- Sharing our insight – we provided regular Audit, Pensions and Standards Committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £13,000,000, which is approximately 1.8% of the Council's gross revenue expenditure and £18,000,000 which is approximately 1.8% of the Fund's net assets for the Pension Fund's financial statements.

We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We have set a lower materiality level for senior officers' remuneration for the Council's financial statements, as these are considered sensitive disclosures. A materiality of £28,000 was applied. No specific other materiality levels were set during the course of our audit.

We set a lower threshold of £650,000, above which we reported errors to the Audit, Pensions and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks - Council

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and Conclusions	Assessment
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration	As part of our audit work we have: <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	No issues were identified from the work performed in this area.	●
The risk that revenue includes fraudulent transactions Under ISA (UK) 240 there was a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	The presumption was that this risk can be rebutted as we had concluded that there was no risk of material misstatement due to fraud relating to revenue recognition.	No issues were identified in this area.	●

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit of the Financial Statements

Significant Audit Risks - Council

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and Conclusions	Assessment
<p>Valuation of land and buildings</p> <p>The Council revalues its land and buildings on an rolling five-year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>Management have engaged the services of a Valuer to estimate the current value as at 31 March 2019.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; considered the competence, expertise and objectivity of any management experts used; discussed with the valuer the basis on which the valuation is carried out and challenge the key assumptions; reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>No issues were identified from the work performed in this area.</p>	<p>●</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit of the Financial Statements

Significant Audit Risks - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and Conclusions	Assessment
<p>Valuation of Pension Fund net liability</p> <p>The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£624 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Council's Pension Fund net liability is not materially misstated and evaluated the design of the associated controls; evaluated the assumptions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; 	<p>The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members. The Government's application to the Supreme Court for permission to appeal was rejected in June 2019. The draft 31 May 2019 accounts were accurate in their treatment of defined benefit pension schemes. As a consequence of the ruling, which occurred during the audit period in June, the council were requested to review their accounting treatment for McCloud/GMP equalisation. It was at this point the Council commissioned their actuary to provide revised IAS 19 figures.</p> <p>The legal ruling around age discrimination also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits, including the Local Government Pension Scheme (LGPS).</p>	<p>●</p>


Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit of the Financial Statements

Significant Audit Risks - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and Conclusions	Assessment
Valuation of Pension Fund net liability contd.	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> tested the consistency of the Pension Fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. We have also ensured that Brexit has been considered when arriving at the values included within the Accounts. 	<p>In addition, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements have had on members benefits. GMPs must be equalised between men and women and past underpayments must be corrected. This will lead to increased costs for sponsors of defined benefit schemes</p> <p>A high level assessment received from the actuary to estimate the impact of the McCloud judgement on the Council's pension fund liability indicated an increase in pension liabilities of £6.6 million, which is 0.5% of pension liabilities. Management chose not to adjust for this item on the basis it is not material and it is an estimate and because the pension liability can vary year on year. We have accepted this and therefore we have included this as an unadjusted audit misstatement .</p> <p>Our audit work has not identified any issues in respect of the valuation of the Council's pension fund net liability</p>	

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit of the Financial Statements

Significant Audit Risks - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and Conclusions	Assessment
<p>Incomplete or inaccurate financial information transferred to the new general ledger.</p> <p>In December 2018, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data.</p> <p>There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> reviewed the Council and Pension fund's arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred; mapped the closing balances from the redundant general ledger (Agresso) to the opening balance position in the new ledger (SAP) to assess accuracy and completeness of the financial information; and completed an information technology (IT) environment review to document, evaluated and tested the IT controls operating within the new general ledger system. 	<p>We are satisfied that the data transfer of balances from Agresso to SAP was accurate and complete.</p>	<p>●</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit of the Financial Statements

Significant Audit Risks – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and Conclusions	Assessment
<p>Valuation of Level 3 Investments</p> <p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represented a significant estimate by management in the financial statements due to the size of the numbers involved (£77 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilised the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; independently verified the Northern Trust valuation to independent market data; reviewed the custodian independent valuation of Northern Trust; considered the competence, expertise and objectivity of any management experts used; and verified the investment balances to the fund manager and custodian reports 	<p>The investment balances in the financial statements were based on custodian reports. The custodian reported the valuation as at Month 11 for one of the investments, Partners Infrastructures. The Month 12 balances were subsequently £1.1m higher (which would be 0.1% of total Investments) than the balances disclosed in the financial statements. As the adjustment is not material management have decided not to adjust the financial statements. We accepted this and have included this as an unadjusted audit misstatement. This is well below performance materiality, therefore, we are satisfied that the impact on the accounts is immaterial. No issues were identified from the work performed in this area.</p>	<p>●</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit of the Financial Statements

Significant Audit Risks – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and Conclusions	Assessment
<p>Valuation of level 2 investments</p> <p>Level 2 investments do not carry the same inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as an other risk</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls; assessed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; agreed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and obtained explanations for variances; obtained year-end confirmations from investment managers and custodian; where necessary, tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. for direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert; and assessed the related impact of Britain leaving the European Union on 29 March 2019. 	<p>The investment balances in the financial statements were based on custodian reports. The custodian reported the valuation as at Month 11 for one of the investments, Partners Infrastructures. The Month 12 balances were subsequently £1.1m higher (which would be 0.1% of total Investments) than the balances disclosed in the financial statements. As the adjustment is not material management have decided not to adjust the financial statements . We accepted this and have included this as an unadjusted audit misstatement. This is well below performance materiality, therefore, we are satisfied that the impact on the accounts is immaterial. No issues were identified from the work performed in this area.</p>	<p>●</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit, Pensions and Standards Committee on 23 July 2019. No other significant issues were identified from our audit aside from the McCloud/GMP Adjustment mentioned as part of the summary of our work on the Significant Risks earlier in the Letter.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of the Hammersmith and Fulham Council Pension Fund on 31 July 2019 as well. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit, Pensions and Standards Committee on 23 July 2019.

Whole of Government Accounts (WGA)

At the date of issuing our Annual Audit Letter our work in this area is still outstanding, however this will be completed by the statutory deadline, which is in mid September.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Hammersmith and Fulham Council until we complete our work on the WGA Return, as mentioned above.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings Report agreed with the Council in July 2019, we agreed recommendations to address our findings, which are shown below, along with management's response to these.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Action Plan

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ●	Value for Money – financial sustainability The Council is using its reserves to meet ongoing pressures on Dedicated Schools Grant funding and to invest in regeneration projects. Whilst the Council's reserves are currently sufficient, this will not be sustainable in the medium term.	The Council needs to make sure that all of the interested parties are aware of the challenges the Council is facing and may continue to face depending on the outcome of the Funding Settlement.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Value for Money conclusion

Value for Money Risks


Risks identified in our audit plan	How we responded to the risk	Findings and Conclusions	Assessment
<p>Financial Sustainability</p> <p>The Council is continuing to face financial pressure. Dedicated Schools Grant funding and demand for Social Care (adults and children's) temporary accommodation are specific areas which are placing the Council's finances under considerable strain. Therefore, the Council needs to manage its resources carefully to ensure a sustainable future for the Borough.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • reviewed the 2018-19 Outturn, including details of performance against both the Revenue and Capital Budgets; • reviewed progress against the 2019-20 financial plan up to the completion of our audit; and • obtained an update on the Council's Medium-Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date. 	<p>We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:</p> <ul style="list-style-type: none"> • General fund earmarked reserves have reduced from £95m to £63m. The general fund reserves were utilised for approved projects • However challenges in respect of the Dedicated Schools Grant (DSG) are continuing to increase, with a further overspend of £6.6m being incurred in-year, bringing the cumulative deficit in this area to £13.6m. • A balanced budget has been set for 2019-20, which includes the delivery of £10.3m of savings. Plans are in place for the delivery of this sum, which will need close monitoring during the course of the year. • The Council is continuing to adopt a one-year planning timeframe due to the level of uncertainty post-2021, which is something that will need to be tackled soon to ensure the Council is in a position to face the challenges. <p>Based on the work we performed to address the significant risk, we concluded that: the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.</p> <p>However as mentioned on the previous page, we have raised a couple of recommendations for the Council to consider, and we will monitor the progress in these areas over the course of the next 12 months ahead of next year's VfM Work.</p>	<p>●</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and Conclusions	Assessment
<p>Brexit</p> <p>At the time of our planning and risk assessment, the UK was due to leave the European Union on 29 March. When Britain exits the EU, there will be national and local implications that will impact on the Council, which the Council will need to plan for. Brexit will also potentially add another unknown to these challenges and the Council will need to monitor developments closely as the end of March approaches.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • reviewed areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of the Council's assets • reviewed progress against the 2019-20 financial plan up to the completion of our audit; and • considered the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce. 	<p>Brexit has been delayed with a revised date of 31 October 2019 so the risk has not materialised within the period covered by this report however we have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:</p> <p>The Council have considered the impact of a no deal and are confident that there would be no impact on business continuity as:</p> <ul style="list-style-type: none"> • the Council is not reliant on any European social care suppliers and business will continue as usual • senior management are all eligible for settled status therefore no unplanned vacancies or skills gaps will occur. • The Council has arranged access for senior staff to work from home as a contingency plan in the event of Council staff being unable to get to work due to traffic gridlock. <p>Based on the work we performed to address the significant risk, we concluded that the Council has established proper arrangements to analyse and mitigate any potential risks and opportunities resulting from Brexit.</p>	

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	12 March 2019
Audit Findings Report	23 July 2019
Annual Audit Letter	29 August 2019

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Fees

	Planned £	Actual fees £
Statutory audit	126,242	140,242
Audit of Pension Fund	16,170	16,170
Housing Benefit Grant Certification	13,000	13,000
Total fees	155,412	169,412

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £126,242 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Also given we only started our work on the Certification of the Council's Housing Benefit Return in October 2019, we are currently unable to confirm whether any additional fees will be charged in respect of this work

Additional Fees proposed

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling – Main Accounts	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements. As this impacted on both the main Accounts and Pension Fund there is an additional charge in respect of both audits.	£1.5k
Assessing the impact of the McCloud ruling – Pension Fund		£1.5k
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£3k
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£3k
Review of New System SAP	We were required to review the implementation of the new system and the migration of the data from the old system to the new system.	£5k
Total		£14k

A. Reports issued and fees (continued)

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Fees for non-audit services

Service	Fees £
Audit related services	
• Certification of Housing Capital Receipts Grant	4,500
• Certification of Teachers Pensions Return	3,500
Non-Audit related services	
• CFO Insights Subscription	12,500
• HFS (JV entity of Council) –Tax Compliance	3,700
• HFS 2 Developments (JV of Council) – Accounts Preparation	900
• HFS 2 Developments (JV of Council) – Tax compliance services	2,100
• HFS 2 Developments (JV of Council) – Audit	3,750

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services listed are consistent with the Council's policy on the allotment of non-audit work to your auditor.





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16 July 2019

Dear Hitesh,

Fee variations in relation to the 2018-19 external audit

I am writing to seek your agreement to increase the external audit fee for additional work performed in connection with the 2018-19 statutory audits of the Council and the Pension Fund.

As you know, local government audit fees have significantly reduced in recent years. In the last year alone, your audit scale fees reduced by a total of £42,538, which equates to a saving of 23%.

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £142,412 excluding VAT assumes that the scope of the audits do not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table below.

Area	Reason	£
Implementation of the new ledger system (SAP)	One-off additional audit has been performed due to this significant business change. Additional work has included: <ul style="list-style-type: none">reviewing the Council and Pension fund's arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred;mapping the closing balances from the redundant general ledger (Agresso) to the opening balance position in the new ledger (SAP) to assess accuracy and completeness of the financial information; andcompleting an information technology (IT) environment review on both systems Agresso and SAP to document, evaluated and tested the IT controls operating within the new general ledger system across the financial year.	£5,000

Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£3,000
Total		£14,000

As a result of the above, we propose the revised fee for the audits will be £156,412 excluding VAT. This compares with an actual fee charged for the 2017/18 audit of £184,950 excluding VAT. The revised fee still provides a saving of £28,538 (or 15%) on the prior year fee charged by KPMG LLP. In light of the additional work performed to provide the statutory audit opinion over and above that performed in the prior year, we believe the revised fee still provides value for money.

Process for approving variations to the scale fee

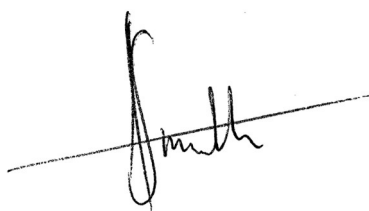
Whilst PSAA do not change the published scale fee, PSAA can approve any proposed variations to the scale fee by the appointed auditor. PSAA will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee.

As the fee variations relating to McCloud, pensions and PPE valuation are common to all local authorities, we have verbally agreed an approach with PSAA to billing for the additional work in these areas, which will ensure consistency in our firm's approach across the sector.

Prior to our submission of the proposed fee variations to PSAA, we are required to communicate the proposed fee variations to those charged with governance. We have included the proposed fee variations set out above in our Annual Audit Letter.


If you would like to discuss our proposed fee variations, please contact me in the first instance.

Yours sincerely



Andrew Smith, Director
Grant Thornton (UK) LLP

Agenda Item 5

<p>London Borough of Hammersmith & Fulham</p> <p>Audit, Pensions and Standards Committee</p> <p>24 September 2019</p>		
CYBER SECURITY		
Report of the Cabinet Member for Finance and Commercial Services – Councillor Max Schmid		
Open Report		
Classification: For decision Key Decision: No		
Consultation: Consultation has also taken place with H&F's Business Continuity Manager, Risk Manager, and Website Manager. IT Services has consulted with RBKC and WCC as there is shared Office 365 infrastructure. Discussion and consultation have taken place with WCC and RBKC technical staff and their Senior Information Risk Officer.		
Wards Affected: All		
Accountable Director: Veronica Barella, Chief Information Officer		
Report Author: Adrian Dewey, IT Security Manager		Contact Details: Tel: 020 8753 1104 adrian.dewey@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. Hammersmith and Fulham council, like all organisations, is constantly under threat from determined attackers. To date, the actions undertaken by the Council's IT team and its suppliers continue successfully to protect our network.
- 1.2. Following a report to Cabinet on 9th October 2017 entitled 'Cyber Threat Remediation', actions were taken to reduce Hammersmith and Fulham's exposure to the cyber-security risks described in the 2017 report and the cyber-security risks successfully remediated. Since the 2017 report some new cyber-security challenges have developed and have been successfully remediated.

- 1.3. Hammersmith & Fulham, along with many council's, operates social media accounts to communicate with the public. The organisation would suffer reputational risk if the accounts were compromised and used to post unauthorised material. Hammersmith & Fulham uses best security practice to manage its social media accounts and protect against the risk of unauthorised access to them.

2. RECOMMENDATIONS

It is requested that the Audit Pensions and Standards Committee note the following;

- 2.1. Recommendations made to Cabinet on 9th October 2017 have been successfully implemented, and reduced Hammersmith & Fulham's exposure to cyber-security risk to an acceptable level through;
- multi-factor-authentication
 - EM+S Office 365 licensing
 - monitoring of suspicious login attempts
 - review of file types that can be used with Office 365
- 2.2. Hammersmith & Fulham's increasing use of Microsoft's Office 365 cloud-based service continues to pose cyber-security challenges, and will require regular review.
- 2.3. Configuration changes made to Sharepoint Online have reduced the information security risk arising from its general deployment to acceptable levels. The replacement of the Virtual Desktop environment across the council (white boxes) with Windows 10 laptops for most users has enabled flexible working as well as delivering high levels of information security control. Hammersmith & Fulham's social media accounts are well protected against the risk of being hacked and used to distribute unauthorised material.
- 2.4. The Council's IT operations continue to meet the security requirements of the UK Cabinet's Office Public Service Network (PSN) Code of Connection. As part of the compliance process Hammersmith & Fulham is annually audited by an independent security testing company providing independent assurance on the council's overall arrangements.

3. REASONS FOR DECISION

- 3.1. The report to Cabinet on 9th October 2017 'Cyber Threat Remediation', looked at Hammersmith and Fulham's exposure to cyber-security risk, and recommended a number of actions to reduce the exposure. These actions were implemented, and successfully reduced the exposure. Sections 4.1 – 4.8 (below) provide more detail.

- 3.2. Since the last report new cyber-security issues relevant to Hammersmith and Fulham have developed. Sections 4.9 - 4.21 provide more detail, including actions taken to reduce the organisation's exposure.

4. PROPOSAL AND ISSUES

Progress against the objectives set in the Cyber Threat Remediation report

- 4.1. The report authorised action to introduce multi-factor-authentication (MFA), upgrade Office 365 licenses to gain access to advanced MFA features, increase the monitoring of suspicious Office 365 login attempts, and review whether additional blocking of the file-types that can be imported into Office 365 was required.

Multi-factor authentication

- 4.2. Multi-factor authentication has been implemented. Unauthorised logins to the H&F Office 365 environment from the internet have been reduced to zero. Enabling MFA required significant non-technical effort to ensure all users registered a mobile phone number through which they receive the MFA security challenge. The O365 accounts of officers and Councillors are protected through this technology.

Office 365 licence upgrade

- 4.3. EM+S Office 365 licence upgrade implemented. Previously, everyone had to authenticate every 3 days even when using corporate machines. The new licence has allowed MFA to be implemented in a way that minimises the number of extra steps required for logging into O365, while preserving the security benefits of MFA. The new 'Conditional Access' feature allows rule-sets to be created so that logins from trusted networks or devices are exempted from the MFA challenge.

Increased monitoring of suspicious Office 365 use

- 4.4. While MFA was prepared for introduction, the Council's Agilisys Service Desk was commissioned to provide monitoring of the Office 365 activity logs for Hammersmith & Fulham. Prior to deployment a number of suspicious logins were observed. The accounts were locked and the staff account owners contacted and guided through changing their passwords.
- 4.5. Since the deployment of MFA, no further suspicious activity of this type has been observed in the activity logs.

Protection against brute-force password guessing attacks

- 4.6. While MFA was prepared for introduction, we continued to see elevated numbers of attempts to login to Office 365 using automated password

guessing. While these attempts have never been successful, for a time they caused account lock-outs which disrupted the ability of officers to work.

- 4.7. The account lock-out thresholds for the Office 365 and internal networks have been adjusted so that only Office 365 external access is locked-out. Officers or members connecting via the internal corporate network can continue to work.

Review the blocking of files and attachments for adequacy

- 4.8. The Council's IT Security Manager has reviewed the paths through which data can be accessed and moved in and out of the Office 365 environment. No new blocking was deemed necessary.

New threats and Hammersmith & Fulham responses since the previous report

- 4.9. The external threats to the Council's cyber-security have not changed significantly since the last reporting period. However, the organisation has continued to migrate data from the internal network to permanent storage within Office 365 for cost and business efficiency reasons. The Office 365 platform is more directly exposed to the internet than the internal network, so Hammersmith & Fulham's ability to configure and control Office 365 is key to avoiding new threats.

Internal file-shares replaced by Office 365 Sharepoint Online

- 4.10. IT Services is in the process of migrating all of the organisation's documents currently stored in file-servers on the internal network to Sharepoint Online in Microsoft's Office 365 cloud environment.
- 4.11. Sharepoint Online is by design a collaboration tool. Its default configuration makes it easy to share documents with other users both inside and outside the organisation. Hammersmith & Fulham has reviewed the collaboration features and taken the following action:
- 4.12. Sharepoint Online sites for teams within Adult and Children's Social Care have had the ability to directly share documents (by sending links to other users) removed. This is because generating links makes it impossible to audit who has access to a Sharepoint site. As these teams work with significant amounts of information classified OFFICIAL SENSITIVE it is important that access control is preserved. IT Services consulted with the Directors for Adult and Children's services to agree this remediation action.

Windows 10 roll-out

- 4.13. IT Services is in the process of replacing all Windows 7 based devices in use at Hammersmith & Fulham with new Windows 10 laptops. (Windows 7 will cease to be safe to use after January 2020 when Microsoft will stop providing

security patches). The Windows 10 project has been a major piece of work, and information security requirements have been included from the start.

- 4.14. The prototype Windows 10 Enterprise laptop build was tested by an independent third-party security testing firm as part of the Council's 2019 Public Service Network certification process. The testers reported that the security configuration of the laptop build was good. Only one vulnerability was found, which has been corrected for the production build.

Public Service Network compliance

- 4.15. Hammersmith & Fulham received its last PSN Certificate of Compliance on 26th September 2018. PSN certification is required to enable on-going access to DWP data. In preparation for the renewal of the certification in September 2019, the Council was independently audited in April 2019.

Business continuity and resilience

- 4.16. The implementation of MFA and Office 365 upgrade is a significant improvement to meet the IT challenges that the council will face in the future, it is a critical tool in protecting identity theft. It will reduce risk and increase the resilience of the council's critical business data, and better able to meet the ever-increasing sophisticated forms of cyber-attacks.
- 4.17. The set of proposals will ensure that H&F's core data systems are continually hardened, effectively rendering our critical data impenetrable, even under the typical conditions of a constantly changing IT environment.
- 4.18. The measures proposed will greatly increase the resilience of services by ensuring their dependency on essential data meets the necessary confidentiality, integrity and availability standards.

Protection of social media accounts

- 4.19. Hammersmith and Fulham have Twitter, Facebook, YouTube, Flickr and Instagram accounts, and uses them to communicate with the public. All of these services are consumer orientated, though increasingly used by corporate bodies as part of their communications strategy.
- 4.20. As consumer orientated services, each uses login via a username and password as its primary method of authentication. Except for Flickr each service also offers a two-factor authentication option, where a challenge is sent to a nominated mobile phone number before the login is authorised.
- 4.21. The best security practice for protecting such accounts is to:
- Use a strong password. This is 8 characters minimum, with a mix of numbers, punctuation, and letters in both uppercase and lowercase. This protects against dictionary (password guessing) attacks.

Not use the password on any other internet site. This protects against the other site being compromised and its passwords exposed.

Use two-factor authentication. Even if the password is exposed, an attacker will not be able to login.

If multiple users are allowed to login to the account, a staff member must be responsible for managing this multiple use. This is either by creating and removing administrative accounts, or changing the password on a shared account, as the team of staff who need administrative access changes. This protects against individuals who have left the organisation retaining access.

- 4.22. Hammersmith and Fulham's Communications Team have responsibility for operating social media accounts. They report they implement best practice as follows:

	Twitter	Facebook	YouTube	Flickr	Instagram
strong password	Y	Y	Y	Y	Y
unique password	Y	Y	Y	Y	Y
two factor authentication	Y	Y	Y	not available	Y
multi-use management	Y	Y	Y	Y	Y

Consequently, Hammersmith and Fulham's social media accounts are well protected against the risk of unauthorised access.

5. OPTIONS AND ANALYSIS OF OPTIONS

- 5.1. This report describes the outcome of cyber-security risk reduction actions implemented prior to this report. There are no relevant options for the matters discussed in this report.

6. CONSULTATION

- 6.1. As LBHF, RBKC and WCC share a single Office 365 tenancy, discussion and consultation has taken place with WCC and RBKC technical staff and their Senior Information Risk Officer when making the configuration changes to Office 365 described elsewhere in this report.

7. EQUALITY IMPLICATIONS

- 7.1. This report describes the outcome of cyber-security risk reduction actions implemented prior to this report. There are no equalities implications.
- 7.2. Implications verified by: Peter Smith, Head of Policy & Strategy, 020 8753 2206

8. LEGAL IMPLICATIONS

- 8.1. This report describes the outcome of cyber-security risk reduction actions implemented prior to this report. There are no legal implications.
- 8.2. Implications verified by: Rhian Davies, Assistant Director Legal, 020 8753 2729

9. FINANCIAL IMPLICATIONS

- 9.1. This report describes the outcome of cyber-security risk reduction actions implemented prior to this report. There are no financial implications.
- 9.2. Implications verified by: Emily Hill, Assistant Director, Corporate Finance, 020 8753 3145

10. IMPLICATIONS FOR BUSINESS

- 10.1. This report describes the outcome of cyber-security risk reduction actions implemented prior to this report. There are no implications for businesses in the borough.
- 10.2. Implications verified by Albena Karameros, Programme Manager, Earls Court, Governance & Coordination, 02079388583

11. COMMERCIAL IMPLICATIONS

- 11.1. This report describes the outcome of cyber-security risk reduction actions implemented prior to this report. There are no procurement implications.
- 11.2. Implications verified by: Andra Ulianov, Head of Procurement & Contracting, 07776672876

12. IT IMPLICATIONS

- 12.1. This report has been submitted by H&F's IT services. It describes the outcome of cyber-security risk reduction actions implemented prior to this report. There are no further IT implications.
- 12.2. IT services continues to monitor cyber risks.
- 12.3. Implications verified by: Veronica Barella, Chief Information Officer, 020 8753 2827

13. RISK MANAGEMENT

- 13.1. This report describes the outcome of cyber-security risk reduction actions implemented prior to this report. There are no new risk management implications

13.2. Implications verified by: Michael Sloniowski, Risk Manager, 020 8753 2587

14. OTHER IMPLICATION PARAGRAPHS

14.1. There are no property, business intelligence, health & wellbeing, Section 106 or PREVENT implications. Information security risks are discussed in the body of the report.

15. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

Agenda Item 6

London Borough of Hammersmith & Fulham		 hammersmith & fulham
AUDIT, PENSIONS AND STANDARDS COMMITTEE		
24 September 2019		
RISK MANAGEMENT UPDATE		
Report of the Director for Audit, Risk, Fraud and Insurance		
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 Council and present them with a revised sovereign strategy and 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 and;
 - 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 eliminated entirely 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 – Doing things with residents not to them;
- ensure robust financial management – Being ruthlessly financially efficient;
- protect staff and residents – Creating a compassionate council;
- protect valuable assets – Taking pride in Hammersmith and Fulham; and,
- maintain and promote the Council's reputation – Building shared prosperity.

Furthermore, the work of the Council's Policy and Accountability Committees is acknowledged as a robust and additional form of assurance for the management of risk across its services.

4. PROPOSAL AND ISSUES

- 4.1. Risk management is the application of council strategies, governance, policies and processes to identify and manage risks that are unacceptable to the Council. Managing risk processes effectively enables the Council to safeguard against potential threats and exploit potential opportunities to improve services and provide better value for money for residents, visitors, local businesses and service users.

- 4.2. 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; and,
 - monitor, review and escalate risks.
- 4.3. This report provides the Committee with an updated corporate risk register presenting a suite of 25 corporate risks as reviewed by the Council's Strategic Leadership in September. The full suite of corporate risks is listed in **Appendix 1**.
- 4.4. The council is accountable to the public for its performance and financial management. This means that the Council naturally has a low appetite for risk, however as austerity continues the Council will need to take carefully considered risks to develop new and innovative ways to deliver services, support communities and ensure the long-term wellbeing of communities is not impaired by decisions made in the short term. This makes good risk management essential.

Corporate risk register

- 4.5. Risks are represented in the following Heat Maps, Chart 1 illustrates the previous position for Quarter 1 for 2019/2020 and Chart 2 illustrates the Quarter 2 position for 2019/2020.

OVERVIEW RISK HEAT MAPS

Chart 1:

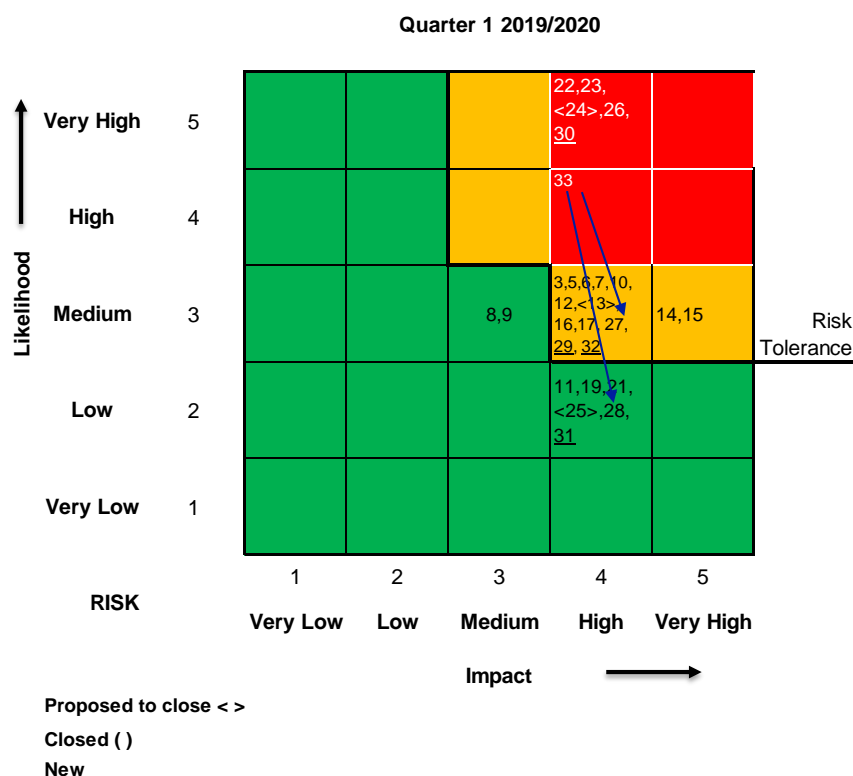
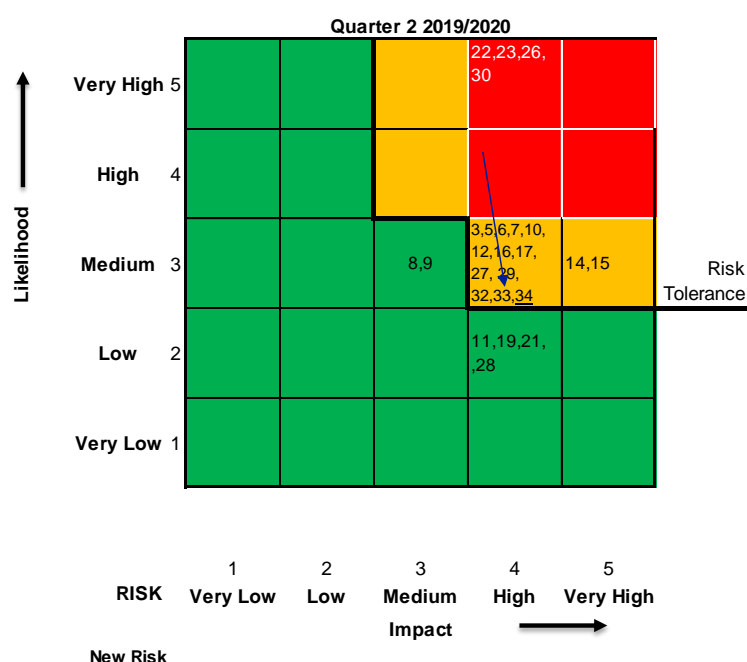


Chart 2:



Summary

4.6. There will remain 25 active corporate risks on the register in Q2, including;

- 1 risk is closed and removed from the previous quarter: risk 31 Adult Social Care balanced budget pressure 2019 2020, as this is being consolidated in risk 30, the wider corporate risk;
- 1 new risk is being added this quarter: risk 34 Preparedness for elections; this could mean venue, technology, people, processes and resources from national government. There is currently a high risk of a General Election being called at relatively short notice in the next few months. In order for a smooth and successful election to take place, it is essential that suitable venues are available for the Acting Returning Officer and staff to carry out various electoral activities, including, but not limited to, the counting of votes, opening of postal votes, secure storage for ballot papers, preparation of polling station equipment and training activities.

4.7. Movement from Quarter 1 2019/2020 to Quarter 2 2019/2020 is therefore summarised as follows:

- 6 High Risks at Q1 2019/2020 down to 4 in Q2 2019/2020
- 14 Medium Risks at Q1 2018/2019 up to 15 in Q2 2019/2020
- 8 Low Risks at Q1 2018/2019 down to 6 at Q2 2019/2020

4.8. Essentially this quarter is broadly a stable position and, as confirmed at the last Audit, Pensions and Standards Committee meeting, a risk narrative of the principal movements on risks is noted for assistance below:

Risk Narrative

- 4.9. Heat Maps, (see Charts 1 and 2) show the direction of travel for all corporate risks, which are expected, over time and through the implementation of appropriate mitigating actions, to come within risk appetite (or tolerance).
- 4.10. The following risk has been closed as this has now been integrated into the corporate risk 30, Financial Management of in year budget, where detailed monitoring takes places through the Corporate Revenue Monitor and Strategic Leadership Dashboard reports.
- (Risk 31) Adult Social Care balanced budget pressure in 2019/2020 and over the medium term.
- 4.11. All Corporate risks continue to be reviewed and, in this period, were subject to stringent internal Officer challenge. Risks are aligned to Council Priorities including Being Ruthlessly Financially Efficient. Enhanced focus on risk control, programme management and governance combined with strategic leadership from the Chief Executive and Strategic Leadership Team is expected to result in an improved outlook (trend) in Q3.
- 4.12. The H&F vision also includes being ruthlessly financially efficient. It requires that expenditure must always be evaluated against need and risk and that spend fits the council's priorities; this includes internal challenge on how much needs to be spent to achieve results within agreed budgets.
- 4.13. Additional mitigations are also expected to influence positive movement in the next period for:
- **Risk 3: Commercial & Procurement.** Work is progressing in support of the objectives stated in the Council's Ruthlessly Financially Efficient Action Plan including forward planning of procurement activity, checking expiry dates for existing contracts, scrutiny on the use of procurement cards and expenses, Zero Based Budgeting contracts reviews and commercial and contract managers training. Additional activity undertaken includes, continuing to improve the content on the Council's contracts register and closer examination of the Council's spend data. The next training session, business resilience for contract managers, is again being provided through a Social Value commitment by Mazars, the Internal Audit Contractor. The offer is once more being made in through the IBC Learning Zone. A review of the operating model for Commissioning and Procurement activity has begun, led by the Zero-Based Budgeting team.

In accordance with the Ruthlessly Financially Efficient objectives progress has also been made to further establish a standardised, consistent and pragmatic social value approach in contracts let across the council. The Procurement team recognised the importance of a standardised approach to achieve social value when entering into new contracts. A formalised approach will:

- embed a consistent approach to social value;

- maximise the opportunities to secure additional benefit for the borough through commissioning and procurement activities across all services;
 - enable a standardised approach to evaluating social value and obtaining a monetary figure against the social value delivered;
 - enable the monitoring of the social value delivered through contracts.
- **Risk 5: Business resilience.** Last year the council ran an emergency response 'hackathon' with local community organisations, where it was decided the council needed a space online to work together in the event of an emergency. Which is why a new ground-breaking new community emergency response website has been built and launched. It's a new and forward-thinking collaboration between the council and many businesses and community organisations across H&F, where the council will be able to improve our networks with each other to become even stronger together and more resilient for everyone's benefit. It's a place where communication can take place with each other and is a setting to share vital information before, during and after an emergency event.
 - **Risk 6: Information Management, digital continuity and regulations, legislation and compliance.** The Statutory Officers Accountability Board in September 2019 considered a report setting out performance and inappropriate disclosures in respect of handling personal data for LBHF residents and progress achieved in a joint programme for Children's Services called Protecting Residents Data. There were 8 key recommendations put forward to mitigate against the risks associated with data breaches and to reduce the number of data breaches experienced in LBHF Children's Services. All the recommendations are intended to be practically applied and at the same time have a high impact. The aims were to address 3 key areas:
 - Why protecting data is so important;
 - How best to keep personal data safe;
 - Actions to take in the event of a personal data breach.

Where appropriate, any steps taken in relation to applying the recommendations would be deployed across other directorates. As an additional measure an all-council briefing regarding keeping data safe via email was cascaded in February 2019 to staff. This was received positively. However, while incidents reported by Children's Services have reduced, email and human error remains a risk to protecting our residents' data.

Members of the Children's Services management team completed a 'Protecting Residents Data' survey which highlighted areas on which future workshop activity will be focused. Additional drop-in sessions were being booked to ensure the widest management representation is captured. Children's Services and Adult's Social Care management have agreed to have all their data classified as 'sensitive' in the migration to SharePoint. This further mitigates the risk of inappropriate sharing of resident information by means other than email. Additionally, a new Caldicott Support Manager has been recruited within Children's Services to provide additional face-to-face training, support, and guidance on information security.

- **Risk 15: Co-ordination and response to calls on the Council for Mutual Aid in a crisis.** The Grenfell fire tragedy led to a huge volume of spontaneous donations from the public. Hammersmith & Fulham Council, in response, put an emergency plan in place to speedily manage and distribute donations received in the borough. It was recognised that a plan was needed for the management of donations and volunteers as part of its emergency response plan. In response to this a Donated Goods and Services Management Protocol has been written. The protocol has been prepared drawing on international best practice in this field, including New Zealand's Ministry of Civil Defence & Emergency Management guidance. The protocol has been shared with colleagues across the council via the intranet.
- **Risk 16: Change Readiness (Agile Working, Techtonic, New systems).** Delivery of Techtonic has enabled mobile working from any location a significant efficiency and benefit whereby Officers can work from multiple sites across the civic campus. Over 2500 devices were rolled out that support working across all council sites and remotely within our community. This supports the council's vision of delivering services at the point when they are needed and to help optimise the efficiency, productivity and flexibility of our services. Additionally, in the event of emergency situations Officers are not-desk bound and can log-in to Office 365 or other applications minimising the consequence of a disruption for Residents. The move to more agile working has maximised the use of our office space across the civic campus. Techtonic supported the council's wider transformation to change organisational culture.
- **Risk 23: High needs budget pressure in the Direct school block.** The Corporate Revenue monitor reported that the Dedicated schools grant (DSG) is paid in support of local authority schools' budgets, being the main source of income for the schools. In common with other London Boroughs, the High Needs Block element has come under increased pressure in supporting children with special educational needs and spend is significantly higher than the funding provided by central government. The cumulative total DSG deficit balance carried forward to 2019/20 was £13.6m with an additional £5.1m deficit now forecast in 2019/20.
- **Risk 26: The likelihood of a 'No-deal Brexit' Risk remains the same.** The Council's Service Resilience Group completed reviews of existing Service Continuity Plans and completed Brexit Plan appendices to the main plan. Liaison with the Metropolitan Police took place on a fortnightly basis with the Public Disorder Division. The Business Continuity Manager continues to actively monitor the situation. A further preparedness meeting took place in September chaired by the Chief Executive to review progress against objectives. An additional Brexit briefing note issued has updated Cabinet and the Strategic Leadership Team on the national setting and local implications.
- **Risk 32: Corporate management of Health and Safety.** No enforcement action has been taken against the Council by the HSE in this quarter. A notice of deficiency (NOD) in respect of fire safety was served on a housing premises by the London Fire Brigade during this quarter, while significant remedial actions from a NOD on one of our hostels for the homeless last year were completed in this quarter.

Accident and incident trends are steady in comparison with this quarter last year. There have been three injuries to employees reportable to the HSE in this quarter. Corporate Health and Safety Team are being realigned to consolidate support service within the disaggregated borough. An operational (health and safety) risk register introduced at the end of the first quarter is now establishing itself in this period as an 'at a glance' table of operational safety risks across the authority. The council's revised health and safety policy is in final draft and will go for final consultation in the coming quarter. In summary, we are seeing improvement in oversight and governance, while we remain stable in operational management. Ongoing audits and inspections for the remainder of the financial year have been planned and were agreed at Strategic Leadership Team.

- **Risk 33: Transport for London funding for renovation of the Hammersmith Bridge and the consequence of delays impacting on our residents, businesses, visitors and users.**

As part of the pre-construction works, the council is exploring installing a Bailey bridge next to Hammersmith bridge for pedestrians and Cyclists so this would remove them from Hammersmith Bridge and speed up construction time considerably.

The emergency service contingency plans remain in place and sensors are attached to each of the key bridge element with early warning capacity as sensors are monitor the elements for stress on 24/7 basis and officers have email alerts of any issues as they arise with a weekly review summary. Hammersmith & Fulham Council is in regular dialogue with all emergency service providers. Pedestrians and cyclists are still able to cross but that is subject to strict conditions of use and monitoring. These requirements are reviewed on a regularly basis. Diversions are in place for motorists and the bus routes which use the bridge. TfL are monitoring traffic movement and have a mitigation plan for signals to manage peak traffic flows. TfL are now communicating regularly traffic updates for the other local bridges to the council.

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, Information Management and Electoral Services.

6. EQUALITY IMPLICATIONS

- 6.1. There are no direct Equality implications associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.
- 6.2. Equality implications verified by Fawad Bhatti, Policy and Strategy, tel. 020 8753 2206.

7. LEGAL IMPLICATIONS

- 7.1. There are no direct Legal implications associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.
- 7.2. Legal implications verified by: Rhian Davies, Assistant Director, Legal and Democratic Services, telephone 07827 663794

8. FINANCIAL IMPLICATIONS

- 8.1. There are no direct Finance implications associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.
- 8.2. Financial implications verified by: Emily Hill, Assistant Director, Corporate Finance, telephone 020 8753 3145.

9. IMPLICATIONS FOR BUSINESS

- 9.1. There are no direct implications for business associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.
- 9.2. Business implications verified by: Alben Karameros, The Economy Department, telephone 07739 316 957

10. COMMERCIAL IMPLICATIONS

- 10.1. There are no direct procurement implications for business associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.
- 10.2. Commercial implications completed by: Joanna Angelides, Procurement Consultant, telephone 020 8753 2586

11. IT IMPLICATIONS

- 11.1. There are no direct implications for Information Technology associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.
- 11.2. IT implications verified by: Veronica Barella, Chief Information Officer, telephone 020 8753 2927.

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.

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, List of Corporate risks at Q2 2019/20

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20	Q2 19/20	Q2 19/20			
Being ruthlessly financially efficient	Commercial contract management and procurement risks, rules, outcomes, social value, management.	3	3	4	3	4	3	4	Stable. Work continues in support of the Ruthlessly Financially Efficient Action Plan. Commercial training has been undertaken. Contract management and social value reports have both been prepared and presented to Business Delivery Team and the latter refreshed approach approved at Strategic Leadership Team. Spend data has been assessed and reported to the Council's Finance Board. Additional learning and development sessions for the community of contract managers has been delivered. Zero Based Budgeting are conducting a review of the operating model for Commissioning and Procurement.	M	HJ
Being ruthlessly financially efficient	Business resilience risks, systems, processes, resources, IT and preparation for accommodation moves.	5	3	4	3	4	3	4	Stable. All Service departments were required to review and refresh plans to accommodate recent moves away from the Town Hall and Extension to the new Campus. The Business Continuity Manager has attended 145 King Street Operational Readiness meetings. Where services have not updated continuity plans, they are being followed up with Directors. The Council's August meeting of the Assurance and Risk Officer Group were briefed on the decant and issues arising from Brexit. A dedicated disaster recovery plan for the Mortuary Service is being reviewed and refreshed. Emergency response extranet message board, emergency planning area and network.	M	SL
Being ruthlessly financially efficient	Information management and digital continuity, regulations, legislation and compliance.	6	3	4	3	4	3	4	Stable. Roll out of laptops under the TECHTONIC Programme has been successfully completed. This included staff re-signing a Personal Commitment Statement. 'Protecting Residents Data' a project with Children's Services has progressed	M	VB

Appendix 1, List of Corporate risks

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20	Q2 19/20	Q2 19/20			
									and recently reported to the Statutory Accountabilities Officer Board. Management questionnaire defined, timeline agreed and is in progress. Two walkthroughs of the Town Hall and Extension were carried out to make sure paper and digital records were securely removed, destroyed or in the event of digital devices recovered and removed.		
Creating a compassionate council	Managing statutory duties, equalities, human rights, duty of care regulations, highways. * Health and Safety moved to new Risk 32	7	3*	4	3	4	3	4	Stable* at risk of increasing if a bad Brexit or No deal is reached as there may be changes to the regulatory environment.	M	SL/HJ
Creating a compassionate council	Standards and delivery of care, protection of children and adults.	8	3	3	3	3	3	3	Stable. The new Ofsted Education Inspection Framework for September 2019 has been published. As before there is a specific document called 'Inspecting safeguarding in early years, education and skills' and this has also been updated. Changes to the Ofsted requirements will have an impact of workloads specifically in the area of non-regulated settings.	L	LR/SM
	Reliance on external assurance providers and providers to identify and communicate issues arising from inspections e.g. Ofsted and Care Quality Commission								The council is partly reliant on the performance of external bodies, undertaking reviews of establishments and that all issues are communicated to them for action in a timely manner.		

Appendix 1, List of Corporate risks

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20	Q2 19/20	Q2 19/20			
Creating a compassionate council	<p>Failure of partnerships and major contracts (Commercial Providers, Family Support Service, New Housing, FM and School related contractors and suppliers, IBC)</p> <p>LBHF acting as the lead Authority for the development of the WLA Dynamic Purchasing System for Semi Independent Living accommodation arrangements for Looked After Children and Care leavers 16+</p>	9	3	3	3	3	3	3	<p>Stable. A managed ending of FM and Housing Repairs and Maintenance Contracts has taken place with improved resilience and a blend of in-house and contracted services. Outcomes of a review of the Family Support Service are being considered by SLT and Moving On 2 is being implemented. Work continues over future models for providing FM functions in H&F corporate properties. Termination of the previous Amey contract has enabled remodelling of FM to deliver a combination of in-house contract managed hard FM and direct labour for soft FM functions. Corporate H&S continues to work closely with colleagues in Commercial Management and Corporate Property Services providing competent advice and operational support whilst future resource requirements are considered as part of the remodelling of FM functions.</p>	L	SLT
Creating a compassionate council	<p>Increase in complexity of working with Health partners (Primary Care Networks, Clinical Commissioning Groups, Federation Board and Integrated Care systems)</p>	10	3	4	3	4	3	4	<p>Stable - H&F CCG must deliver £300m savings in 19/20, Financial Recovery Plan and Planning.</p>	M	LR

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20	Q2 19/20	Q2 19/20			
All Council Priorities	Decision making and maintaining reputation and service standards. Good Governance, conduct, external inspections.	11	2	4	2	4	2	4	Stable. The new Corporate Induction for Managers has commenced with further sessions planned. Decision Making Training completed, Positive Ofsted Outcomes - quality of support for care leavers, Complaints and Ombudsman's reviews have been separated out and a new risk created for monitoring improvements, Programme Management, Review of Contract Standing Orders and Code of Conduct, Local Code of Corporate Governance Drafted and Annual Governance Statement 2019 2020 approved by Cabinet Member for Finance and Commercial Services, Strategic Leadership Team, Chief Executive and Leader of the Council. The action plan will be monitored by the Assurance and Risk Officer Group at their regular meetings.	L	HJ/RD
Being ruthlessly financially efficient	Failure to identify and address internal and external fraud.	12	3	4	3	4	3	4	Stable. Policies reviewed and approved at Audit Pension and Standards Committee. A refresh of the bribery risk assessment is being undertaken. New Fraud Awareness training is available on the Learning Platform and delivered to the Contract Managers Forum. End of Year report to Strategic Leadership Team and Audit Pensions and Standards Committee.	M	HJ/DH
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Compliance with the statutory duties to undertake inspection regimes covering Management of Asbestos, Electrical Testing, Fire Risk, Plant and Equipment, Water/Legionella.	14	3	5	3	5	3	5	Stable, a fire safety update was provided to the June meeting of the Economy, Housing and the Arts Policy and Accountability Committee indicating a range of measures implemented in accordance with the Fire Safety Plus objective. New contracts are being let by the now in-house FM Service to cover the non-housing assets.	M	HJ/JR
Taking Pride in Hammersmith & Fulham, Doing things with, not to	Co-ordination and response to calls on the Council for Mutual Aid in a	15	3	5	3	5	3	5	Stable, the Council recently participated in a simulation across London known as the Safer City exercise. A Donated Goods and Services Management Protocol has	M	SL

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20	Q2 19/20	Q2 19/20			
residents	crisis								been written. The protocol has been prepared drawing on international best practice in this field, including New Zealand's Ministry of Civil Defence & Emergency Management guidance. The protocol has been shared with colleagues across the council via the intranet.		
All Council Priorities	Change Readiness e.g. Agile Working, TechTonic, New systems.	16	3	4	3	4	3	4	Programme management and reporting, some new systems are operating now as business as usual. Reviews conducted at Major Programmes Board and dashboard reporting to Strategic Leadership Team. Techtonic recently reviewed at Finance, Commercial Revenue and Contracts, Policy and Accountability Committee. Delivery of Techtonic has enabled mobile working from any location, to support the council's vision of delivering services at the point when they are needed and to help optimise the efficiency and flexibility of our services. Techtonic supports the council's wider transformation to change organisational culture	M	DA
All Council Priorities	Challenges in Recruitment and retention.	17	3	4	3	4	3	4	Stable. People Strategy covers the longer-term approach to the recruitment and retention of staff, including creating attractive workplaces, Agile Working, and developing our own. Agency Reduction programme and improvement of recruitment process, employee experience within the People Strategy. Potential changes in the external labour market that could impact of supply and competitive pay levels e.g. Brexit. Our People Workforce Strategy.	M	SLT
Doing things with, not to residents	Coroner's Office (The Council Acts as a Lead for Services to other Local Authorities, West London	19	2	4	2	4	2	4	Stable. A key part of the improvement plan was to procure a new case management system, this is now being implemented.	L	RD

Appendix 1, List of Corporate risks

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20	Q2 19/20	Q2 19/20			
	Coroner's Service).										
Doing things with, not to residents	King Street Civic Campus	21	2	4	2	4	2	4	Stable. WKSr programme board and highlight report reviewed at Programme Management Board overall is reported as Green. Some dependency risk is noted here for ICT infrastructure requirements. There is some risk that macroeconomic forces (e.g. Brexit) have a detrimental effect on the supply chain, construction workforce, interest rates, borrowing and inflation, CIL income or rate of sales.	L	JR
Creating a compassionate council	Children's services placements. Increase in the number of looked after children in the last 3 years creates budget pressures as the budget is not based on head count.	22	5	4	5	4	5	4	Stable risk assessed. As with other London Boroughs, we are seeing a rise in demand from adolescents at risk due to knife crime, child sexual exploitation and children being used for drug trafficking (County lines). Work continues to ensure that the forecast is robust, and that young people are placed in the most appropriate placement for their need.	H	SM
Creating a compassionate council	High needs budget pressure in the Direct school block.	23	5	4	5	4	5	4	The Education and Schools Funding Agency now expect local authorities to prepare deficit recovery plans however given the scale of the challenge, the Council has set aside an earmarked reserve equivalent in value to the DSG deficit in 2018/19. The DSG deficit reserve is used to cover the potential overspend and based on the current in-year forecast may need to be increased during the year by £5.1m, this will be reviewed during the year	H	SM
All Council Priorities	Impact of a 'poor-deal' Brexit (Workforce, Housing, Contracts, Residents, Finances)	26	5	4	5	4	5	4	Stable. The Head of Strategy has issued eight Brexit briefing notes. Two Brexit Service resilience group meetings have taken place. The Ministry of Housing, Communities and Local Government has made available funds amounting to £209,984 for each primary authority to assist in mitigating the negative	H	SLT


Appendix 1, List of Corporate risks

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20	Q2 19/20	Q2 19/20			
									impacts of Brexit. The allocation of over half of these funds has been agreed by the Cabinet Member for the Economy and the Arts		
Doing things with not to residents	Digital Accessibility, public sector websites and apps will have to meet minimum accessibility standards. Just as all government buildings must legally be accessible to all who wish to access them, so too must their digital gateways.	27	4	4	3	4	3	4	The web team have been working to establish which of the Council's digital services are in scope of the regulations and are engaging with council services and suppliers about this to get the sites audited and fixed.	M	LR
All Council Priorities	Failure of the Management Information reporting systems for CHS	28	3	4	2	4	2	4	Further work is underway to continue to strengthen and integrate the CHS performance system within the departments wider quality assurance framework.	L	JS
All Council Priorities	Management of complaints, requests for information, members enquiries	29	New in this period, introduced at Q1		4	4	4	4	Risk proposed for inclusion by Strategic Leadership Team. A new cross-departmental Continuous Learning & Improvement Circle is being established. Terms of reference to be agreed.	H	SLT
Being ruthlessly financially efficient	Financial Management in year budget 2019/2020 and Medium-Term Planning.	30	New in this period, introduced at Q1		5	4	5	4	Ruthlessly Financially Efficient Action Plan. Zero Based Budgeting. New IBC Managed Service controls. Agency Spend Monitoring. Contract reviews, Procurement Card spend reviews, Purchase Order validation and updated communications, Spend data analysis, SLT Dashboard and CRM Monitor. The General Fund forecast outturn net variance is a forecast overspend at £7.412m Month 2. Action plans of £2.116m have been developed and are	H	HJ

Appendix 1, List of Corporate risks

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20	Q2 19/20	Q2 19/20			
									proposed as partial mitigation against the forecast overspend. If delivered they will reduce the forecast net overspend to £5.296m.		
Being ruthlessly financially efficient	Adult Social Care balanced budget pressure in 2019/2020 and over the medium term.	31	New in this period, introduced at Q1		2	4	2	4	Proposed to close, covered in Corporate Risk Entry 30.	L	LR
All Council Priorities	Corporate management of Health and Safety	32	New in this period, introduced at Q1		3	4	3	4	No HSE enforcement this quarter, although one LFB notice served. 27 actions onto Op Risk Register since Q1 and 18 actions have been closed as completed on target in Q2. This shows an overall level of timely compliance, but services need to be aware that updated information on the management of the risks identified is often as crucial to evidence of our risk management as completion of the action itself. Consolidation of Corp H&S Support Service through realignment of JDs at cost neutral, going to RMB for approval. Revised policy to strengthen H&S management system in final draft.	M	HJ
Doing things with not to residents	Transport for London funding for renovation of the Hammersmith Bridge and the consequence of delays impacting on our residents, businesses, visitors and users.	33	New in this period, introduced at Q1		4	4	3	4	A team of world-class specialist engineers from both TfL, H&F and Bridge Structure Specialist Consultants have completed the feasibility report and that stage of the work has now been completed. We have moved on to concept design phase and this has two key areas of works. The concept design is currently being under taken by Pell Freshman and is in progress with the Concept/Initial Detail Design expected to be completed by end of February 2020. The second key part of work will be the dismantling of the pedestals to expose the deviator	M	SL

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20	Q2 19/20	Q2 19/20			
									saddles where the micro cracks are to be found. The budget is in place from TfL with a confirmed £25 million of funding for concept, detail designs, pedestal works and any pre-construction work including sensors and safety requirements. The concept design will continue with undertaking the most comprehensive engineering review including radar scans of the foundations. Once concept design is done then a build and construct contract will be let as the final stage.		
Doing things with not to residents	Preparedness for elections	34	New risk				3	4	The team is a highly performing and is well-regarded in London. The principle risk here is responding to a snap (sudden) election and mobilisation following an announcement. The Assistant Director of Legal and Democratic Services, and the Electoral Services Manager are currently investigating and visiting several venues, with a view to creating a list of suitable count venues to contact and book, if available, in the event of a snap election. Provision of large marquee accommodation is also being investigated, as this is a solution that is known to be successfully used elsewhere.	M	RD

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>24 September 2019</p>	
<p>INTERNAL AUDIT UPDATE REPORT to August 2019</p>	
<p>Report of the Strategic Director of Finance and Governance</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: David Hughes, Director of Audit, Fraud, Risk and Insurance</p>	<p>Contact Details: Tel: 0207 361 2389 David.HughesAudit@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report summarises internal audit activity in respect of audit reports issued and follow ups undertaken up to 13 August 2019. This change in reporting, and the improved assurances provided in this report on audit work undertaken, reflect the positive impact of the increased focus on assurance and risk management, led by the Chief Executive.

2. RECOMMENDATION

- 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 and follow up work undertaken on agreed actions up to 13 August 2019.
Internal Audit Coverage

- 4.2. 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.
- 4.3. A total of 5 audit reports have been finalised since the last report to the Committee up to 13 August 2019, all of which received Satisfactory Assurance. One management letter was also issued and will be covered in the Review of Effectiveness report to be presented to the next meeting of the Committee.

Follow up of Recommendations

- 4.4. From December 2018, Internal Audit are reporting in more detail to Committee on the outcome of our follow up of recommendations raised and actions agreed with management. This follows on from improvements in performance over the past 18 months, where the Committee received reports on instances where management had not updated progress against agreed actions or reported completion of actions by their due date.
- 4.5. In the period from 1 July 2019 to 30 August 2019, 8 recommendations which were due to have been implemented have been followed up by Internal Audit. There was 1 high priority recommendation followed up and was confirmed as implemented. Of the 7 medium priority recommendations followed up:
- 5 were implemented
 - 2 were partly implemented

5. OPTIONS AND ANALYSIS OF OPTIONS

- 5.1. The Director of Audit, Fraud, Risk and Insurance is required to provide an annual report and opinion on the Council's system of internal control under the Public Sector Internal Audit Standards. To enable this, an annual Internal Audit Plan covering the Council's key risks is devised in consultation with the Strategic Leadership.

6. CONSULTATION

- 6.1. The report has been subject to consultation with the Strategic Leadership Team.

7. EQUALITY IMPLICATIONS

- 7.1. There are no equality implications arising from this report.

- 7.2. Implications verified by Fawad Bhatti, Social Inclusion and Policy Manager, tel: 07500 103617.

8. LEGAL IMPLICATIONS

- 8.1. Regulation 3 of the Accounts and Audit Regulations 2015 sets out the Council's responsibility for ensuring that it has a sound system of internal control which:
- a. facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - b. ensures that the financial and operational management of the authority is effective; and,
 - c. includes effective arrangements for the management of risk.
- 8.2. Regulation 5 requires the Council to ensure that it undertakes an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 8.3. Implications verified by Rhian Davies, Assistant Director of Legal and Democratic Services, tel. 07827 663794.

9. FINANCIAL IMPLICATIONS

- 9.1 The Internal Audit Plan is delivered within the revenue budget for the service. Actions required as a result of audit work, and any associated costs, are the responsibility of the service managers and directors responsible for the areas which are reviewed.
- 9.2 The proposals contained in this paper have no additional resource implications for the audit service.
- 9.3 Implications completed by Andre Mark, Finance Business Partner, 020 8753 6729 and verified by Emily Hill, Assistant Director, Corporate Finance, 0208 753 3145.

10. IMPLICATIONS FOR BUSINESS

- 10.1 There are no implications for business arising from this report.
- 10.2 Implications verified by Albena Karameros, Programme Manager, Economic Development, 07739 316 957.

11. COMMERCIAL IMPLICATIONS

- 11.1 There are no commercial implications arising from this report.
- 11.2 Implications verified by Andra Ulianov, Head of Contracts and Procurement, 0777 667 2876.

12. IT IMPLICATIONS

- 12.1. There are no ICT implications arising from this report.
- 12.2. Implications verified by: Veronica Barella, Chief Information Officer, Tel 020 8753 2927.

13. RISK MANAGEMENT

- 13.1 The Internal Audit Plan is developed and delivered to cover the key risks faced by the Council, to provide assurance on the key controls in operation and the effective management of key risks.
- 13.2 *Implications verified by Michael Sloniowski, Risk Manager, telephone 020 8753 2587*

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Full audit reports covered in this report	David Hughes 0207 361 2389	Corporate Services, Internal Audit 3 Shortlands

LIST OF APPENDICES:

1. Audit reports issued to 13 August 2019

Audit reports issued to 13 August 2019

APPENDIX 1

We have finalised a total of 5 audit reports since the last report to Committee in July up to 13 August 2019 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	2017/18	Gas Safety	Jo Rowlands	Satisfactory
2	2018/19	BT and Agilisys Contract Monitoring Arrangements	Veronica Barella	Satisfactory
3	2018/19	Housing Rents	Hitesh Jolapara	Satisfactory
4	2018/19	Coroners	Rhian Davies	Satisfactory
5	2018/19	Cemeteries and Bereavement Service	Sharon Lea	Satisfactory


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

Other Reports

Management Letter

No.	Audit Year	Audit Title	Director / Sponsor
1	2019/20	CIFPA Statement on the Role of the Chief Financial Officer (s151)	Hitesh Jolapara/Emily Hill

Agenda Item 8

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>24 SEPTEMBER 2019</p>	 <p>hammersmith & fulham</p>
<p>INTERNAL AUDIT CHARTER</p>	
<p>Report of the Strategic Director of Finance and Governance</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: David Hughes, Director of Audit, Fraud, Risk and Insurance</p>	<p>Contact Details: Tel: 0207 361 2389 David.HughesAudit@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), the Council has an Internal Audit Charter which is maintained by the Director Audit, Fraud, Risk and Insurance. The Charter is reviewed annually and has recently been updated to include reference to the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations and to reflect any organisational changes during 2019.
- 1.2. The Audit, Pensions and Standards Committee consider the Council's compliance with its own and other published standards and controls as part of their Terms of Reference.

2. RECOMMENDATION

- 2.1. To review and note the contents of this report.

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. PROPOSAL AND ISSUES

- 4.1. The Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. The PSIAS are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The Local Government Application Note has been developed by CIPFA primarily as sector-specific guidance to local government organisations that previously fell within the remit of the CIPFA Code of Practice for Internal Audit in Local Government in the UK and it provides further explanation to the PSIAS and practical guidance on how to apply the Standards.
- 4.2. The objectives of the PSIAS are to:
- Define the nature of internal auditing in the UK public sector;
 - Set basic principles for providing internal audit services that add value to the organisation, leading to improved organisational processes and operations;
 - Establish the basis for the evaluation of internal audit performance and to promote continuous improvement.
- 4.3. The Standard incorporates a code of ethics governing the integrity and conduct of internal auditors and the requirement for objectivity, confidentiality and competency, including regard to the seven principles of public life.
- 4.4. There are also detailed performance standards on the actual conduct of internal audit work including audit planning, performance of individual audits, progress monitoring and the communication of results.
- 4.5. Included within the Standard is a requirement for regular review and assessment of Internal Audit's conformance with the Standard. This is done as part of the Annual Report of the Director for Audit, Fraud, Risk and Insurance which is reported to the Audit, Pensions and Standards Committee. The Annual Report to the Audit, Pensions and Standards Committee for 2018/19 (reported in July 2019) included the following statement:
- "The Internal Audit Service has been provided in accordance with the UK Public Sector Internal Audit Standards (PSIAS). Under these Standards, internal audit services are required to have an external quality assessment at least once every five years. During 2018/19 the Internal Audit Service undertook a self-assessment to verify PSIAS compliance which has identified general compliance with the Standards with minor improvements required which will be addressed during 2019/20."*
- 4.6. Appendix A sets out the updated Internal Audit Charter and Appendix B contains the Internal Audit Strategy which sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter.

5. OPTIONS AND ANALYSIS OF OPTIONS

- 5.1. The Director of Audit, Fraud, Risk and Insurance is required to provide an annual report and opinion on the Council's system of internal control under the Public Sector Internal Audit Standards. The Internal Audit Charter has been developed to demonstrate compliance with the standards.

6. CONSULTATION

- 6.1. Not applicable.

7. EQUALITY IMPLICATIONS

- 7.1. There are no equality implications arising from this report.
- 7.2. Implications verified by Fawad Bhatti, Social Inclusion and Policy Manager, tel. 07500 103617.

8. LEGAL IMPLICATIONS

- 8.1. Internal Audit is a statutory requirement as set out in the Accounts and Audit Regulations 2015.
- 8.2. Implications verified by Rhian Davies, Assistant Director of Legal and Democratic Services, tel. 07827 663794.

9. FINANCIAL IMPLICATIONS

- 9.1. The Internal Audit Service and Plan is delivered within the service budget. Actions required as a result of audit work, and any associated costs, are the responsibility of the service managers and directors responsible for the areas which are reviewed.
- 9.2. Implications completed by: Andre Mark, Finance Business Partner (Corporate Finance), Tel. 020 8753 6729. Implications verified by: Emily Hill, Assistant Director (Corporate Finance), Tel. 020 8753

10. IMPLICATIONS FOR LOCAL BUSINESS

- 10.1. There are no implications for business arising from this report.
- 10.2. Implications verified by Albena Karameros, Programme Manager, Economic Development, 07739 316 957.

11. COMMERCIAL IMPLICATIONS

- 11.1. There are no commercial implications arising from this report.
- 11.2. Implications verified by Andra Ulianov, Head of Contracts and Procurement, 0777 667 2876.

12. IT IMPLICATIONS

12.1. There are no ICT implications arising from this report.

12.2. Implications verified by: Veronica Barella, Chief Information Officer,
Tel 020 8753 2927.

13. RISK MANAGEMENT

13.1 The Internal Audit Service in meeting the requirements of the Public Sector Internal Audit Standards develops and delivers an annual plan to cover the key risks faced by the Council, to provide assurance on the key controls in operation and the effective management of key risks.

13.2 Implications verified by Michael Sloniowski, Risk Manager, telephone 020 8753 2587

14. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No	Description of Background Papers	Name/Ext holder file/copy	of of	Department/ Location
1	Public Sector Internal Audit Standards	David Hughes 0207 361 2389		Finance and Governance, 3 Shortlands, W6 8DA
2	CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations	David Hughes 0207 361 2389		Finance and Governance, 3 Shortlands, W6 8DA

LIST OF APPENDICES:

Appendix A – Internal Audit Charter

Appendix B – Internal Audit Strategy

London Borough of Hammersmith and Fulham

Internal Audit Charter

September 2019



1. The Internal Audit Charter

- 1.1 This Charter establishes the purpose, authority and responsibilities for the internal audit service for the London Borough of Hammersmith and Fulham, in accordance with the UK Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations.
- 1.2 The Internal Audit Strategy (Appendix B) sets out how the Council's internal audit service will be developed and delivered in accordance with the Internal Audit Charter.
- 1.3 The Charter and Strategy will be reviewed annually and presented to the London Borough of Hammersmith and Fulham's Strategic Leadership Team (in its role as the SLT Assurance board) and to the Audit, Pensions and Standards Committee to note.

2. Definitions

- 2.1 Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) as:
"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 2.2 For the purposes of the PSIAS and this Audit charter:
 - The Director of Audit, Fraud, Risk and Insurance is designated as the "Chief Audit Executive";
 - The Audit, Pensions and Standards Committee are designated as the "Board"; and,
 - The Council's Strategic Leadership Team is designated as "Senior Management".

3. Purpose of Internal Audit

- 3.1 Internal audit provides independent and objective assurance to the London Borough of Hammersmith and Fulham through its Members, the Strategic Leadership Team and, in particular, the Strategic Director of Finance and Governance, to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.
- 3.2 In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.
- 3.3 The Internal Audit Service is led by the Director of Audit, Fraud, Risk and Insurance and delivers audit reviews across three Councils: The London Borough of Hammersmith and Fulham, Kensington and Chelsea Council (the host borough) and Westminster City Council.

4. Role of the Director of Audit, Fraud, Risk and Insurance

- 4.1 The Director of Audit, Fraud, Risk and Insurance is a senior and independent role within the Council and is responsible for:
 - ensuring that internal audit work is risk-based and aligned to the Council's priorities and will support the internal audit opinion;
 - Identifying where internal audit assurance will add the most value or do most to facilitate improvement;
 - Producing an evidence-based annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;

- Demonstrating the benefits of good governance and working with the Council to promote and support this and helping the Council to understand the risks to effective governance;
- Giving advice to senior management and others on the control arrangements and risks in relation to proposed policies, programmes and projects;
- Promoting the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality; and,
- Offering advisory services where appropriate and providing advice on risk and internal control arrangements for new and developing systems, including major projects, programmes and policy initiatives whilst maintaining safeguards over independence (see section 9).

5. Role of the Council's Senior Management

- 5.1 To enable internal audit to fulfil their role, the Council's senior management (i.e. members of the Strategic Leadership Team and service directors):
- Engage constructively with the internal audit service, facilitating their role throughout the organisation and recognising the role that audit can play in providing advice and assurance;
 - Commit to the principles of good governance, recognising its importance for achieving the Council's values and behaviours; and,
 - Take account of advice provided by the Director of Audit, Fraud, Risk and Insurance in respect of new and developing systems.
- 5.2 the Strategic Director of Finance and Governance (S151 Officer), supports the role of the Director of Internal Audit, Fraud, Risk and Insurance, in his role as the Head of Internal Audit, by:
- Establishing an internal accountability and assurance framework including how internal audit works with other providers of assurance and ensuring internal audit is independent of external audit;
 - Setting out how the framework of assurance supports the annual governance statement (AGS) and identify internal audit's role within this (the Director of Audit, Fraud, Risk and Insurance contributes to but is not responsible for the AGS);
 - Ensuring the Audit, Pensions and Standards Committee's Terms of Reference includes oversight of internal audit including the monitoring of adherence to professional standards and the performance of the service;
 - Ensuring the Director of Internal Audit, Fraud, Risk and Insurance has clear lines of reporting to Senior Management;
 - Ensuring the annual internal audit opinion and report is issued by the Director of Audit, Fraud, Risk and Insurance reports in their own right;
 - Ensuring that the Internal Audit Charter and Audit Plan are approved by the Audit, Pensions and Standards Committee in accordance with the PSIAS; and,
 - Ensuring that an external review of internal audit quality is carried out at least once every five years and the Audit, Pensions and Standards Committee provides support for and participates in the quality assurance and improvement programme as set out in PSIAS.

6. Authority and Access to Records

- 6.1 In undertaking their duties and responsibilities, Internal Audit (which includes in house staff and contractors) and the Corporate Anti-Fraud Service shall be entitled to have full access to all of the Council's data, records, cash, stores, property, assets, personnel and information whether manual or computerised, it considers necessary to fulfil its responsibilities. Audit and Investigation staff may enter Council property and have unrestricted access to all locations and officers where necessary, on demand, and without prior notice. Council staff are expected to provide every possible assistance to facilitate the progress of audits and investigations.
- 6.2 Access rights apply equally to third parties and organisations, as permitted through the associated contract and partnering arrangements. Right of access to other bodies funded by the Council should be set out in the associated conditions of funding.

- 6.3 All records, documentation and information accessed during the course of audit reviews and investigations shall be used solely for that purpose. All audit and investigation staff are responsible for maintaining the confidentiality of information received in the course of their work.

7. The Audit, Pensions and Standards Committee

- 7.1 The Director for Internal Audit, Fraud, Risk and Insurance is required to provide the Council and the Strategic Director of Finance and Governance with an annual opinion, reported through the Audit, Pensions and Standards Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. To achieve this, the internal audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources;
- To provide assurance that the Council's operations are being undertaken in accordance with relevant internal and external regulations, legislation, internal policies and procedures;
- To provide assurance that significant risks to the Council's objectives are being identified and managed;
- To provide independent assurance over the corporate governance arrangements in place across the Council;
- To provide advice and support to management to enable an effective control environment to be maintained;
- To promote an anti-fraud, anti-bribery and anti-corruption culture with the Council to aid the prevention and detection of fraud;
- To evaluate specific operations or issues at the request of the Audit, Pensions and Standards Committee, as appropriate;
- To undertake investigations where there is suspected fraud, bribery or corruption; and,
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

- 7.2 There are inherent limitations in any system of internal control and thus error or irregularities may occur and may not be detected by internal audit's work. When undertaking audit reviews, internal audit will provide management with comments and report on failures or weaknesses in internal control systems together with recommendations for remedial action. It remains a management responsibility to maintain an effective system of internal control and to have adequate systems in place to prevent and detect fraud.

- 7.3 Where appropriate, Internal Audit may undertake consulting work for the benefit of the Council. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of any associated contract.

- 7.4 The Director for Internal Audit, Fraud, Risk and Insurance contributes to the review of the effectiveness of the Audit, Pensions and Standards Committee, advising the Chair and relevant managers of any suggested improvements.

8. Reporting

- 8.1 The UK Public Sector Internal Audit Standards require the Director for Internal Audit, Fraud, Risk and Insurance to report directly to the top of the organisation and those charged with governance. This is achieved through the following framework:

- The Internal Audit Strategy and Charter and any amendments to them will be reported to the Audit, Pensions and Standards Committee;
- The Annual Internal Audit Plan is compiled by the Director of Audit, Fraud, Risk and Insurance, taking account of the Council's risk framework and following discussions with stakeholders, including senior managers. The audit plan is subject to review by the Council's Strategic Leadership Team and will be reported to the Audit, Pensions and Standards Committee for noting and comment;

- The Internal Audit budget is reported to the Strategic Leadership Team and Full Council for approval, as part of the overall Council budget;
- The adequacy, or otherwise, of the level of internal audit resources as determined by the Director of Audit, Fraud, Risk and Insurance and the independence of service will be reported to the Audit, Pensions and Standards Committee (see also the Internal Audit Strategy);
- Internal audit outcomes and progress with the Internal Audit Plan will be reported regularly to the Council's Section 151 Office and to the Council's senior managers;
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work will be reported regularly to the Audit, Pensions and Standards Committee;
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit, Pensions and Standards Committee;
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be reported to the Audit, Pensions and Standards Committee and will be included in the annual report of the Director of Audit, Fraud, Risk and Insurance. If there is significant non-conformance this may be included in the Council's annual governance statement.

9. Independence

- 9.1 The Council's governance arrangements give the Director of Audit, Fraud, Risk and Insurance free and unfettered access to the following:
- The Chief Executive;
 - The Chair of the Audit, Pensions and Standards Committee;
 - The Monitoring Officer;
 - All Members of the Strategic Leadership Team.
- 9.2 The independence of the Director of Audit, Fraud, Risk and Insurance is further safeguarded by ensuring that any appraisal of personal performance is not unduly influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the Audit, Pensions and Standards Committee have an opportunity to contribute to, and/or review the appraisal of the Director of Audit, Fraud, Risk and Insurance. The Director has responsibility for Fraud, Insurance and Risk Management at the Council. Independence is maintained by ensuring that internal audit reviews of these functions are carried out and supervised independently of the Director, including the scoping of the review and provision of the draft and final reports.
- 9.3 All Council and contractor staff in the Internal Audit Service and Corporate Anti-Fraud Service are required to make an annual declaration of any potential conflicts to ensure that auditors' objectivity is not impaired and that any requirements of the Council are complied with.
- 9.4 Internal Audit may provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity (over 5% of planned annual audit days) not already included in the audit plan and which might affect the level of assurance work undertaken, will be reported to the Audit, Pensions and Standards Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.
- 9.5 Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgments and recommendations. Internal auditors have no operational responsibilities towards the systems and functions audited. If additional responsibilities are taken on by the Director of Audit, Fraud, Risk and Insurance, appropriate safeguards will be put in place to ensure that these responsibilities do not compromise the independence and objectivity of the service.
- 9.6 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Director of Audit, Fraud, Risk and Insurance has the freedom to report without fear or favour to all officers and particularly to those charged with governance.
- 9.7 Accountability for the response to the advice and recommendations of internal audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

- 9.8 The Director for Internal Audit, Fraud, Risk and Insurance is responsible for escalating any concerns about maintaining independence through the Chief Executive, the Audit, Pensions and Standards Committee and the Strategic Leadership Team or the external auditor as appropriate.

10. Counter Fraud, Corruption and Irregularity

- 10.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit procedures alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity.
- 10.2 The Council has a shared Corporate Anti-Fraud Service as part of the Shared Internal Audit, Fraud, Risk and Insurance Service and the Service has a protocol for close working relations with Internal Audit. The policies and procedures of the Corporate Anti-Fraud Service are detailed in the Council's Anti-Fraud and Corruption Strategy.

11. Due Professional Care

- 11.1 The Internal Audit Function is bound by the following:
- Institute of Internal Auditors' (IIA) International Code of Ethics
 - Seven Principles of Public Life (Nolan Principles);
 - UK Public Sector Internal Audit Standards;
 - The CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2019);
 - All Council Policies and Procedures;
 - All relevant legislation.
- 11.2 All staff and contractors are required to sign an annual statement confirming their compliance with the IIA code of Ethics.
- 11.3 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.
- 11.4 A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Director of Audit, Fraud, Risk and Insurance and the Senior Audit Manager are required to hold a professional qualification (CCAB or CMIAA) and be suitably experienced.

Internal Audit Charter and Strategy Reviewed and Agreed:

Date	Reviewed by	Position	Authorised by	Position
Sep 2019	Moir Mackie	Senior Manager Audit	David Hughes	Director of Audit, Fraud, Risk and Insurance
Sep 2018	Moir Mackie	Senior Manager Audit	David Hughes	Director of Audit, Fraud, Risk and Insurance

INTERNAL AUDIT STRATEGY

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

The Strategy will be reviewed annually and presented to the Audit, Pensions and Standards Committee for information.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Strategic Leadership Team and, in particular, to the Strategic Director of Finance and Governance in support of discharging their responsibilities under S151 of the Local Government Act 1972 relating to the proper administration of the Council's financial affairs.

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

Internal Audit Remit

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

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

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

Service Delivery

The service will be delivered by a mixture of in-house staff and the Council's internal audit partners under the direction of the Director of Audit, Fraud, Risk and Insurance.

The Internal Audit Service is a shared service covering the London Borough of Hammersmith and Fulham, Kensington and Chelsea Council (the host borough) and Westminster City Council, to deliver audit reviews across the Councils.

Internal Audit Planning

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

- Discussions with the Council's Strategic Leadership Team and senior managers;
- The risk registers;
- Outputs from other assurance providers (including Hampshire County Council's Internal Audit Service regarding the Finance, HR and Payroll Solution);
- Requirements as agreed with External Audit.

Management views and suggestions are taken into account when producing the audit plan and the Director of Audit, Fraud, Risk and Insurance will ensure feedback from or attendance at Service Area Management Team meetings as part of the annual planning process.

The Internal Audit Plan will include the following elements:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through a risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they are operating correctly. The selection of work in this category is driven by Service Areas' risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations;
- **Key Financial Systems:** Audits of the Council's key financial systems including any additional work where External Audit require annual assurance as part of their external audit work programme;
- **Probity and Compliance Audits (schools and other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice is reviewed.
- **ICT Related Audits:** The review of ICT governance, infrastructure and associated systems, software and hardware;
- **Procurement:** Audits of the procedures and processes for procuring goods, services and works including the letting and monitoring of contracts;
- **Contract Management:** Review of processes in place to ensure that services/goods provided are delivered within the expectations and at the agreed price;
- **Fraud and Ad Hoc Work:** The Corporate Anti-Fraud Service, with the Internal Audit function, will continue to investigate any fraud and irregularity arising during the year. Internal Audit may undertake additional work due to changes or issues arising in-year.

Follow Up

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

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

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work. Summary reports are also provided to the Audit, Pensions and Standards Committee on a regular basis. This includes the annual report of the Director of Audit, Fraud, Risk and Insurance which contributes to the assurances underpinning the annual governance statement of the Council.